

Cornell Scott - Hill Health Corporation

Financial Statements

For the Year Ended

June 30, 2012

And Reports of Independent Auditors

CORNELL SCOTT - HILL HEALTH CORPORATION

TABLE OF CONTENTS

	Page(s)
FINANCIAL STATEMENTS	
I. INDEPENDENT AUDITORS' REPORT	1-2
Statement of Financial Position as of June 30, 2012 and 2011	3
Statement of Activities for the Years Ended June 30, 2012 and 2011	4
Statement of Cash Flows for the Years Ended June 30, 2012 and 2011	5
Notes to Financial Statements	6-13
SINGLE AUDIT REPORT PACKAGE AND REPORTS REQUIRED BY GOVERNMENT AUDITING STANDARDS FOR THE YEAR ENDED JUNE 30, 2012	
II. INDEPENDENT AUDITORS' REPORT ON INTERNAL CONTROL OVER FINANCIAL REPORTING AND ON COMPLIANCE AND OTHER MATTERS BASED ON AN AUDIT OF FINANCIAL STATEMENTS PERFORMED IN ACCORDANCE WITH <u>GOVERNMENT AUDITING STANDARDS</u>	14-15
III. INDEPENDENT AUDITORS' REPORT ON COMPLIANCE WITH REQUIREMENTS THAT COULD HAVE A DIRECT AND MATERIAL EFFECT ON EACH MAJOR FEDERAL PROGRAM AND ON INTERNAL CONTROL OVER COMPLIANCE IN ACCORDANCE WITH OMB CIRCULAR NO. A-133	16-17
SUPPLEMENTAL SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS FOR THE YEAR ENDED JUNE 30, 2012 (SCHEDULE I)	18-20
FEDERAL SCHEDULE OF FINDINGS AND QUESTIONED COSTS FOR THE YEAR ENDED JUNE 30, 2012 (EXHIBIT I)	21-22
IV. INDEPENDENT AUDITORS' 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	23-24
SUPPLEMENTAL SCHEDULE OF EXPENDITURES OF CONNECTICUT STATE FINANCIAL ASSISTANCE FOR THE YEAR ENDED JUNE 30, 2012 (SCHEDULE II)	25-26
STATE SCHEDULE OF FINDINGS AND QUESTIONED COSTS FOR THE YEAR ENDED JUNE 30, 2012 (EXHIBIT II)	27-29

PIKAART VISCONTI AND ASSOCIATES, P. C.
C e r t i f i e d P u b l i c A c c o u n t a n t s

Edward H. Pikaart, Jr., CPA, CMA, CFM John J. Visconti, MS, CPA Maryellen H. Holford, CPA

REPORT I

INDEPENDENT AUDITORS' REPORT

The Board of Directors
Cornell Scott - Hill Health Corporation
400-428 Columbus Avenue
New Haven, Connecticut 06519

We have audited the accompanying statement of financial position of Cornell Scott - Hill Health Corporation (a non-profit organization) as of June 30, 2012 and the related statements of activities and cash flows for the year then ended. These financial statements are the responsibility of the management of Cornell Scott - Hill Health Corporation (the "Corporation"). Our responsibility is to express an opinion on these financial statements based on our audit. The prior year summarized comparative information has been derived from the Corporation's 2011 financial statements and, in our report dated November 30, 2011, we expressed an unqualified opinion on those financial 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 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 previously present fairly, in all material respects, the financial position of Cornell Scott - Hill Health Corporation as of June 30, 2012 and the changes in its net assets and its 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 report dated December 19, 2012, on our consideration of Cornell Scott - Hill Health Corporation's internal control over financial reporting and our tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with Government Auditing Standards and should be considered in assessing the results of our audit.

Our audit was conducted for the purpose of forming an opinion on the financial statements as a whole. The accompanying supplemental information and the Schedule of Expenditures of Federal Awards is presented for purposes of additional analysis as required by U.S. Office of Management and Budget Circular No. A-133, *Audits of States, Local Governments and Non-Profit Organizations* and is not a required part of the 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 financial statements. The information has been subjected to the auditing procedures applied in the audit of the financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the financial statements or to the financial statements themselves and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the supplemental information is fairly stated, in all material respects, in relation to the financial statements as a whole.

PIKAART VISCONTI & ASSOCIATES, P.C.

December 19, 2012

CORNELL SCOTT - HILL HEALTH CORPORATION

**STATEMENT OF FINANCIAL POSITION
AS OF JUNE 30, 2012 WITH COMPARATIVE TOTALS FOR 2011**

<u>ASSETS</u>	<u>NOTES</u>	<u>2012</u>	<u>(Note 1 Memorandum Only) 2011</u>
CURRENT ASSETS:			
Cash and cash equivalents		\$ 1,891,385	\$ 2,600,361
Marketable securities	2	74,679	202,010
Receivables:			
Grants and contracts		571,684	708,273
Patient fees		2,244,564	4,416,166
Other receivables		19,210	183,657
Prepaid expenses and other assets		89,951	94,410
Pharmaceutical inventory	1	120,195	162,903
Total current assets		<u>5,011,668</u>	<u>8,367,780</u>
LAND, BUILDINGS AND EQUIPMENT - NET	3	<u>18,875,427</u>	<u>17,699,460</u>
OTHER NON-CURRENT ASSETS:			
Restricted cash	6	653,626	653,625
Investments	2,8	83,333	83,333
Deferred financing costs - net	1,6	247,081	257,485
Other assets		35,293	37,693
Total other non-current assets		<u>1,019,333</u>	<u>1,032,136</u>
TOTAL ASSETS		<u><u>\$ 24,906,428</u></u>	<u><u>\$ 27,099,376</u></u>
<u>LIABILITIES AND UNRESTRICTED NET ASSETS</u>			
CURRENT LIABILITIES:			
Accounts payable		\$ 3,948,704	\$ 3,058,117
Accrued liabilities	7	2,490,609	2,590,228
Current maturities of long-term debt	5,6	623,627	160,000
Deferred grant and other revenue		243,383	183,413
Total current liabilities		<u>7,306,323</u>	<u>5,991,758</u>
NON-CURRENT LIABILITIES:			
Long-term debt - net of current portion	6	<u>8,125,250</u>	<u>7,170,000</u>
Total liabilities		<u>15,431,573</u>	<u>13,161,758</u>
UNRESTRICTED NET ASSETS		<u>9,474,855</u>	<u>13,937,618</u>
TOTAL LIABILITIES AND UNRESTRICTED NET ASSETS		<u><u>\$ 24,906,428</u></u>	<u><u>\$ 27,099,376</u></u>

See notes to financial statements.

