

**COMMUNITY HEALTH CENTER, INC.**

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

**June 30, 2012 and 2011**

COMMUNITY HEALTH CENTER, INC.

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**INDEPENDENT AUDITOR'S REPORT**



GUILMARTIN ◻ DIPIRO ◻ SOKOLOWSKI LLC  
CERTIFIED PUBLIC ACCOUNTANTS

**INDEPENDENT AUDITOR'S REPORT**

The Board of Directors  
Community Health Center, Inc.:

We have audited the accompanying consolidated balance sheets of Community Health Center, Inc. (a nonprofit organization) and affiliated entities, as of June 30, 2012 and 2011, and the related consolidated statements of operations and changes in net assets and cash flows for the years then ended. These financial statements are the responsibility of Community Health Center, Inc.'s 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 consolidated financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

In our opinion, the consolidated financial statements referred to above present fairly, in all material respects, the financial position of Community Health Center, Inc., as of June 30, 2012 and 2011, and the changes in its net assets and its 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 December 31, 2012, on our consideration of Community Health Center, Inc.'s internal control over financial reporting and on our tests of their compliance with certain provisions of laws, regulations, contracts and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing and not to provide an opinion on internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be considered in assessing the results of our audits.

Our audits were conducted for the purpose of forming an opinion on the consolidated financial statements as a whole. The accompanying schedules of expenditures of federal awards and state financial assistance are presented for purposes of additional analysis as required by U.S. Office of Management; Budget Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*, and the State of Connecticut Office of Policy and Management and are not a required part of the consolidated financial statements. Such information is the responsibility of management and was derived from and relates directly to the underlying accounting and other records used to prepare the consolidated financial statements. The information has been subjected to the auditing procedures applied in the audit of the consolidated financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the consolidated financial statements or to the consolidated financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the schedule of expenditures of federal awards and state financial assistance are fairly stated in all material respects in relation to the consolidated financial statements as a whole.

*Guilmartin, DiPiro & Sokolowski, LLC*

Middletown, Connecticut  
December 31, 2012

**FINANCIAL STATEMENTS**

**COMMUNITY HEALTH CENTER, INC.**

**Consolidated Balance Sheets**

**June 30, 2012 and 2011**

Assets

	<u>2012</u>	<u>2011</u>
Current assets:		
Cash and cash equivalents	\$ 8,815,056	\$ 9,812,707
Certificates of deposit	563,246	561,666
Restricted cash	1,128,872	6,339,039
Investments	2,079,149	2,064,853
Receivables:		
Patient receivables:		
Net of allowance for doubtful accounts of \$868,909 in 2012 and \$552,340 in 2011	3,772,594	3,139,015
Grant and other receivables	<u>1,543,381</u>	<u>860,022</u>
Total receivables	5,315,975	3,999,037
Prepaid expenses	<u>502,732</u>	<u>532,242</u>
Total current assets	<u>18,405,030</u>	<u>23,309,544</u>
Property and equipment, net	43,846,310	27,819,649
Other assets	<u>391,925</u>	<u>391,925</u>
 Total assets	 <u>\$ 62,643,265</u>	 <u>\$ 51,521,118</u>

Liabilities and Net Assets

Current liabilities:		
Accounts payable	\$ 3,800,311	\$ 1,007,831
Accrued expenses	5,868,670	4,171,592
Deferred income	846,439	420,904
Current portion of long-term debt	<u>482,770</u>	<u>803,652</u>
Total current liabilities	<u>10,998,190</u>	<u>6,403,979</u>
Long-term debt, net of current portion	<u>9,319,766</u>	<u>10,121,058</u>
Total liabilities	<u>20,317,956</u>	<u>16,525,037</u>
Net assets:		
Unrestricted	<u>42,325,309</u>	<u>34,996,081</u>
Total net assets	<u>42,325,309</u>	<u>34,996,081</u>
 Total liabilities and net assets	 <u>\$ 62,643,265</u>	 <u>\$ 51,521,118</u>

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

**COMMUNITY HEALTH CENTER, INC.**

**Consolidated Statements of Operations and Changes in Net Assets**

**For the years ended June 30, 2012 and 2011**

	<u>2012</u>	<u>2011</u>
Operations:		
Revenues:		
Patient fees	\$ 55,107,578	\$ 50,033,541
Grant income	9,225,372	10,224,874
State and federal bonding income	6,919,177	4,829,222
Donated vaccines	1,755,735	1,288,093
Meaningful use	1,827,500	-
Other income	789,451	727,729
Investment income and realized gains	23,880	184,281
Rental income	74,980	49,565
Total revenues	<u>75,723,673</u>	<u>67,337,305</u>
Expenditures:		
Program services:		
Medical costs	31,990,802	27,396,364
Dental costs	9,822,946	9,896,551
Mental health costs	5,337,558	3,989,647
School based services	3,238,763	2,701,215
Community based services	3,067,611	2,978,222
Total operating expenses	<u>53,457,680</u>	<u>46,961,999</u>
Management and general	<u>14,936,765</u>	<u>11,382,509</u>
Total expenditures	<u>68,394,445</u>	<u>58,344,508</u>
Operating revenues over expenses	<u>7,329,228</u>	<u>8,992,797</u>
Unrestricted net assets, beginning of year	<u>34,996,081</u>	<u>26,003,284</u>
Unrestricted net assets, end of year	<u>\$ 42,325,309</u>	<u>\$ 34,996,081</u>

