

COMMUNITY SOLUTIONS, INC.

June 30, 2011

- I. Financial Statements**
- II. Report in Accordance with
*Government Auditing Standards***
- III. Report on State Financial
Assistance In Accordance with
the Florida Single Audit Act**

COMMUNITY SOLUTIONS, INC.

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To the Board of Directors
Community Solutions, Inc.

We have audited the accompanying consolidated statement of financial position of Community Solutions, Inc. as of June 30, 2011, and the related consolidated statements of activities and cash flows for the year then ended. These consolidated financial statements are the responsibility of Community Solutions, Inc.'s management. Our responsibility is to express an opinion on these consolidated financial statements based on our audit. The financial statements of Community Solutions, Inc. as of June 30, 2010, were audited by other auditors whose report dated October 18, 2010 expressed an unqualified opinion on those statements.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and the significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinion.

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of Community Solutions, Inc. as of June 30, 2011, and the changes in its net assets and cash flows for the year then ended, in conformity with accounting principles generally accepted in the United States of America.

In accordance with *Government Auditing Standards*, we have also issued our accompanying report dated September 30, 2011 on our consideration of Community Solutions, Inc.'s internal control over financial reporting and on our tests of its 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 audit.

Our audit was conducted for the purpose of forming an opinion on the basic consolidated financial statements taken as a whole. The supplementary information on pages 18 through 20 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 audit of the basic consolidated financial statements and, in our opinion, is fairly stated in all material respects in relation to the basic consolidated financial statements taken as a whole.

Whittlesey & Hadley

September 30, 2011

COMMUNITY SOLUTIONS, INC.

Consolidated Statements of Financial Position

June 30, 2011 and 2010

	2011	2010
ASSETS		
Current assets:		
Cash and cash equivalents	\$ 4,083,231	\$ 3,389,341
Grants and accounts receivable, net of allowances of \$82,013 and \$28,323	2,218,632	2,239,344
Notes receivable	-	680,000
Prepaid expenses	336,241	519,027
Accounts receivable - other	54,460	29,089
Total current assets	6,692,564	6,856,801
Property and equipment, net	1,494,939	1,023,473
Other assets:		
Marketable securities	8,254,766	6,941,493
Security deposits	139,162	131,405
	8,393,928	7,072,898
Totals	\$ 16,581,431	\$ 14,953,172
LIABILITIES AND NET ASSETS		
Current liabilities:		
Accrued expenses	\$ 1,425,143	\$ 1,380,301
Deferred revenue	821,288	690,518
Accounts payable	237,829	305,104
Deferred gain on sale-leaseback, current portion	226,286	226,286
Long-term debt, current portion	119,951	94,319
Deferred bonding revenue, current portion	16,759	19,602
Total current liabilities	2,847,256	2,716,130
Long-term liabilities:		
Deferred gain on sale-leaseback, less current portion	2,262,865	2,489,151
Long-term debt, less current portion	360,176	210,325
Deferred bonding revenue, less current portion	46,379	63,139
Deferred annuity payable	85,961	23,174
Total long-term liabilities	2,755,381	2,785,789
Total liabilities	5,602,637	5,501,919
Net assets:		
Unrestricted	10,951,542	9,426,645
Temporarily restricted	27,252	24,608
Total net assets	10,978,794	9,451,253
Totals	\$ 16,581,431	\$ 14,953,172

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

COMMUNITY SOLUTIONS, INC.