CORNELL SCOTT - HILL HEALTH CORPORATION

STATEMENT OF ACTIVITIES
FOR THE YEAR ENDED JUNE 30, 2012 WITH COMPARATIVE TOTALS FOR 2011

	NOTES	2012	(Note 1 Memorandum Only) 2011
REVENUES:			
Patient fees - net	1	\$ 31,185,754	\$ 34,477,652
Grants and contracts		11,119,788	11,123,757
Women, Infants & Children food benefits	1	777,709	763,893
Vaccines and donated pharmaceuticals	1	521,317	513,444
Contract revenue		96,926	96,926
Interest & dividends		6,855	14,020
Miscellaneous		253,855	85,003
Rental income	6	49,953	132,306
Total revenues		<u>44,012,157</u>	<u>47,207,001</u>
EXPENSES:			
Salaries and related expenses		31,723,493	31,311,075
Contracted services		2,805,764	3,069,501
Women, Infants & Children food benefits	1	777,709	763,893
Vaccines and donated pharmaceuticals	1	521,317	513,444
Occupancy		896,326	834,234
Pharmaceutical and other supplies		3,743,192	3,617,088
Depreciation and amortization		1,811,047	1,622,763
Interest		518,065	486,854
Pension expense	4	260,639	25,000
Equipment and maintenance expense		1,663,255	1,894,813
Professional expenses		382,044	155,748
Service and maintenance agreements		932,508	593,091
Transportation		259,105	340,179
Patient food and laundry		569,910	503,175
Communication		412,278	382,966
Payroll processing fees and employee relations		165,241	191,151
Insurance		270,909	333,793
Advertising and recruiting		413,888	493,260
Books, subscriptions and licenses		76,969	111,400
Office supplies and other		406,303	355,489
Total expenses		<u>48,609,962</u>	<u>47,598,917</u>
LOSS FROM OPERATIONS		(4,597,805)	(391,916)
NON - OPERATING INCOME:			
Unrealized (loss) gain on investments		(4,719)	43,895
Capital grants, net		139,761	164,874
Total non-operating income		<u>135,042</u>	<u>208,769</u>
CHANGE IN UNRESTRICTED NET ASSETS		(4,462,763)	(183,147)
UNRESTRICTED NET ASSETS, BEGINNING OF YEAR		13,937,618	14,120,765
UNRESTRICTED NET ASSETS, END OF YEAR		\$ 9,474,855	\$ 13,937,618

See notes to financial statements.

CORNELL SCOTT - HILL HEALTH CORPORATION

**STATEMENT OF CASH FLOWS
FOR THE YEAR ENDED JUNE 30, 2012 WITH COMPARATIVE TOTALS FOR 2011**

	<u>2012</u>	(Note 1 Memorandum Only) <u>2011</u>
CASH FLOWS FROM OPERATING ACTIVITIES:		
Changes in unrestricted net assets:	\$(4,462,763)	\$ (183,147)
Adjustments to reconcile changes in unrestricted net assets to net cash provided by (used in) operating activities:		
Depreciation and amortization	1,811,047	1,622,763
Capital grants	(139,761)	(234,924)
(Gain) loss on disposal of fixed assets	(2,000)	3,850
Unrealized loss (gain) on investments	4,719	(43,895)
Changes in assets and liabilities:		
Non-capital grant receivables	136,589	1,275,166
Patient fees and other receivables	2,336,049	(1,772,628)
Prepaid expenses and other assets	4,459	121,938
Pharmaceutical inventory	42,708	52,037
Accounts payable	890,587	381,639
Accrued liabilities	(99,619)	(2,103,943)
Deferred grant and other revenue	59,970	167,975
	<u>581,985</u>	<u>(713,169)</u>
Net cash provided by (used in) operating activities		
CASH FLOWS FROM INVESTING ACTIVITIES:		
Proceeds from the sale of fixed assets	2,000	3,000
Redemption of investments	122,612	-
Donated assets	-	25,044
Acquisition of fixed assets	<u>(1,197,983)</u>	<u>(2,023,218)</u>
Net cash used in investing activities	<u>(1,073,371)</u>	<u>(1,995,174)</u>
CASH FLOWS FROM FINANCING ACTIVITIES:		
Restricted cash	(1)	826,283
Capital grants	139,761	234,924
Proceeds from long-term debt	108,772	-
Payments on long-term debt	<u>(466,122)</u>	<u>(203,263)</u>
Net cash (used in) provided by financing activities	<u>(217,590)</u>	<u>857,944</u>
NET DECREASE IN CASH AND CASH EQUIVALENTS	(708,976)	(1,850,399)
CASH AND CASH EQUIVALENTS, BEGINNING OF YEAR	<u>2,600,361</u>	<u>4,450,760</u>
CASH AND CASH EQUIVALENTS, END OF YEAR	<u>\$ 1,891,385</u>	<u>\$ 2,600,361</u>
SUPPLEMENTAL DISCLOSURE OF CASH FLOW INFORMATION:		
Cash paid for interest	<u>\$ 518,065</u>	<u>\$ 486,854</u>
Non-cash financing of fixed asset acquisitions	<u>\$ 1,789,331</u>	<u>\$ -</u>

See notes to financial statements.