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

**COMMUNITY HEALTH CENTER, INC.**

**Consolidated Statements of Cash Flows**

**For the years ended June 30, 2012 and 2011**

	<u>2012</u>	<u>2011</u>
Cash flows from operating activities:		
Net income	\$ 7,329,228	\$ 8,992,797
Adjustments to reconcile net income to net cash provided by operating activities:		
Depreciation	2,631,738	2,547,274
Unrealized/realized loss (gain) on securities transactions	21,117	(91,047)
(Increase) in certificates of deposit	(1,580)	(1,921)
(Increase) decrease in patients receivable	(633,579)	34,381
(Increase) decrease in grants and other receivables	(683,359)	240,326
Decrease (increase) in prepaid assets	29,510	(333,006)
Increase (decrease) in accounts payable	2,792,480	(295,537)
Increase in other accrued liabilities	1,697,078	350,162
Increase in due to grantors	425,535	228,772
Total adjustments	<u>6,278,940</u>	<u>2,679,404</u>
Net cash provided by operating activities	<u>13,608,168</u>	<u>11,672,201</u>
 Cash flows from investing activities:		
Decrease (increase) in restricted cash	5,210,167	(6,264,107)
Purchase of securities, net	(35,414)	(1,419,389)
Plant and equipment purchases	<u>(18,658,398)</u>	<u>(8,942,882)</u>
Net cash (used) in investing activities	<u>(13,483,645)</u>	<u>(16,626,378)</u>
 Cash flows from financing activities:		
Repayment of long-term debt	(1,275,174)	(775,388)
Borrowings of long-term debt	<u>153,000</u>	<u>6,494,217</u>
Net cash (used) in provided by financing activities	<u>(1,122,174)</u>	<u>5,718,829</u>
 Net (decrease) increase in cash and cash equivalents	<u>(997,651)</u>	<u>764,652</u>
Cash and cash equivalents, beginning of year	<u>9,812,707</u>	<u>9,048,055</u>
 Cash and cash equivalents, end of year	<u>\$ 8,815,056</u>	<u>\$ 9,812,707</u>

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

# COMMUNITY HEALTH CENTER, INC.

## Notes to Consolidated Financial Statements

June 30, 2012 and 2011

### NOTE 1

#### SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

##### Nature of activities

Community Health Center, Inc. (CHCI) is a statewide organization with primary care centers in Middletown, Old Saybrook, Clinton, Meriden, New London, Groton, Stamford, Norwalk, Danbury, Enfield, New Britain, Bristol and Waterbury as well as over 200 service delivery locations in schools, homeless and domestic violence shelters, and community settings. CHCI is focused on special populations, improving health outcomes, and building healthy communities and does this through clinical excellence in the delivery of primary care, research and innovation aimed at improving primary care, and by training the next generation of healthcare professionals. CHCI's core services are primary medical care, dentistry/oral health and behavioral health services. As a private, nonprofit organization with a consumer-majority board of directors, comprehensive primary care services and a sliding fee schedule for uninsured patients, CHCI has earned the designation of federally qualified health center, allowing it to take advantage of such benefits as FTCA liability insurance. CHCI goes beyond the traditional model of primary care to bring care using innovative service delivery models and state of the art technology.

CHCI's primary care model is built on "planned care" which incorporates prevention and health promotion, treatment of acute illness and management of chronic disease. It's interdisciplinary teams provide both primary medical, dental and behavioral health services to patients of all ages along with limited specialty services. As part of its mission to serve special populations and build healthy communities, CHCI sponsors programs such as its New Horizons Domestic Violence shelter, Vinnie's Jump and Jive Dance Hall, the Ryan White HIV program and a broad range of community activities from farmers markets to obesity prevention. With 130,000 active patients, over 630 staff, and state of the art facilities, CHCI is the health care home that works to keep patients, and communities, healthy.

CHC Realty, Inc. (Realty) was formed with CHCI as its sole member to develop, own, furnish and lease to CHCI property and equipment.

CHCI Media, Inc. (Media) was formed with CHCI as its sole member to promote public health and education.

##### Basis of presentation

The accompanying financial statements have been prepared on the accrual basis of accounting in accordance with generally accepted accounting policies as accepted in the United States (referred to as GAAP) and follow the format required by the *Audits of Providers of Health Care Services* issued by the American Institute of Certified Public Accountants.

The consolidated financial statements include the financial statements of Community Health Center, Inc. and its affiliated entities, CHC Realty, Inc. and CHCI Media, Inc.

##### Change in presentation

Management reviews the format of the financial statements annually and may consolidate or show separately certain items they feel make presentation complete.

##### Income tax status

CHCI has received exemption from federal income tax under Section 501(c)(3) of the Internal Revenue Code. CHCI has also been classified as an entity that is not a private foundation within the meaning of Section 509(a) and qualifies for deductible contributions as provided in Section 170(b)(1)(A)(vi). Realty and Media are still in the process of obtaining their exempt status determination from the Internal Revenue Service.

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

##### Estimates

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

##### Restricted cash

In January 2011, Realty received financing for the building of the new health center from its New Market Tax Credit Financing. The funds were utilized exclusively for the construction of CHCI's Middletown clinical building located at 675 Main Street.