Consolidated Statements of Activities

Years Ended June 30, 2011 and 2010

	2011	2010
Changes in unrestricted net assets:		
Program support and revenue:		
Fees and grants from governmental agencies	\$ 28,044,475	\$ 27,728,117
Third party reimbursements	1,965,136	1,708,331
Resident subsistence	301,376	327,349
Other program revenue	274,950	385,347
School lunch revenue	17,579	31,923
Miscellaneous revenue	4,920	13,126
	30,608,436	30,194,193
Net assets released from restrictions:		
Satisfaction of program and time restrictions	21,403	14,650
Total program support and revenue	30,629,839	30,208,843
Program expenses:		
Direct program expenses	26,396,826	25,348,625
Administrative and general expenses	4,149,325	3,924,909
Total expenses	30,546,151	29,273,534
Increase in unrestricted net assets before other revenue (expenses)	83,688	935,309
Other revenue (expenses):		
Interest income	75,868	97,800
Public support	44,842	56,381
Restricted grant/contributions	3,176	22,918
Restricted grant expenses	(3,176)	(22,918)
Bad debt expense	-	(70,000)
Investment gain, net	1,258,591	679,048
Deferred bonding income	19,602	19,602
Gain on disposal of property and equipment	42,306	-
Total other revenue (expenses)	1,441,209	782,831
Changes in unrestricted net assets	1,524,897	1,718,140
Changes in temporarily restricted net assets:		
Contributions	24,047	18,750
Net assets released from restrictions - satisfaction of program and time restrictions	(21,403)	(14,650)
Changes in temporarily restricted net assets	2,644	4,100
Net change in net assets	1,527,541	1,722,240
Net assets, beginning of year	9,451,253	7,729,013
Net assets, end of year	\$ 10,978,794	\$ 9,451,253

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

COMMUNITY SOLUTIONS, INC.

Consolidated Statements of Cash Flows

Years Ended June 30, 2011 and 2010

	2011	2010
Cash flows from operating activities:		
Net change in net assets	\$ 1,527,541	\$ 1,722,240
Adjustments to reconcile net change in net assets to net change in cash from operating activities:		
Depreciation and amortization	220,266	196,612
Gain on disposal of property and equipment	(42,306)	-
Deferred bonding revenue	(19,602)	(19,602)
Amortization of deferred gain on sale-leaseback	(226,286)	(226,286)
Unrealized (gain) on investments	(972,372)	(633,999)
Realized (gain)/loss on investments	(135,478)	118,099
Bad debt expense	-	70,000
Changes in operating assets and liabilities:		
Grants and accounts receivable	20,712	305,825
Prepaid expenses	182,786	(202,439)
Accounts receivable - other	(25,371)	89,120
Security deposits	(7,757)	(16,428)
Accrued expenses	44,842	(123,073)
Deferred revenue	130,770	(411,772)
Accounts payable	(67,275)	(79,877)
Deferred annuity payable	62,787	23,174
Net change in cash from operating activities	693,257	811,594
Cash flows from investing activities:		
Capital expenditures	(691,732)	(69,312)
Purchases of investments	(3,078,403)	(3,760,104)
Proceeds from sale of investments	2,872,979	3,570,992
Proceeds from notes receivable	722,306	127,500
Net change in cash from investing activities	(174,850)	(130,924)
Cash flows from financing activities:		
Proceeds from long-term debt	282,000	-
Payments on long-term debt	(106,517)	(87,362)
Net change in cash from financing activities	175,483	(87,362)
Net increase in cash and cash equivalents	693,890	593,308
Cash and cash equivalents, beginning of year	3,389,341	2,796,033
Cash and cash equivalents, end of year	\$ 4,083,231	\$ 3,389,341
Supplemental disclosures of cash flow information:		
Interest paid	\$ 17,675	\$ 20,871
Income taxes paid	\$ 4,600	\$ 8,721
Noncash investing and financing activities:		
Decrease in notes receivable	\$ -	\$ 127,500
Leasehold improvements financed through debt	\$ 282,000	\$ -

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

COMMUNITY SOLUTIONS, INC.

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, Maryland, California, and Texas. 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. CSI Connecticut, Inc. ceased operations as of June 30, 2010. Its contracts were assumed by Community Solutions, Inc.

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.

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 \$184 and \$3,791 of unrelated business tax as of June 30, 2011 and 2010, respectively.

NOTE 1 - BUSINESS AND SIGNIFICANT ACCOUNTING POLICIES (CONTINUED):

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, 2011. The Organizations' U.S. Federal and state information and unrelated business income tax returns prior to calendar year 2007 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.

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.