CORNELL SCOTT - HILL HEALTH CORPORATION

NOTES TO FINANCIAL STATEMENTS

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

General – Cornell Scott - Hill Health Corporation (the “Corporation”) is a private, non-profit federally qualified community health center established in 1968 that provides primary health care to low income and disadvantaged individuals in New Haven, Connecticut and certain surrounding locations.

Basis of Presentation -

Net Assets - The Financial Accounting Standards Board (FASB) has created the FASB Accounting Standards Codification (ASC) System which is the official source of authoritative, nongovernmental accounting principles generally accepted in the United States of America. In accordance with ASC Topic 958-205, *Not-for-Profit Entities, Presentation of Financial Statements*, the Corporation reports information regarding its financial position and activities according to three classes of net assets:

Unrestricted - Unrestricted net assets represent available resources other than donor-restricted contributions. Included in unrestricted net assets are grants, contracts and donations that may be earmarked for specific purposes.

Temporarily Restricted - Temporarily restricted net assets represent contributions that are restricted either as to purpose or as to time of expenditure. The Corporation has no temporarily restricted net assets.

Permanently Restricted - Permanently restricted net assets represent contributions received with the donor restriction that the principal be invested in perpetuity and that only the income earned thereon will be available for operations. The Corporation has no permanently restricted net assets.

Expenses - The Corporation reports its expenses on the Statement of Activities using their natural classification. In accordance with ASC Topic 958-205, those expenses by functional classifications are as follows:

Program Expenses	\$34,616,990
Management & General	13,992,972
Fundraising	-
Total Expenses	<u>\$48,609,962</u>

Prior Year Information - The 2011 information provides summarized totals only and the amounts are not intended to include all the information necessary for a fair presentation in accordance with accounting principles generally accepted in the United States of America. Accordingly, such amounts should be read in conjunction with the Corporation’s financial statements for the year ended June 30, 2011, from which the amounts were derived. Certain 2011 amounts have been reclassified to conform to the 2012 presentation.

Cash and Cash Equivalents - Cash equivalents are considered to be highly liquid securities with original maturities of three months or less.

Receivables - Grants, patient fees (the largest single portion of which is Medicaid) and other receivables accounted for approximately 21%, 78% and 1%, respectively, of the receivables at June 30, 2012.

Investments – Investments in marketable securities primarily consist of common stocks and are recorded at fair value in the Statement of Financial Position. Realized and unrealized gains and losses are recorded in the Statement of Activities as increases and decreases in unrestricted net assets at each valuation date.

Land, Buildings and Equipment - Land, buildings and equipment are carried at cost, net of accumulated depreciation. Betterments and major renewals are capitalized and maintenance and repairs are charged to expense as incurred.

Depreciation and amortization are provided using the straight-line method over the estimated useful lives of the assets, which range from three to twenty-five years. The Corporation's capitalization threshold is \$2,500. In connection with Federal and State financial assistance, certain capitalized assets are subject to lien by the Federal Government and State of Connecticut.

The Corporation performs a test for impairment whenever events or changes in circumstances indicate that the carrying amount of an individual asset or asset group may not be recoverable. Should projected undiscounted future cash flows be less than the carrying amount of the asset or asset group, an impairment charge reducing the carrying amount to fair value is required. Fair value is determined based on the most appropriate valuation technique, including discounted cash flows.

Grant and Contract Revenue Recognition - Revenue is recognized ratably over the period of the grant or contract and is recognized based upon actual expenses incurred for prepayment and other reimbursement grants or contracts. Any unexpended and unexpired amounts are recorded as deferred revenue. Such grant and contract revenues are treated as unrestricted for financial statement presentation because the grant and contract requirements are satisfied in the year in which the revenue is recognized.

The Corporation administers vaccines distributed through the State of Connecticut Department of Public Health. Accordingly, the value of the vaccines provided to the patient population is reported as both revenue and expense on the Statement of Activities. Since the Corporation is considered a "vaccinating provider" and not a subrecipient, such amounts are excluded from the federal and state award schedules.

In addition, the Corporation administers The Women, Infants and Children Food Benefits Program wherein eligible participants receive vouchers to purchase certain food items. Accordingly, the value of food benefits provided to participants, as determined by the State of Connecticut, is reported as both revenue and expense on the Statement of Activities and Schedule of Expenditures of Federal Awards.

The Corporation participates in the "Share the Care" program with Pfizer Pharmaceuticals, where eligible participants receive certain medications which are provided for by Pfizer. The pharmaceuticals are recorded as both revenue and expense on the Statement of Activities.

Patient Fee Revenue - Patient fee revenue is primarily earned from fee-for-service and managed care. Fee-for-service revenue is reported at established rates with an allowance for potential credit loss, contractual allowances and charitable allowances deducted to arrive at net patient fee revenue. Managed care revenue is reported at a fee-for-service for certain covered services based upon contracted fee schedules.

The Corporation has agreements with third-party payors that provide for payments to the Corporation at amounts different from established rates. A summary of the payment arrangements with major third-party payors are as follows:

Medicare – Health care services are rendered to Medicare program beneficiaries under a cost-based reimbursement methodology. The Corporation is reimbursed at tentative cost per visit rates with final settlement determined after submission of annual cost reports by the Corporation and audits thereof by the Medicare fiscal intermediary. These rates vary according to a patient classification system that is based on clinical, diagnostic and other factors, such as non-acute services and certain outpatient services. Medicare revenues - net were \$2,070,984.

Medicaid – Health care services are rendered to Medicaid program beneficiaries and the Corporation is paid at prospectively determined rates per encounter. These rates are adjusted once annually by the Medicare Economic Index. Medicaid revenues - net were \$28,644,177.

Self-Pay, Commercial Carriers and Other Third Parties – The Corporation has agreements with various commercial carriers. Patient fee revenue net of contractual and bad debt allowances for self-pay, commercial carriers and other third-party payors for the year ended June 30, 2012 was \$354,425.

Interest Income - Interest earned on nonfederal funds is recorded as income on the accrual basis of accounting. Interest earned on federal funds is not recorded as income as it is returned to the Public Health Service in compliance with OMB Circular A-110.