# COMMUNITY HEALTH CENTER, INC.

## Notes to Consolidated Financial Statements

June 30, 2012 and 2011

### Allowance for bad debts

CHCI includes receivables for only patient accounts less than one year old. The allowance for bad debts is calculated on the number of days outstanding based on the parties responsible for payment.

### Investments

Investments are stated at fair value. Unrealized gains and losses are included in the accompanying statements of activities and changes in net assets. Realized gains and losses on investments sold are determined on the average cost basis. Dividends and interest income are recorded on the accrual basis.

### Property and equipment

The Organizations follow the practice of capitalizing all property and equipment with a cost exceeding \$2,500. Depreciation is computed using the straight-line method over the estimated useful lives of the assets with a range in lives from 3 to 30 years. There are no planned major maintenance activities.

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

### Net assets - unrestricted

All of the Organizations' unrestricted net assets are for general use by the corporation.

### NOTE 2

#### CONCENTRATIONS

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

A substantial portion of the Organizations' revenue is derived from grant contracts. Because the grants are evidenced by signed contracts with government and other agencies, management believes there is nominal credit risk associated with any outstanding grants receivable.

### NOTE 3

#### REVENUES

##### Net patient service revenue

CHCI has agreements with third-party payers that provide for payments to CHCI at amounts different from its established rates. Payment arrangements under these agreements include prospectively determined rates per reimbursement costs, discounted charges and per diem payments.

Net patient service revenue is reported at the estimated net realizable amounts from patients, third party payers and others for services rendered.

CHCI has agreements that provide payments as described below.

##### Revenue from contracting agencies

CHCI participates as a provider of health care services to several Managed Care Organizations (MCO's). Reimbursement for covered services is based on tentative payment rates. Provisions for estimated reimbursement adjustments are reported in the financial statements in the period that the services are rendered.

Revenue from the Medicare and Medicaid programs accounted for approximately 62% and 64% of the Organization's revenue for the fiscal years ended June 30, 2012 and 2011, respectively. Laws and regulations governing these programs are extremely complex and subject to interpretation. The Medicaid rates are based upon a retrospective cost analysis submitted to the State of Connecticut Department of Social Services. Medicare rates are set based upon cost reports and adjusted for various factors as defined in the contracts. Proposed adjustment to the rates is subject to negotiations.

##### Grants and contracts

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

**COMMUNITY HEALTH CENTER, INC.**

**Notes to Consolidated Financial Statements**

**June 30, 2012 and 2011**

**NOTE 4**  
**INVESTMENTS**

All investments are available for sale and transfer to support Organization requirements (including Board designations) and presented on the financial statements at fair market value.

Generally accepted accounting principles have determined that short-term and long-term investments traded on the open market (individual stocks, ETF's and mutual funds) are determined by reference to quoted prices of identical instruments generated by active market transactions and are considered to be level 1 transactions.

	<u>Quoted Prices on Active Markets</u>	
	<u>2012</u>	<u>2011</u>
U.S. stocks (or mutual funds of stocks)	\$ 1,344,140	\$ 1,052,310
U.S. bonds (or mutual funds of bonds)	486,194	660,346
International bonds (or mutual funds of bonds)	86,365	177,237
International stocks (or mutual funds of stocks)	<u>162,450</u>	<u>174,960</u>
	<u>\$2,079,149</u>	<u>\$2,064,853</u>

**NOTE 5**  
**PROPERTY AND EQUIPMENT**

Components of property and equipment are as follows:

	<u>2012</u>	<u>2011</u>
Land and buildings	\$ 38,960,945	\$ 21,189,025
Leasehold improvements	5,068,569	2,290,197
Furniture and equipment	14,454,362	10,177,416
Capitalized leases	126,273	126,273
Construction in progress	<u>1,016,414</u>	<u>7,185,252</u>
	59,626,563	40,968,163
Less: accumulated depreciation and amortization	<u>(15,780,253)</u>	<u>(13,148,514)</u>
Total	<u>\$ 43,846,310</u>	<u>\$ 27,819,649</u>

The financial statements reflect depreciation and amortization expense at June 30, 2012 and 2011 of \$2,631,738 and \$2,547,274, respectively.

**NOTE 6**  
**OTHER ASSETS**

For fiscal year 2011, CHCI co-owned property at 623-625 Main Street, Middletown, Connecticut. CHCI followed the pooling of interest method of accounting for the property. The property was valued on the financial statements based on CHCI's 42% co-ownership interest in the depreciated cost of the building, including improvements, plus the net assets of its leasing operations. Cash distributions from the leasing operation were included in miscellaneous income and the co-ownership investment is included in other assets as "investments in real estate."

For fiscal year 2012, they purchased the remaining 58% and now they fully own the property at 623-625 Main Street, Middletown, Connecticut.

In 2003, CHCI entered into an agreement with the Middlesex Community Foundation to invest Health Center funds. For 2012 and 2011 this investment is included with other assets as "investments held by others."