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.

NOTE 1 - BUSINESS AND SIGNIFICANT ACCOUNTING POLICIES (CONTINUED):

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.

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.

NOTE 1 - BUSINESS AND SIGNIFICANT ACCOUNTING POLICIES (CONTINUED):

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, 2011 and 2010 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.

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.

NOTE 1 - BUSINESS AND SIGNIFICANT ACCOUNTING POLICIES (CONTINUED):

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 September 30, 2011, which is the date the consolidated financial statements were available to be issued.

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.

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, 2011 and 2010:

<u>Granting Agency</u>	<u>2011</u>	<u>2010</u>
Connecticut Court Support Services Division	\$ 7,718,920	\$ 7,235,774
Connecticut Department of Corrections	5,792,385	5,792,385
	<u>\$ 13,511,305</u>	<u>\$ 13,028,159</u>

NOTE 3 - INVESTMENTS:

The following summarizes the Organizations' investments at June 30, 2011 and 2010:

	2011		
	Cost	Fair Value	Unrealized Gain (Loss)
Cash equivalents	\$ 577,837	\$ 577,837	\$ -
Certificates of deposit	100,000	101,932	1,932
Mutual funds	7,121,613	7,574,997	453,384
Totals	<u>\$ 7,799,450</u>	<u>\$ 8,254,766</u>	<u>\$ 455,316</u>
	2010		
	Cost	Fair Value	Unrealized Gain (Loss)
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>

Included in investments are the assets related to the Organizations' nonqualified deferred compensation plan in the amount of \$77,711 and \$23,174 as of June 30, 2011 and 2010, respectively.

Investment income for the years ended June 30, 2011 and 2010 was comprised of the following:

	2011	2010
Dividends and interest	\$ 182,800	\$ 191,535
Realized gain/(loss)	135,478	(118,099)
Unrealized gain	972,372	633,999
Total gain	<u>1,290,650</u>	<u>707,435</u>
Investment expenses	(32,059)	(28,387)
Investment gain, net	<u>\$ 1,258,591</u>	<u>\$ 679,048</u>

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:

NOTE 4 - FAIR VALUE MEASUREMENTS (CONTINUED):

- 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.
- 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, 2011 and 2010 are classified in the table below in one of the three categories described above:

	2011			
	Quoted Priced in Active Markets or Identical Assets Level 1	Significant Observable Inputs Level 2	Unobservable Inputs Level 3	Total
Cash equivalents	\$ -	\$ 577,837	\$ -	\$ 577,837
Certificates of deposit	-	101,932	-	101,932
Mutual funds	7,574,997	-	-	7,574,997
Total	\$ 7,574,997	\$ 679,769	-	\$ 8,254,766
Liabilities under deferred annuity payable	\$ -	\$ 85,961	\$ -	\$ 85,961

NOTE 4 - FAIR VALUE MEASUREMENTS (CONTINUED):

	2010			
	Quoted Priced in Active Markets or Identical Assets Level 1	Significant Observable Inputs Level 2	Unobservable Inputs Level 3	Total
Cash equivalents	\$ -	\$ 281,192	\$ -	\$ 281,192
Money market	-	92,461	-	92,461
Certificates of deposit	-	308,391	-	308,391
Mutual funds	3,029,198	-	-	3,029,198
Exchange-traded funds	3,230,251	-	-	3,230,251
Total	\$ 6,259,449	\$ 682,044	\$ -	\$ 6,941,493
Liabilities under deferred annuity payable	\$ -	\$ 23,174	-	\$ 23,174

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

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 2011 and 2010.