Donated Services - A number of unpaid volunteers have made contributions of their time to the Corporation. The value of this contributed time is not recorded in the financial statements since the criteria for recognition under FASB ASC Topic 958-605 has not been satisfied.

Income Taxes - The Corporation is a not-for-profit corporation as defined in Section 501(c)(3) of the Internal Revenue Code and is exempt from income taxes on related income pursuant to Section 501(a) of the Code. The Internal Revenue Service has determined that the Corporation is other than a private foundation.

The Corporation adopted ASC Topic 740, *Income Taxes*. ASC Topic 740 provides detailed guidance for the financial statement recognition, measurement and disclosure of uncertain tax positions recognized in an enterprise's financial statements. Income tax positions must meet a more-likely-than-not recognition threshold at the effective date to be recognized upon adoption of ASC Topic 740 and in subsequent periods. Management is not aware of any uncertain tax positions taken by the Corporation as of that date. Tax years ended June 30, 2009 through June 30, 2012 remain subject to examination by major tax jurisdictions.

Concentrations of Credit Risk – The Corporation's financial instruments that are exposed to concentrations of credit risk are cash, grants, contracts receivable, patient fees, marketable securities and other receivables.

Cash – The Corporation maintains its deposits in financial institutions which insure deposits with the Federal Deposit Insurance Corporation ("FDIC"). The FDIC deposit insurance limit increase from \$100,000 to \$250,000 was made permanent effective July 21, 2010. In addition, the FDIC will provide full FDIC deposit insurance coverage for non-interest bearing transaction deposit accounts at participating FDIC-insured institutions for the period commencing December 31, 2010 through December 31, 2012. The Corporation's deposits in financial institutions may, at times, exceed federal or other depository insurance limits. The Corporation has not experienced any losses relating to temporarily uninsured cash balances and management believes that the Corporation's deposits are not subject to significant credit risk. At June 30, 2012, uninsured cash balances were approximately \$1,827,000, which includes \$789,795 of money market funds that are not covered by FDIC insurance.

Patient Fees Receivable – Patient fee revenues and receivables are recorded net of contractual and bad debt allowances. Based on historical experience and collections subsequent to year end, management believes the receivables represent negligible credit risk.

Grants and Contracts Receivable - Grants and contracts receivable are supported by contracts with federal and state governments and others, and are based on historical experience. Management believes these receivables represent negligible credit risk. Accordingly, management has not established an allowance for potential credit loss.

Deferred Financing Costs - In connection with the issuance of the 2006 Hill Health Corporation Issue, Connecticut Facility Revenue Bonds - Series 2006 (the "Bonds") (as defined in Note 6), the Corporation incurred debt issuance costs. Such costs were deferred and are being amortized on the straight-line basis over the life of the Bonds.

Pharmaceutical Inventory – Inventories for the pharmacy are maintained on the First-In-First-Out (FIFO) basis at the lower of cost or market value.

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 the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. Significant estimates made by management include contractual and bad debt allowances against patient fee revenues and related receivables. Actual results could differ from those estimates and assumptions.

Disclosure of Subsequent Events - The Corporation adopted ASC Topic 855, *Subsequent Events*. ASC Topic 855 requires disclosure of the date through which subsequent events have been evaluated and whether that date is the date that the financial statements were issued or available to be issued. Management has evaluated subsequent events for potential recognition and disclosure through December 19, 2012, the date the financial statements were available to be issued. Management is not aware of any events subsequent to the statement of financial position date which would require additional adjustment to, or disclosure in, the accompanying financial statements.

2. FAIR VALUE MEASUREMENTS

The Corporation's investments are reported at fair value in the accompanying Statement of Financial Position.

Fair Value Measurements Using:

<u>June 30, 2012</u>	<u>Fair Value</u>	<u>Quoted Prices in Active Markets for Identical Assets (Level 1)</u>	<u>Significant Unobservable inputs (Level 3)</u>
Common stock	\$ 74,679	\$74,679	-
Investment in CHN	83,333	-	\$83,333
Total	<u>\$158,012</u>	<u>\$74,679</u>	<u>\$83,333</u>

FASB ASC Topic 820, *Fair Value Measurements and Disclosures*, establishes a fair value hierarchy that prioritizes the inputs to valuation techniques used to measure fair value. This hierarchy consists of three broad levels: Level 1 inputs consist of unadjusted quoted prices in active markets for identical assets and have the highest priority, Level 2 inputs consist of quoted market prices for similar assets and Level 3 inputs have the lowest priority. The Corporation uses appropriate valuation techniques based on the available inputs to measure the fair value of its investments. When available, the Corporation measures fair value using Level 1 inputs because they generally provide the most reliable evidence of fair value. No Level 2 inputs were available to the Corporation and Level 3 inputs were only used when Level 1 or Level 2 were not available.

Level 1 Fair Value Measurements

The fair value of common stock is based on quoted market prices of the shares held by the Corporation at year-end.

Level 3 Fair Value Measurements

The investment in CHN is not actively traded and significant other observable inputs are not available. Thus, the fair value of the investment in CHN is recorded at cost, which approximates fair value. The following table provides further details of the Level 3 fair value measurements.

	Fair Value Measurements Using Significant Unobservable Inputs (Level 3)
<u>June 30, 2012</u>	<u>Investment in CHN</u>
Beginning balance	\$83,333
Purchases, sales, issuances, and settlements, net	<u>-</u>
Ending balance	<u><u>\$83,333</u></u>

3. LAND, BUILDINGS AND EQUIPMENT

Land, buildings and equipment at June 30, 2012 consist of the following:

Land	\$ 2,098,028
Buildings and improvements	22,956,741
Furniture & equipment	8,686,477
Construction in progress	<u>442,362</u>
	34,183,608
Less: accumulated depreciation	<u>(15,308,181)</u>
Land, buildings and equipment, net	<u>\$18,875,427</u>

4. ACCRUED PENSION OBLIGATION

The Corporation amended and restated its defined contribution retirement plan, effective January 1, 2012, to provide for both employee salary deferrals and employer matching contributions under Section 401(k) of the Internal Revenue Code. Employer contributions for the year ended June 30, 2012 under all retirement plans totaled \$260,639.