Investments as other assets and their carrying values are summarized below:

	<u>2012</u>	<u>2011</u>
Investments in real estate	\$ 16,463	\$ 16,463
Investments held by others	238,825	238,825
Nonlisted securities	132,458	132,458
Limited partnership	<u>4,179</u>	<u>4,179</u>
Total other investments	<u>\$391,925</u>	<u>\$391,925</u>

Assets measured at fair value on a recurring basis using significant unobservable inputs are reported as level 3 investment transactions. The nonlisted securities and limited partnership assets noted above are considered to be level 3.

**COMMUNITY HEALTH CENTER, INC.**

**Notes to Consolidated Financial Statements**

**June 30, 2012 and 2011**

**NOTE 7**

**DEBT OBLIGATIONS**

	<u>2012</u>	<u>2011</u>		<u>2012</u>	<u>2011</u>
Debt obligations at June 30, 2012 and 2011 consist of the following:			Loan payable to New Alliance Bank, with an interest rate of 6.54%; maturing in December 2031 and collateralized by the leasehold improvements of 49 Day Street, Norwalk, Connecticut. Loan was paid off in 2012.	\$ -	\$ 465,010
New Market Tax Credit Financing, Loan A, with an interest rate of 7.383%, due in 2041, secured by a mortgage deed on the building at 675 Main Street, Middletown, Connecticut.	\$4,594,659	\$4,594,659	Loan payable to Bank of America, with an interest rate of 7.036%; matured in June 2012 and collateralized by CHCI's equipment.	-	229,816
New Market Tax Credit Financing, Loan B, with an interest rate of 1%, due in 2041 with an accelerated repayment election at the option of the lender for 1% of the original financing, secured by a mortgage deed on the building at 675 Main Street, Middletown, Connecticut.	1,899,558	1,899,558	Loan payable to Bank of America, with an interest rate of 2.74%; maturing in October 2013 and collateralized by CHCI's business assets.	292,905	507,236
Note payable to Bank of America, with an interest rate of 2.91%; maturing in December 2012 and collateralized by CHCI's accounts receivable and equipment.	71,216	265,615	Note payable to Arnold Taveli, with an interest rate of 4.50%; maturing in November 2015 and collateralized by CHCI's equipment.	132,285	-
Mortgage payable to Bank of America, with an interest rate of 3.25% (see below); maturing in December 2014 and collateralized by all physical property owned by CHCI.	2,811,913	2,957,135	Vehicle loans payable to Daimler Chrysler, with interest rates of 8.00% and 8.99%; matured in September 2011.	-	5,681
			Total	9,802,536	10,924,710
			Less: current portion	<u>(482,770)</u>	<u>(803,652)</u>
				<u>\$9,319,766</u>	<u>\$10,121,058</u>

COMMUNITY HEALTH CENTER, INC.

Notes to Consolidated Financial Statements

June 30, 2012 and 2011

Debt obligations, continued

In order to fix the variable rate on the note payable to Bank of America, CHCI entered into an interest rate swap agreement to convert this debt from a variable interest rate to a fixed interest rate. CHCI does not issue or hold derivative contracts for speculative purposes.

Aggregate maturities of long-term borrowings over the next five years are as follows:

<u>Year ended June 30:</u>	<u>Amount</u>
2013	\$ 482,770
2014	275,187
2015	2,533,627
2016	16,735
2017	-

The terms of certain financing agreements contain, among other provisions, requirements for maintaining defined levels of working capital, net worth, capital expenditures and various financial ratios, including debt to equity.

CHCI is in default of a covenant at June 30, 2012. Management has classified the debt as long-term debt in the statements of financial position at June 30, 2012 as an alternate calculation for the covenant has been granted by the bank.

Line of credit

As of June 30, 2012 and 2011, CHCI had an unused line of credit for \$3,000,000 with Bank of America.

Interest expense was \$260,818 and \$274,723 for the years ended June 30, 2012 and 2011, respectively.

**NOTE 8**

**LEASE OBLIGATIONS**

Leased facilities

CHCI conducts some of its operations from leased facilities. Lease commitments include leases which expire at various dates through November 2021 as well as certain leases which are on a month-to-month basis. In this and all other leases, management expects that in the normal course of business

leases will be renewed or replaced by other leases. In most of the leases, CHCI is required to pay certain annual operating costs such as maintenance and insurance expenses. Various leases contain restrictions as to the use of the properties and subletting arrangements.

At June 30, 2012 minimum rental payments due under operating leases for facilities consist of the following:

<u>Year ended June 30:</u>	<u>Amount</u>
2013	\$ 821,315
2014	870,602
2015	820,565
2016	572,158
2017	496,926
Thereafter	<u>1,324,341</u>
Total	<u>\$4,905,907</u>

Rent expense for the years ended June 30, 2012 and 2011 was \$897,685 and \$727,664, respectively.

CHCI maintains several leases for telephone systems, copiers and fax machines. The copier and fax machine leases require minimum monthly base payments with adjustments for excess usage.

**NOTE 9**

**CONTINGENCY**

In fiscal year 2008, CHCI was awarded two grants in the amount of \$2,500,000 each from the Department of Public Health to renovate both the New Britain and Meriden locations. If CHCI were to discontinue usage of the property for its specified grant purpose, the grant would be repayable to the State of Connecticut, less 10% for each year which has elapsed.