NOTE 5 - NOTES RECEIVABLE:

A summary of notes receivable is as follows:

	<u>2011</u>	<u>2010</u>
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. The note was paid in full during the year ended June 30, 2011.	\$ -	\$ 680,000
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. The note was settled for an amount of \$42,306 during the year ended June 30, 2011.	-	50,000
Less allowance for impaired notes receivable	-	(50,000)
	-	680,000
Less current portion	-	(680,000)
	<u>\$ -</u>	<u>\$ -</u>

NOTE 6 - FIXED ASSETS:

Schedule of fixed assets for the years ended June 30, 2011 and 2010 is as follows:

	<u>2011</u>	<u>2010</u>
Property and equipment, at cost:		
Buildings and renovations	\$ 798,907	\$ 773,557
Leasehold improvements	849,259	643,315
Equipment and furnishings	528,474	483,930
Vehicles	46,373	46,373
Land improvements	40,648	4,061
Construction in progress	196,234	-
	<u>2,459,895</u>	<u>1,951,236</u>
Less accumulated depreciation and amortization	<u>(1,256,029)</u>	<u>(1,035,763)</u>
	1,203,866	915,473
Land	291,073	108,000
Property and equipment, net	<u>\$ 1,494,939</u>	<u>\$ 1,023,473</u>

NOTE 7 - 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, 2012. Borrowings under the line bear interest at the prime rate (3.25% at June 30, 2011) and are collateralized by all of the assets of the Organizations. There was no outstanding balance on the line of credit at June 30, 2011 and 2010.

NOTE 8 - LONG-TERM DEBT:

A summary of long-term debt is as follows:

	<u>2011</u>	<u>2010</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, 2011 is 7.50%. The note is secured by the Organizations' assets.	\$ 62,508	\$ 150,483
Adjustable rate mortgage note payable to CCO Mortgage in monthly principal and interest installments of \$953 effective July 1, 2010, due in June 2028. The adjustable interest rates are 3.375% effective July 1, 2010 and 3.125% effective July 1, 2011. The note is secured by a first mortgage interest on property located in Johnston, Rhode Island.	147,827	154,161
Fixed rate mortgage payable to Connecticut Bank and Trust Company due in monthly principal and interest installments of \$5,431. Interest is fixed at 5.75%. All outstanding principal and interest are due in full in May 2016. The note is secured by the Organization's assets.	<u>269,792</u>	<u>-</u>
	480,127	304,644
Less current portion	<u>(119,951)</u>	<u>(94,319)</u>
	<u>\$ 360,176</u>	<u>\$ 210,325</u>

The aggregate of future payments are as follows:

<u>Year ended June 30,</u>	
2012	\$ 119,951
2013	70,963
2014	81,422
2015	92,330
2016	87,248
Thereafter	<u>28,213</u>
	<u>\$ 480,127</u>

The Organizations incurred interest expense of \$17,675 and \$20,871 for the years ended June 30, 2011 and 2010, respectively.

NOTE 9 - 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:

	2011	2010
Safe Home, South Windsor, CT	\$ 35,589	\$ 42,762
Kellogg House, Vernon, CT	26,944	35,925
Carriage House, Hartford, CT	605	4,054
	<u>63,138</u>	<u>82,741</u>
Current portion	(16,759)	(19,602)
Long-term portion	<u>\$ 46,379</u>	<u>\$ 63,139</u>

NOTE 10 - 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:

	2011	2010
Golf tournament for 2012 and 2011, respectively	\$ 4,950	\$ 13,000
Donations to Hartford House	5,866	3,200
Baltimore, Maryland MTFC	9,400	-
Donations to Santa Maria, California program	4,136	-
Holiday donations	1,338	-
Coventry donation	1,080	1,080
Donations to CSSD Women and Children program	482	-
Safe Home donation	-	5,750
Client supplies	-	1,578
	<u>\$ 27,252</u>	<u>\$ 24,608</u>

NOTE 11 - 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, 2011 and 2010 was \$2,218,906 and \$1,950,255, respectively. Leases expire at various times through June 2022.

NOTE 11 - OPERATING LEASE AGREEMENTS (CONTINUED):

Future minimum real estate lease payments in each of the five years subsequent to June 30, 2011 and thereafter are as follows:

<u>Year Ending June 30,</u>	
2012	\$ 1,719,675
2013	1,289,639
2014	1,131,083
2015	1,000,477
2016	875,097
Thereafter	4,208,863
	<u>\$ 10,224,834</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 2015. Total lease expense was \$160,602 and \$146,272 for the years ended June 30, 2011 and 2010, respectively.