5. SHORT-TERM BORROWINGS

The Corporation's line of credit provides for borrowings up to \$1,400,000. There were no outstanding borrowings at June 30, 2012. Interest accrues at the lender's one-month LIBOR Advantage Rate plus 3% (3.47% at June 30, 2012).

6. LONG-TERM DEBT AND LEASES

During 1992, the City of New Haven issued \$4,750,000 of Hill Health Corporation Issue, Connecticut Facility Revenue Bonds - Series 1992 (the "Original Bonds") to provide funds for several capital projects and to refinance certain outstanding debt of the Corporation. The proceeds of the Original Bonds issuance were

loaned to the Corporation and are evidenced by a note. The Original Bonds bear interest at 9.25% and mature serially in varying amounts through the year 2017. Interest is payable semiannually through 2017. Annual sinking fund principal payments are required in amounts ranging from \$70,000 to \$450,000 through 2017. The Original Bonds are secured by certain assets of the Corporation. These Original Bonds were refunded from the Series 2006 Bond proceeds and the note has been refinanced as discussed below.

During 2006, the City of New Haven issued \$8,000,000 of Hill Health Corporation Issue, Connecticut Facility Revenue Bonds – Series 2006 (the “Bonds”) to provide funds for several capital projects and to refinance the Series 1992 Bonds. The proceeds to the Bond issuance were loaned to the Corporation and are evidenced by a note. The Bonds bear interest at 6.50% and 6.75% and mature serially in varying amounts through the year 2036. Interest is payable semiannually through 2036. Annual sinking fund principal payments are required in amounts ranging from \$110,000 to \$510,000 through 2036. Debt issuance costs of \$312,103 were incurred in connection with the issuance of the Bonds. Accumulated amortization at June 30, 2012 was \$65,022. The Bonds are secured by certain assets of the Corporation.

As a condition of the bonding, the Corporation must maintain certain financial covenants. Covenant violations occurred as of June 30 and September 30, 2012. The lender has waived the violations through June 30, 2013.

During the fiscal year ended June 30, 2012, the Corporation financed its purchase of a new electronic health records system through two loans with GE Healthcare Financial Services in the combined amount of \$1,569,236. The loans, which expire in January 2016, are payable in monthly installments that total \$35,447 and bear interest at 3.99% per year.

In addition, the Corporation entered into a capital lease with Jules Associates for equipment valued at \$220,095, which has been included in both long term debt and the cost of furniture and equipment (see Note 3). This lease, expiring in August 2014, is payable in monthly installments of \$6,376 with a lease rate factor of 2.9% and a bargain purchase provision allowing for acquisition of the equipment at 1% of the original cost at the end of the lease term.

A summary of scheduled future aggregate principal payments on long-term debt and capital lease obligations due at June 30, 2012 is as follows:

2013	\$ 623,627
2014	650,919
2015	614,466
2016	454,865
2017	225,000
Thereafter	<u>6,180,000</u>
	8,748,877
Less: Current portion of long-term debt	<u>(623,627)</u>
Total long-term debt	<u>\$ 8,125,250</u>

Restricted Cash - Certain proceeds from the issuance of the Bonds were restricted for capital expenditures earmarked in the bond agreement and have been subsequently expended. Accordingly, there are no cash balances restricted for capital expenditures. Additionally, a cash balance of \$653,626 at June 30, 2012 was restricted for the repayment of the debt and interest.

A summary of restricted cash balances is as follows:

Non-current:	
Restricted for interest payment	\$ 26
Restricted for repayment of debt	<u>653,600</u>
	<u>\$ 653,626</u>

Operating Leases - The Corporation is committed under noncancelable operating leases for occupancy expiring through fiscal 2015. Future minimum lease payments under noncancelable operating leases are as follows:

2013	\$ 344,890
2014	321,144
2015	<u>156,509</u>
Total	<u>\$ 822,543</u>

Rental expense for these noncancelable operating leases was \$413,313.

The Corporation also leases certain equipment under operating leases expiring through 2015. Future minimum lease payments for equipment are as follows:

2013	\$105,381
2014	61,387
2015	<u>1,902</u>
Total	<u>\$ 168,670</u>

Equipment rental expense for the year ended June 30, 2012 approximated \$161,600.

In addition, as lessor, the Corporation rents certain office space under cancelable operating sublease agreements. Rental revenue amounted to \$49,953 for the year ended June 30, 2012.

Certain mammography equipment with a fair market value of approximately \$485,000 was granted to the Corporation. The Corporation subsequently entered into a 60 month lease, as lessor, with Yale New Haven Hospital that expired on June 30, 2012. Rental revenue from this lease was \$96,926 for the year ended June 30, 2012.

7. CONTINGENCIES AND COMMITMENTS

The Corporation has received federal, state and other grants and payments for specific purposes that are subject to review, audit and adjustment by various agencies. Such audits could lead to requests for reimbursement to such agencies for any expenditures or claims disallowed under the terms of the agreements. Based on prior experience, management believes such disallowances, if any, will not be material to the Corporation's financial statements.

The Corporation is also subject to specific rules and regulations relating to Medicare and Medicaid programs, which can be subject to government review and interpretation as well as regulatory actions unknown and unasserted at this time. The Federal government's activity has increased with respect to investigations concerning possible violations by health care providers of regulations, which could result in the imposition of significant fines and penalties, as well as significant repayments of previous billed and collected revenues from patient services. Management believes that the Corporation is in substantial compliance with current laws and regulations and is not aware of any existing or pending investigations regarding noncompliance.

The Corporation has provided approximately \$633,000 for future insurance disallowances, which is included in accrued liabilities.