**NOTE 10**

**RELATED PARTY TRANSACTIONS**

Co-ownership agreement

Effective September 30, 1988, CHCI entered into an agreement to purchase and co-own 42% of the real property located at 623-625 Main Street, Middletown, Connecticut. The purchase price was \$250,000 including \$175,000 for the

**COMMUNITY HEALTH CENTER, INC.**

**Notes to Consolidated Financial Statements**

**June 30, 2012 and 2011**

**Co-ownership agreement, continued**

previous owner to renovate the building to CHCI's specifications. For fiscal year 2011, CHCI leased the previous owner's 58% share of the property. For fiscal year 2012, they purchased the remaining 58% and are now a 100% owner.

**Rental of 635 Main Street, Middletown, Connecticut**

CHCI leases the entire space at 635 Main Street, Middletown, Connecticut from Hilda Associates, a partnership of which CHCI holds a 41.5% interest. Management believes that CHCI's lease agreement for space with Hilda Associates is equivalent to an arms-length agreement between unrelated parties.

**NOTE 11**

**DEFINED CONTRIBUTION PLANS**

CHCI maintains a 403(b) Defined Contribution Plan. CHCI's Board of Directors determines, on an annual basis, the extent to which it can contribute to the plan. Pension expense for this plan was \$1,063,673 and \$995,048 for the years ended June 30, 2012 and 2011, respectively.

CHCI also maintains a 457(b) Nonqualified Retirement Plan. CHCI's Board of Directors determines, on an annual basis, the extent to which it can contribute to the plan. Pension expense for this plan was \$71,879 and \$33,210 for the years ended June 30, 2012 and 2011, respectively.

**NOTE 12**

**SUBSEQUENT EVENTS**

Management has evaluated subsequent events through December 31, 2012, the date on which the financial statements were available to be issued.

**NOTE 13**

**LEGAL CONTINGENCIES**

CHCI is subject to legal proceedings, claims and litigation. While the outcome of these matters is currently not determinable, management does not expect that the ultimate costs to resolve these matters will have a material adverse effect on CHCI's consolidated financial position, results of operations or cash flows.

As a federally qualified health center, the Center maintains malpractice insurance under the Federal Tort Claims Act (FTCA). This coverage is applicable to the Center and their officers, board members, employees and contractors who are physicians, other licensees or certified health care practitioners. The FTCA coverage is on a claims-made basis policy without a monetary cap. As of June 30, 2012, one known malpractice claim has been asserted against the Center and it is management's opinion that it will be covered by the FTCA coverage.

**SUPPLEMENTARY INFORMATION**

COMMUNITY HEALTH CENTER, INC.

Schedule of Expenditures of Federal Awards

For the year ended June 30, 2012

Federal Grantor Pass-through Grantor Program or Cluster Title	Federal CFDA Number	Pass-through Entity Identifying Number	Expenditures
<u>U.S. Department of Health &amp; Human Services</u>			
Bureau of Primary Health Care:			
Health Center Cluster	93.224	N/A	\$ 3,787,039
Affordable Caré Act - Capital Development	93.526	N/A	3,068,053
ARRA - Health Information Technology Implementation	93.703	N/A	45,244
Healthy Tomorrows: Food Smart and Fit	93.110	N/A	32,751
Innovative Approaches in Women - Living Smart/Living Fit	93.110	N/A	11,917
HIV/AIDS Bureau:			
Early Intervention Services for HIV/AIDS Patients (A/K/A RWII)	93.918	N/A	419,970
Centers for Medicare and Medicaid Services:			
Children's Health Insurance Program Reauthorization Act Outreach and Enrollment Grant (CHIPRA)	93.676	N/A	90,675
Special Projects of National Significance	93.928	N/A	66,666
Passed-through State of CT Department of Public Health:			
Vaccines (non-cash assistance)	93.268	unknown	1,755,635
Breast and Cervical Cancer Screening, Wisewomen	93.283	2010-0054	104,904
Achieve - Comprehensive Cancer Control	93.283	2012-0065	19,739
Ryan White I - Oasis - AIDS Healthcare and Support HCCS	93.917	2011-0253	98,797
AIDS Prevention Education Services, Ryan White Part II	93.940	2009-0188	45,786
Passed-through State of CT Department of Social Services:			
Safeguarding SBG	93.667	083CHC-SBG-28	41,304
Passed-through Connecticut Coalition Against Domestic Violence:			
ARRA - Jag Shelter	16.803	09RECJAG95CCADV01	55,255
Passed-through State of CT Department of Health and Addiction Services:			
Case Management	93.150	05MHA2049AA	58,017
Passed-through City of Hartford:			
Ryan White I, Part A	93.914	HHS2012-02D & 39D	41,938
Passed-through National Association of Health Centers:			
Americorp	94.006	10EDHMD002	138,225
Passed-through Senior Resources Agency on Aging:			
Dental Clinic	93.044	F-12-2; F-11-2	29,974
Dental Clinic	93.043	F-12-2; F-11-2	12,829
Subtotal			<u>9,924,718</u>

See notes to schedule.

COMMUNITY HEALTH CENTER, INC.