Future minimum lease payments due under noncancelable operating leases for equipment and motor vehicles in each of the years subsequent to June 30, 2011 are as follows:

<u>Year Ending June 30,</u>	
2012	\$ 113,503
2013	80,950
2014	66,728
2015	35,744
	<u>\$ 296,925</u>

NOTE 12 - 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, 2011 and 2010 was \$315,146 and \$292,658, 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 \$85,961 and \$23,174 as of June 30, 2011 and 2010, respectively have been segregated as an asset of CSI, which represents the total amount of deferred annuity payable. Deferred compensation expense was \$24,750 and \$22,257 for the years ended June 30, 2011 and 2010, respectively.

NOTE 13 - 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, 2011.

Management has recorded a contingent liability against the possibility of return of funds due to audits of prior years in the amount of \$554,075 which is included in deferred revenue in the consolidated statements of financial position for the years ended June 30, 2011 and 2010, respectively.

NOTE 14 – SUBSEQUENT EVENT:

Subsequent to the year ended June 30, 2011, CSI is expanding its programs into the State of Delaware. CSI has entered into a contract for the construction of a new building in Delaware at an estimated cost of \$950,000.

COMMUNITY SOLUTIONS, INC.

Consolidated Fees and Grants from Governmental Agencies

Years Ended June 30, 2011 and 2010

	2011	2010
Connecticut Court Support Services Division	\$ 7,718,920	\$ 7,235,774
Connecticut Department of Corrections	5,792,385	5,792,385
Rhode Island Care Management Network	1,840,831	1,829,840
Georgia Department of Juvenile Justice	1,817,195	1,796,915
Pennsylvania Commission on Crime and Delinquency and various Pennsylvania counties	1,798,037	2,060,548
Federal Bureau of Prisons	1,744,761	1,814,070
Florida Department of Juvenile Justice	1,706,225	1,575,744
California County of Santa Barbara and Santa Maria	1,300,859	-
Connecticut Court Support Services Division - Training Services	1,273,328	1,208,463
Baltimore County and the Baltimore City Health Department	1,091,750	865,344
New Jersey State Parole Board and Department of Juvenile Justice Commission	1,002,405	1,262,800
New Jersey Department of Children and Families - Division of Child Behavioral Health Services	617,322	727,650
Louisiana Department of Public Safety and Corrections - Youth Services	206,592	247,624
Connecticut Department of Children and Families	126,364	1,305,294
Texas County of El Paso	6,598	-
Connecticut - other	903	5,666
	\$ 28,044,475	\$ 27,728,117
Total fees and grants from governmental agencies		

COMMUNITY SOLUTIONS, INC.

Consolidated Direct Program Expenses

Years Ended June 30, 2011 and 2010

	<u>2011</u>	<u>2010</u>
Salaries and wages	\$ 14,789,173	\$ 14,778,964
Employee benefits	3,597,600	3,433,199
Rental and lease payments	1,977,806	1,710,587
Contract services	1,055,094	734,249
Food	855,507	1,025,865
Training and in-service	813,845	667,439
Mileage reimbursement	583,224	574,724
Utilities	551,683	511,631
Property insurance	287,401	307,025
Telephone	279,516	271,535
Housekeeping	269,937	108,193
Maintenance supplies and expense	219,084	220,459
Minor equipment	208,453	75,984
Depreciation and amortization	196,808	172,041
Office supplies and expense	166,210	170,316
Lab fees	157,618	142,656
Other	97,883	124,740
Vehicle expenses	83,630	85,343
Vehicle insurance	52,875	57,134
Dietary nonfood	41,974	52,075
Inmate recreational services	38,099	42,891
Inmate training and education	28,538	27,519
Interest expense	17,675	20,871
Property and real estate taxes	17,293	17,299
Recruitment advertising	9,900	15,886
Total direct program expenses	<u>\$ 26,396,826</u>	<u>\$ 25,348,625</u>

COMMUNITY SOLUTIONS, INC.