The Corporation is involved in legal proceedings related to matters which are incidental to its business. In the opinion of management, based on consultation with counsel, the outcome of such proceedings will not materially affect the Corporation's financial position or results of operations, based on existing insurance coverage and contingency reserves provided by the Corporation.

8. COMMUNITY HEALTH NETWORK - A RELATED PARTY

In 1995, the Corporation contributed \$83,333 for the formation of an HMO, Community Health Network of Connecticut, Inc. ("CHN") along with eight other equal share members. CHN, a nonstock, not-for-profit corporation was formed in order to enable the members to better compete in the managed care arena.

The contribution agreement includes provisions for the repayment of this contribution at the discretion of CHN. The investment in CHN is accounted for using the cost method as the Corporation does not exercise significant influence over CHN's operating and financial activities.

The Corporation's Chief Executive Officer is a Board member of CHN. Revenues generated from CHN were \$354,021 for the year ended June 30, 2012. At June 30, 2012, the Corporation's Statement of Financial Position includes receivables from CHN of \$341,813.

9. SUBSEQUENT EVENTS

Subsequent to year end, Management prepared a comprehensive "Economic Recovery Plan" to address potential future liquidity, profitability and other economic issues.

PIKAART VISCONTI AND ASSOCIATES, P. C.

C e r t i f i e d P u b l i c A c c o u n t a n t s

Edward H. Pikaart, Jr., CPA, CMA, CFM John J. Visconti, MS, CPA Maryellen H. Holford, CPA

REPORT II

**INDEPENDENT AUDITORS' 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**

To the Board of Directors
Cornell Scott - Hill Health Corporation
400-428 Columbus Avenue
New Haven, Connecticut 06519

ID#: 06-0870990

We have audited the financial statements of Cornell Scott - Hill Health Corporation (the "Corporation") (a non-profit organization) as of and for the year ended June 30, 2012 and have issued our report thereon dated December 19, 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 Cornell Scott - Hill Health Corporation is responsible for establishing and maintaining effective internal control over financial reporting. In planning and performing our audit, we considered the Corporation's internal control over financial reporting as a basis for designing our auditing procedures for the purpose of expressing our opinion on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the Corporation's internal control over financial reporting. Accordingly, we do not express an opinion on the effectiveness of the Corporation'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 a combination of deficiencies, in internal control such that there is a reasonable possibility that a material misstatement of the entity's financial statements will not be prevented, or detected and corrected on a timely basis.

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 that we consider to be material weaknesses, as defined previously.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether Cornell Scott - Hill Health Corporation'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 instances of noncompliance or other matters that are required to be reported under Government Auditing Standards and which are described in the accompanying Federal and State schedules of findings and questioned costs as items F12-1, S12-1 and S12-2.

Cornell Scott - Hill Health Corporation's responses to the findings identified in our audit are described in the accompanying federal and state schedules of findings and questioned costs. We did not audit Cornell Scott - Hill Health Corporation's responses and, accordingly, we express no opinion on them.

We noted certain other matters, not considered to be material weaknesses, involving internal controls and operating matters which we have reported to management of Cornell Scott - Hill Health Corporation in a separate letter dated December 19, 2012.

This report is intended solely for the information and use of management, the Board of Directors, finance committee, others within the entity, and federal and state awarding agencies and pass-through entities, as indicated in Schedules I and II, and is not intended to be and should not be used by anyone other than these specified parties.

PIKAAKI VISCONTI & ASSOCIATES, P.C.

December 19, 2012

PIKAART VISCONTI AND ASSOCIATES, P. C.
C e r t i f i e d P u b l i c A c c o u n t a n t s

Edward H. Pikaart, Jr., CPA, CMA, CFM John J. Visconti, MS, CPA Maryellen H. Holford, CPA

REPORT III

INDEPENDENT AUDITORS' REPORT ON COMPLIANCE WITH REQUIREMENTS THAT COULD HAVE A DIRECT AND MATERIAL EFFECT ON EACH MAJOR FEDERAL PROGRAM AND ON INTERNAL CONTROL OVER COMPLIANCE IN ACCORDANCE WITH OMB CIRCULAR NO. A-133

To the Board of Directors
Cornell Scott - Hill Health Corporation
400-428 Columbus Avenue
New Haven, Connecticut 06519

ID#: 06-0870990

Compliance

We have audited Cornell Scott - Hill Health Corporation's (the "Corporation") (a non-profit organization) 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 the Corporation's major federal programs for the year ended June 30, 2012. The Corporation's major federal programs are identified in the summary of auditor's results section of the accompanying federal schedule of findings and questioned costs (Exhibit I). Compliance with the requirements of laws, regulations, contracts and grants applicable to each of its major federal programs is the responsibility of the Corporation's management. Our responsibility is to express an opinion on the Corporation'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 No. A-133, *Audits of States, Local Governments and Non-Profit Organizations*. Those standards and OMB Circular No. 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 the Corporation's compliance with those requirements and performing such other procedures as we considered necessary in the circumstances. We believe that our audit provides a reasonable basis for our opinion. Our audit does not provide a legal determination of the Corporation's compliance with those requirements.

In our opinion, Cornell Scott - Hill Health Corporation 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 federal programs for the year ended June 30, 2012. However, the results of our auditing procedures disclosed instances of noncompliance with those requirements, which are required to be reported in accordance with OMB Circular A-133 and which are described in the accompanying federal schedule of findings and questioned costs as item F12-1.

Cornell Scott - Hill Health Corporation's responses to the findings identified in our audit are described in the accompanying federal schedule of findings and questioned costs. We did not audit Cornell Scott - Hill Health Corporation's responses and, accordingly, we express no opinion on them.

Internal Control over Compliance

Management of Cornell Scott - Hill Health Corporation 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 the Corporation's internal control over compliance with the requirements that could have a direct and material effect on a major federal program in order 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 No. 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 the Corporation's internal control over compliance.

A *deficiency in internal control over compliance* exists when the design or operation of a control over compliance does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct, noncompliance with a type of compliance requirement of a 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.