Schedule of Expenditures of Federal Awards, Continued

For the year ended June 30, 2012

Federal Grantor Pass-through Grantor Program or Cluster Title	Federal CFDA Number	Pass-through Entity Identifying Number	Expenditures
<u>U.S. Department of Health &amp; Human Services</u>			
Passed-through South Central CT Area Agency on Aging: Medicares Senior Dental Program	93.044	C-045-111N; C-045-10N	\$ 35,107
Passed-through Southwestern CT Area Agency on Aging: Dental Clinic	93.044	11-B-12-22; 12-B12-18	16,373
Norwalk Smiles	93.044	11-B-12-16; 12-B12-13	16,373
Passed-through North Central CT Area Agency on Aging: Dental Services for the Elderly	93.044	4160	9,000
<u>Federal Department of Justice</u>			
Passed-through the Connecticut Coalition Against Domestic Violence - Middletown:			
Victim's Advocate	16.575	04800	34,872
Adult Advocate	16.575	04800	47,850
Child Advocate	16.588	09RECVW99CHILDADV	11,948
<u>Department of Housing and Urban Development</u>			
Passed-through City of New London, Connecticut: Community Development Block Grant	14.218	221.6530-456-33.09	10,560
Passed-through City of Stamford, Connecticut: Community Development Block Grant	14.218	36-6	<u>10,000</u>
			<u>\$ 10,116,801</u>

See notes to schedule.

COMMUNITY HEALTH CENTER, INC.

Notes to the Schedule of Expenditures of Federal Awards

For the year ended June 30, 2012

**NOTE 1**

**BASIS OF PRESENTATION**

The accompanying schedule of expenditures of federal awards includes the federal grant activity of Community Health Center, Inc. under programs of the Federal government for the year ended June 30, 2012. The information in this schedule is presented in accordance with the requirements of OMB Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*. Because the schedule presents only a selected portion of the operations of Community Health Center, Inc., it is not intended to and does not present the financial position, changes in net assets or cash flows of Community Health Center, Inc.

**NOTE 2**

**SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES**

Expenditures reported on the schedule are reported on the accrual basis of accounting. Such expenditures are recognized following the cost principles contained in OMB Circular A-122, *Cost Principles for Non-Profit Organizations*, wherein certain types of expenditures are not allowable or are limited as to reimbursement.

Pass-through entity identifying numbers are presented where available.

**NOTE 3**

**INSURANCE**

The expenditures reported in the attached schedule of expenditures of federal awards includes expenses incurred for fringe benefit type insurances, such as medical, dental and worker's compensation for employees working on the Federally funded grant programs, as specified in the grant agreements and grant budgets approved by the funding agency. Expenditures would also indirectly include general, liability, property, crime and bond or officers' and directors' insurance costs through the administrative allocation for each grant.

**COMMUNITY HEALTH CENTER, INC.**

**Schedule of Expenditures of State Financial Assistance**

**For the year ended June 30, 2012**

<u>Grantor, Pass-Through Grantor, Program</u>	<u>State CORE - CT Number</u>	<u>Expenditures</u>
<u>Department of Public Health:</u>		
Bond Funds - Bristol	12052-DPH48500-42892	\$ 1,000,000
Bond Funds - New London	12052-DPH48500-42892	169,734
Uninsured - Preventive and Primary Care	11000-DPH48500-16060	829,856
School Based Health Clinics	11000-DPH48500-17019	604,544
Wise Women - Breast and Cervical Cancer	11000-DPH48500-12255	104,159
Wise Women - Screening	11000-DPH48500-30416	56,861
Achieve - Comprehensive Cancer Control	12060-DPH48500-30416	5,261
AIDS Prevention Education Services, Ryan White Part II	11000-DPH48500-12236	34,866
AIDS Healthcare and Support HCCS	11000-DPH48500-12236	11,978
Wise Women - Income Tax Refund	11000-DPH48500-35147	2,674
Passed-through City of New Britain School District:		
School Based Health Clinic - New Britain	11000-DPH48500-17019	276,016
<u>Department of Social Services:</u>		
Bond Funds - Middletown	13019-DSS60000-41242	2,500,000
Transitional Living Program	11000-DSS6000-16149-10253	130,963
Shelter Services Program	11000-DSS6000-16149-10254	283,545
Passed-through Community Health Center Association of Connecticut:		
Medicaid Outreach	11000-DSS-unknown	34,356
Passed-through Children's Trust Fund Council:		
Nurturing Families	11000-CTF94000-12042	212,900
Passed-through Senior Resources Agency on Aging	11000-DSS6000-16123	944
<u>Department of Children &amp; Families:</u>		
Outpatient Psychiatric Clinic for Children	11000-DCF91110-16024	221,509
Intensive Family Preservation Services	11000-DCF91110-16111	95,032
Parent Education and Assessment Services (PEAS)	11000-DCF91110-16092	92,188
Foster Care Clinic	11000-DCF91110-16008	68,289
Passed-through Rushford:		
Care Manager	11000-DCF91110-16141	55,506
<u>Department of Mental Health and Addiction Services:</u>		
Case Management	11000-DMHAS-16053	50,084
<u>Judicial Branch:</u>		
Passed-through Connecticut Coalition Against Domestic Violence:		
Victims Advocate	11000-JUD95810-12047	13,583
<u>Office of Policy Management:</u>		
Passed-through Connecticut Coalition Against Domestic Violence:		
Child Advocate	11000-OPM12251-55050	2,987
Total State Financial Assistance		<u>\$ 6,857,835</u>

See notes to schedule.