Consolidated Administrative and General Expenses

Years Ended June 30, 2011 and 2010

	<u>2011</u>	<u>2010</u>
Salaries and wages	\$ 2,618,765	\$ 2,498,265
Employee benefits	491,372	457,503
Contract services	238,034	300,741
Staff training and in-service	219,671	167,028
Rental and lease payments	175,417	159,654
Other	79,082	76,260
Office supplies and expense	78,421	72,748
Telephone	53,854	39,544
Dues, licenses and fees	33,284	33,976
Utilities	31,456	31,080
Temporary help	28,511	2,620
Depreciation	23,455	24,571
Mileage reimbursement	23,127	30,137
Program advertising	22,265	14,093
Development costs	18,519	53
Maintenance supplies and expense	4,582	1,455
Property insurance	3,383	7,074
Recruitment advertising	2,952	3,357
Food	1,802	702
Minor equipment	1,373	4,048
	<u> </u>	<u> </u>
Total administrative and general expenses	<u>\$ 4,149,325</u>	<u>\$ 3,924,909</u>

WHITTLESEY & HADLEY, P.C.

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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, 2011, and have issued our report thereon dated September 30, 2011. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States.

Internal Control Over Financial Reporting

Management of Community Solutions, Inc. is responsible for establishing and maintaining effective 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.

A handwritten signature in cursive script that reads "Whittlesey & Hadley". The signature is written in black ink and is positioned in the center of the page.

September 30, 2011

WHITTLESEY & HADLEY, P.C.

Certified Public Accountants/Consultants

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**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, 2011. 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, 2011.

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.

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, 2011 and have issued our report thereon dated September 30, 2011. 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.

A handwritten signature in cursive script that reads "Whittlesey & Hadley". The signature is written in black ink and is positioned in the lower right quadrant of the page.

September 30, 2011

COMMUNITY SOLUTIONS, INC.

Schedule Of State Financial Assistance

Year Ended June 30, 2011

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	\$ 603,651
Contracted Intensive Probation	80.019	<u>1,056,022</u>
Total State Financial Assistance		<u>\$ 1,659,673</u>

See Note to Schedule of State Financial Assistance.

COMMUNITY SOLUTIONS, INC.

Note to Schedule Of State Financial Assistance

Year Ended June 30, 2011

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.

Note 2 – Federal Funds:

Community Solutions, Inc. was the recipient of Federal funds:

U.S. Department of Health and Human Services		
Passed through Heartland for Children, Inc.		
Promoting Safe and Stable Families	CFDA 93.556	\$46,552

COMMUNITY SOLUTIONS, INC.

Schedule Of Findings And Questioned Costs

Year Ended June 30, 2011

I. Summary of Auditors' Results:

Financial Statements:

Type of auditors' report issued:				<i>Unqualified</i>
Internal control over financial reporting:				
Material weakness(es) identified?	_____	yes	<u> X </u>	no
Significant deficiency(ies) identified?	_____	yes	<u> X </u>	none reported
Noncompliance material to financial statements noted?	_____	yes	<u> X </u>	no
Management letter issued?	_____	yes	<u> X </u>	no

State Financial Assistance:

Type of auditors' report issued on compliance for major programs:				<i>Unqualified</i>
Internal control over major programs:				
Material weakness(es) identified?	_____	yes	<u> X </u>	no
Significant deficiency(ies) identified?	_____	yes	<u> X </u>	none noted
Any audit findings disclosed that are required to be reported in accordance with the Florida Single Audit Act?	_____	yes	<u> X </u>	no

Identification of Major Programs:

<u>Name of State Program or Cluster</u>	<u>CSFA Number</u>
Conditional Release Services	80.018
Contracted Intensive Probation	80.019
Dollar threshold used to distinguish between type A and type B programs	<u> \$ 300,000 </u>

Auditee qualified as low-risk auditee?	<u> X </u>	yes	_____	no
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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.

V. Management Letter

No management letter issued.