However, we noted other matters, not considered to be material weakness, involving internal controls and operating matters that we reported to the management of Cornell Scott - Hill Health Corporation in a separate letter dated December 19, 2012.

This report is intended solely for the information and use of management, the Board of Directors, finance committee, others within the entity, federal awarding agencies, and pass-through entities, as indicated in Schedule I, and is not intended to be and should not be used by anyone other than these specified parties.

PIKAART VISCONTI & ASSOCIATES, P.C.

December 19, 2012

CORNELL SCOTT - HILL HEALTH CORPORATION**SUPPLEMENTAL SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
FOR THE YEAR ENDED JUNE 30, 2012**

	<u>Federal CFDA Number</u>	<u>Pass-Through Grantor's Number</u>	<u>Expenditures (A)</u>
U.S. DEPARTMENT OF HEALTH & HUMAN SERVICES:			
Direct Programs:			
Affordable Care Act Grants for New and Expanded Services Under the Health Centers Program	93.527	H80CS00312	\$1,386,676
Section 330: Community Health Center Cluster 05/12	93.224	H80CS00312	1,870,919
Section 330: Community Health Center Cluster 05/13	93.224	H80CS00312	291,877
Ryan White Part C Early Intervention w/ respect to HIV Disease 03/13	93.918	H76HA00014-17	167,913
Ryan White Part C Early Intervention w/ respect to HIV Disease 03/12	93.918	H76HA00014-17	491,274
Passed through the State of Connecticut Department of Mental Health and Addiction Services:			
SAPT Block Grant:			
Northside Community Outpatient Services	93.243	MHA2100AA-21782	10,000
Northside Community Outpatient Services	93.959	MHA2100AA-21782	53,301
South Central Rehabilitation Center	93.959	MHA2100AA-21782	1,011,612
SCRC - HIV Counselor	93.959	MHA2100AA-21782	46,438
Passed through Planned Parenthood of Southern New England:			
Title X Family Planning 12/12	93.217	01-H-000038-40-01	57,821
Title X Family Planning 12/11	93.217	01-H-000038-40-01	57,747
Title XX 09/12	93.667	093PPL-SBG-25/07DSS	15,377
Title XX 09/11	93.667	500IVG	3,075
Passed through the Community Foundation of Greater New Haven:			
Healthy Start 05/13	93.926	H49MC0095-10-00	4,259
Healthy Start 05/12	93.926	5H49MC00095-06-00	50,583
Passed through Connecticut Department of Public Health:			
Emergency Preparedness	93.889	2010 -- 1230/BT/PHP	7,500
Heart Disease & Stroke Prevention	93.991	2010-0045	50,100
AIDS Prevention Services	93.940	2009-0142	65,871
Passed through University of Connecticut:			
UConn Drug Treatment Studies	93.279	5601DA016194	2,500
Passed through Department of Social Services:			
SSBG - Homeless Healthcare 09/12	93.667	06DSS3701MV	64,878
SSBG - Homeless Healthcare 09/11	93.667	06DSS3701MV	9,570
Passed through Community Health Center Association of CT:			
Ryan White AIDS Part D Project 07/12	93.153	H12HA00008-22-00	81,382
Ryan White AIDS Part D Project 07/11	93.153	H12HA00008-22-00	7,028
Comprehensive Cancer Control	93.283	2010-0193-2	13,987

(Continued)

The accompanying notes are an integral part of this schedule.

CORNELL SCOTT - HILL HEALTH CORPORATION**SUPPLEMENTAL SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
FOR THE YEAR ENDED JUNE 30, 2012**

	<u>Federal CFDA Number</u>	<u>Pass-Through Grantor's Number</u>	<u>Expenditures (A)</u>
U.S. DEPARTMENT OF HEALTH & HUMAN SERVICES (continued):			
Passed through the City of New Haven:			
School Based Clinics	93.994	2011-0113	28,369
Passed through Yale University:			
Ryan White C.A.R.E. Act Part A 02/13	93.914	A12-0342	65,923
Ryan White C.A.R.E. Act Part A 02/12	93.914	A11-1155	197,429
Tuberculosis Outreach	93.667		27,758
Passed through Bridges, A Community Support System, Inc.:			
Health Management Strategies for Recovery - Communicare	93.243	5H795M059509	<u>74,476</u>
Total U.S. Department of Health & Human Services (C)			<u>6,215,643</u>
U.S. DEPARTMENT OF AGRICULTURE:			
Passed through Connecticut Department of Public Health:			
Women, Infants and Children (B) 09/12	10.557	2008-0175-4	201,125
Women, Infants and Children (B) 09/11	10.557	2008-0175-4	75,848
Women, Infants and Children Food Benefits 09/12	10.557	HEF6026	587,630
Women, Infants and Children Food Benefits 09/11	10.557	HEF6026	<u>190,079</u>
Total U.S. Department of Agriculture			<u>1,054,682</u>
U.S. DEPARTMENT OF HOUSING AND URBAN DEVELOPMENT:			
Passed through the City of New Haven:			
CDBG Renovations	14.218		44,761
Early Stimulation Program	14.218		<u>28,906</u>
Total U.S. Department of Housing and Urban Development			<u>73,667</u>
TOTAL FEDERAL ASSISTANCE EXPENDED			<u>\$7,343,992</u>

The accompanying notes are an integral part of this schedule.

Notes to Schedule

- (A) Basis of Presentation - The Supplemental Schedule of Expenditures of Federal Awards is prepared in accordance with the requirements of OMB Circular No. A-133, "Audits of States, Local Governments, and Non-Profit Organizations" and does not differ materially from generally accepted accounting principles. Expenses are recognized when they become a demand on current financial resources. Some amounts presented in this schedule may differ from amounts presented in or used in the presentation of the basic financial statements.

- (B) Passed through the Hospital of Saint Raphael.

- (C) The Corporation, as a vaccinating provider, received vaccines valued at \$390,541 from the Connecticut Department of Public Health. Per OMB Circular No. A-133, the Corporation is not considered a grantee or subrecipient.