**COMMUNITY HEALTH CENTER, INC.**

**Notes to the Schedule of Expenditures of State Financial Assistance**

**For the year ended June 30, 2012**

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The accompanying schedule of expenditures of state financial assistance includes state grant activity of Community Health Center, Inc. under programs of the State of Connecticut for the fiscal year ended June 30, 2012. Various departments and agencies of the State of Connecticut have provided financial assistance through grants and other authorizations in accordance with the General Statutes of the State of Connecticut. These financial assistance programs fund several programs including medical, dental, behavioral health, school based and community services programs.

**NOTE 1**

**SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES**

The accounting policies of Community Health Center, Inc. conform to accounting principles generally accepted in the United States of America as applicable to not-for-profit agencies.

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

**Basis of accounting**

The expenditures reported on the schedule of expenditures of state financial assistance are reported on the modified accrual basis of accounting. In accordance with Section 4-236-22 of the Regulations to the State Single Audit Act, certain grants are not dependent on expenditure activity, and accordingly, are considered to be expended in the fiscal year of receipt. These grant program receipts are reflected in the expenditures column of the schedule of expenditures of state financial assistance.

**FEDERAL SUPPLEMENTARY REPORTS**



GUILMARTIN ▪ DIPIRO ▪ SOKOLOWSKI LLC

CERTIFIED PUBLIC ACCOUNTANTS

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

The Board of Directors  
Community Health Center, Inc.:

We have audited the consolidated financial statements of Community Health Center, Inc. (a nonprofit organization) and affiliated entities as of and for the year ended June 30, 2012, and have issued our report thereon dated December 31, 2012. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States.

**Internal Control over Financial Reporting**

Management of Community Health Center, Inc. is responsible for establishing and maintaining effective internal control over financial reporting. In planning and performing our audit, we considered Community Health Center, Inc.'s internal control over financial reporting as a basis for designing our auditing procedures for the purpose of expressing our opinion on the consolidated financial statements, but not for the purpose of expressing an opinion on the effectiveness of Community Health Center, Inc.'s internal control over financial reporting. Accordingly, we do not express an opinion on the effectiveness of the Organizations' internal control over financial reporting.

A *deficiency in internal control* exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct misstatements on a timely basis. A *material weakness* is a deficiency, or a combination of deficiencies, in internal control such that there is a reasonable possibility that a material misstatement of the entities' financial statements will not be prevented, or detected and corrected on a timely basis.

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

**Compliance and Other Matters**

As part of obtaining reasonable assurance about whether Community Health Center, Inc.'s consolidated financial statements are free of material misstatement, we performed tests of their 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*.

We noted certain matters that we reported to management of Community Health Center, Inc. in a separate letter dated December 31, 2012.

This report is intended solely for the information and use of management, the audit committee, others within the entities, the Board of Directors, federal awarding agencies and state awarding agencies and is not intended to be and should not be used by anyone other than these specified parties.

*Guilmartin, DiPiro & Sokolowski, LLC*

Middletown, Connecticut  
December 31, 2012



GUILMARTIN ▪ DIPIRO ▪ SOKOLOWSKI LLC  
CERTIFIED PUBLIC ACCOUNTANTS

**INDEPENDENT AUDITOR'S REPORT ON COMPLIANCE WITH REQUIREMENTS THAT  
COULD HAVE A DIRECT AND MATERIAL EFFECT ON EACH MAJOR PROGRAM AND ON  
INTERNAL CONTROL OVER COMPLIANCE IN ACCORDANCE WITH OMB CIRCULAR A-133**

The Board of Directors  
Community Health Center, Inc.:

**Compliance**

We have audited Community Health Center, Inc. and affiliated entities' compliance with the types of compliance requirements described in the *OMB Circular A-133 Compliance Supplement* that could have a direct and material effect on each of Community Health Center, Inc.'s major federal programs for the year ended June 30, 2012. Community Health Center, Inc.'s major federal programs are identified in the summary of auditor's results section of the accompanying schedule of findings and questioned costs. Compliance with the requirements of laws, regulations, contracts, and grants applicable to each of its major federal programs is the responsibility of Community Health Center, Inc.'s management. Our responsibility is to express an opinion on Community Health Center, 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 OMB Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*. Those standards and OMB Circular A-133 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 federal program occurred. An audit includes examining, on a test basis, evidence about Community Health Center, 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 Health Center, Inc.'s compliance with those requirements.

In our opinion, Community Health Center, Inc. complied, in all material respects, with the compliance requirements referred to above that could have a direct and material effect on each of their major federal programs for the year ended June 30, 2012.

**Internal Control Over Compliance**

Management of Community Health Center, Inc. is responsible for establishing and maintaining effective internal control over compliance with the requirements of laws, regulations, contracts, and grants applicable to federal programs. In planning and performing our audit, we considered Community Health Center, Inc.'s internal control over compliance with the requirements that could have a direct and material effect on a major federal program to determine the auditing procedures for the purpose of expressing our opinion on compliance and to test and report on internal control over compliance in accordance with OMB Circular A-133, 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 Health Center, 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 federal 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 federal program will not be prevented, or detected and corrected, on a timely basis.

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

This report is intended solely for the information and use of management, the audit committee, others within the entities, the Board of Trustees, federal awarding agencies, and pass-through entities and is not intended to be and should not be used by anyone other than these specified parties.

*Gudna tin, D. Piro + Sokolowski, LLC*

Middletown, Connecticut  
December 31, 2012

COMMUNITY HEALTH CENTER, INC.

Schedule of Findings and Questioned Costs

For the year ended June 30, 2012

SECTION I - SUMMARY OF AUDITOR'S RESULTS

Financial Statements

Type of auditor's report issued: Unqualified

Internal control over financial reporting:

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

Noncompliance material to financial statements noted?  Yes  No

Federal Awards

Internal control over major programs:

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

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

Any audit findings disclosed that are required to be reported in accordance with Section 510(a) of Circular A-133?  Yes  No

Identification of major programs:

<u>CFDA Number</u>	<u>Name of Federal Program or Cluster</u>
	<u>U.S. Department of Health &amp; Human Services:</u>
	Health Resources and Service Administration:
93.526	Affordable Care Act - Capital Development
93.918	Early Intervention Services for HIV/AIDS Patients (A/K/A RWII)
93.268	Vaccines (non-cash assistance)

Dollar threshold used to distinguish between type A and type B programs: \$303,504

Auditee qualified as low-risk auditee?  Yes  No

SECTION II - FINANCIAL STATEMENT FINDINGS

None.

SECTION III - FEDERAL AWARDS FINDINGS AND QUESTIONED COSTS

None.

**STATE SUPPLEMENTARY REPORTS**



GUILMARTIN ▪ DIPIRO ▪ SOKOLOWSKI LLC

CERTIFIED PUBLIC ACCOUNTANTS

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

The Board of Directors  
Community Health Center, Inc.:

**Compliance**

We have audited Community Health Center, Inc. and affiliated entities' compliance with the types of compliance requirements described in the *Office of Policy and Management Compliance Supplement* that could have a direct and material effect on each of Community Health Center, Inc.'s major state programs for the year ended June 30, 2012. The major state programs are identified in the summary of auditor's results section of the accompanying schedule of findings and questioned costs. Compliance with the requirements of laws, regulations, contracts, and grants applicable to each of their major state programs is the responsibility of Community Health Center, Inc.'s management. Our responsibility is to express an opinion on Community Health Center, 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 State Single Audit Act (C.G.S. Sections 4-230 to 4-236). Those standards and the State Single Audit Act require that we plan and perform the audit to obtain reasonable assurance about whether noncompliance with the types of compliance requirements referred to above that could have a direct and material effect on a major state program occurred. An audit includes examining, on a test basis, evidence about Community Health Center, 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 Health Center, Inc.'s compliance with those requirements.

In our opinion, Community Health Center, Inc. complied, in all material respects, with the compliance requirements referred to above that could have a direct and material effect on each of their major state programs for the year ended June 30, 2012.

**Internal Control Over Compliance**

Management of Community Health Center, 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 Health Center, Inc.'s internal control over compliance with the requirements that could have a direct and material effect on a major state program to determine the auditing procedures for the purpose of expressing our opinion on compliance and to test and report on internal control over compliance in accordance with the State Single Audit Act, but not for the purpose of expressing an opinion on the effectiveness of internal control over compliance. Accordingly, we do not express an opinion on the effectiveness of Community Health Center, 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 consolidated financial statements of Community Health Center, Inc. as of and for the year ended June 30, 2012, and have issued our report thereon dated December 31, 2012, which contained an unqualified opinion on those consolidated financial statements. Our audit was conducted for the purpose of forming an opinion on the consolidated financial statements as a whole. The accompanying schedule of expenditures of state financial assistance is presented for purposes of additional analysis as required by the State Single Audit Act and is not a required part of the consolidated financial statements. Such information is the responsibility of management and was derived from and relates directly to the underlying accounting and other records used to prepare the consolidated financial statements. The information has been subjected to the auditing procedures applied in the audit of the consolidated financial statements and certain additional procedures, including comparing and reconciling such information directly to the statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the schedule of expenditures of state financial assistance is fairly stated in all material respects in relation to the consolidated financial statements as a whole.

This report is intended solely for the information and use of management, the Board of Directors, others within the entities, the Office of Policy and Management, and state awarding agencies and pass-through entities and is not intended to be and should not be used by anyone other than these specified parties.

*Gulawski, D.P. + Sorocowski LLC*

Middletown, Connecticut  
December 31, 2012

**COMMUNITY HEALTH CENTER, INC.**

**Schedule of Findings and Questioned Costs**

**For the year ended June 30, 2012**

**1. SUMMARY OF AUDITOR'S RESULTS**

*Financial Statements*

Type of auditor's report issued: Unqualified

Internal control over financial reporting:

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

Noncompliance material to financial statements noted? \_\_\_\_\_ Yes \_\_\_\_\_ x No

*State Financial Assistance*

Internal control over major programs:

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

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

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

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

<u>State Grantor and Program</u>	<u>State CORE - CT Number</u>	<u>Expenditures</u>
Department of Public Health: Bond Funds - Bristol	12052-DPH48500-42892	\$1,000,000
Department of Social Services: Bond Funds - Middletown	13019-DSS60000-41242	2,500,000

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

**2. FINANCIAL STATEMENT FINDINGS**

None.

**3. STATE FINANCIAL ASSISTANCE FINDINGS AND QUESTIONED COSTS**

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