PART III -- FEDERAL AWARD FINDINGS AND QUESTIONED COSTS SECTION

F12-1. QUESTIONED COSTS

Grantor: Department of Health and Human Services - HRSA

Federal Program Name: Section 330: Community Health Centers Cluster - State Street Clinic

Catalog of Federal Domestic Assistance (CFDA) Numbers: 93.224 and 93.527

Pass-through Entity: none

Criteria: The federal guidelines and contract requirements state that direct salary costs charged to the grant must be for work performed within that program and not for work on another program.

Condition: Some of the wages charged to this program were for services performed at the South Central Rehabilitation Clinic during the pay periods after which an employee's work site had been moved from the State Street Clinic.

Questioned Costs:

Total wages misallocated to the State Street Clinic for the fiscal year ended June 30, 2012 are calculated to be \$50,187.

Context: The questioned costs noted above represent 1.4% of the grant expenditures and 4.1% of the dollar value tested.

Effect: The unallowable costs could potentially be disallowed by HRSA, which could then request that those funds be returned.

Cause: The error appears to have been caused by a communications failure between the Grants and Human Resources personnel who approved the reassignments and the Payroll personnel who would have been responsible for passing those changes on to the payroll service company. Had the changes been properly made within the payroll system, the salary amounts charged to the State Street Clinic in the general ledger would have been appropriate.

Recommendation:

The Corporation should implement procedures to ensure that changes in personnel assignments, including changes among cost centers or in allocations among multiple cost centers, are appropriately communicated to the Payroll department and thereby conveyed to the payroll service company.

Views of Responsible Officials:

Program expenses reallocating other salaries and/or other operating costs from State Street are sufficient to cover allowable costs under the grant.

Procedures related to notification of changes in cost center allocations are in the process of being implemented.

PART IV -- DISPOSITION OF PRIOR YEAR FINDINGS

No matters were reported.

PIKAART VISCONTI AND ASSOCIATES, P. C.

C e r t i f i e d P u b l i c A c c o u n t a n t s

Edward H. Pikaart, Jr., CPA, CMA, CFM John J. Visconti, MS, CPA Maryellen H. Holford, CPA

REPORT IV

INDEPENDENT AUDITORS' 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
Cornell Scott - Hill Health Corporation
400-428 Columbus Avenue
New Haven, Connecticut 06519

ID#: 06-0870990

Compliance

We have audited the Cornell Scott - Hill Health Corporation's (the "Corporation") (a non-profit organization) compliance with the types of compliance requirements described in the Office of Policy and Management Compliance Supplement that could have a direct and material effect on each of the Corporation's major state programs for the year ended June 30, 2012. The major state programs are identified in the summary of auditors' results section of the accompanying State schedule of findings and questioned costs (Exhibit II). Compliance with the requirements of laws, regulations, contracts and grants applicable to each of its major state programs is the responsibility of Cornell Scott - Hill Health Corporation's management. Our responsibility is to express an opinion on the Corporation'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 Cornell Scott - Hill Health Corporation's compliance with those requirements and performing such other procedures as we considered necessary in the circumstances. We believe that our audit provides a reasonable basis for our opinion. Our audit does not provide a legal determination of the Cornell Scott - Hill Health Corporation's compliance with those requirements.

In our opinion, Cornell Scott - Hill Health Corporation complied, in all material respects, with the 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, 2012. However, the results of our auditing procedures disclosed instances of noncompliance with those requirements, which are required to be reported in accordance with the State Single Audit Act and which are described in the accompanying State schedule of findings and questioned costs as items S12-1 and S12-2.

Cornell Scott - Hill Health Corporation's responses to the findings identified in our audit are described in the accompanying state schedule of findings and questioned costs. We did not audit Cornell Scott - Hill Health Corporation's responses and, accordingly, we express no opinion on them.

Internal Control over Compliance

Management of the Cornell Scott - Hill Health Corporation is responsible for establishing and maintaining effective internal control over compliance with requirements of laws, regulations, contracts and grants applicable to state programs. In planning and performing our audit, we considered the Corporation'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 Cornell Scott - Hill Health Corporation's internal control over compliance.

A *deficiency* in internal control over compliance exists when the design or operation of a control over compliance does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct, noncompliance with a type of compliance requirement of a state program on a timely basis. A material weakness in internal control over compliance is a deficiency, or combination of deficiencies, in internal control over compliance, such that there is a reasonable possibility that material noncompliance with a type of compliance requirement of a state program will not be prevented, or detected and corrected, on a timely basis.

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.

We noted other matters, however, not considered to be material weaknesses, involving internal controls and operating matters reported to the management of Cornell Scott - Hill Health Corporation in a separate letter dated December 19, 2012.

Schedule of Expenditures of State Financial Assistance

We have audited the financial statements of the Cornell Scott - Hill Health Corporation as of and for the year ended June 30, 2012 and have issued our report thereon dated December 19, 2012, which contained an unqualified opinion on those financial statements. Our audit was conducted for the purpose of forming an opinion on the 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 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 financial statements. The information has been subjected to the auditing procedures applied in the audit of the financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the financial statements or to the 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 State Financial Assistance is fairly stated in all material respects in relation to the financial statements as a whole.

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

PIRANT VISCONTI & ASSOCIATES, P.C.

December 19, 2012

CORNELL SCOTT - HILL HEALTH CORPORATION

SUPPLEMENTAL SCHEDULE OF EXPENDITURES OF CONNECTICUT STATE FINANCIAL ASSISTANCE
FOR THE YEAR ENDED JUNE 30, 2012

STATE GRANTOR PASS-THROUGH GRANTOR PROGRAM	STATE GRANT PROGRAM CORE - CT NUMBER	EXPENDITURES (A)
DEPARTMENT OF MENTAL HEALTH & ADDICTION SERVICES:		
South Central Rehabilitation Center	11000-MHA53000-16003	\$ 110,968
Grant Street Partnership	11000-MHA53000-16003	172,558
Northside Community Outpatient Services	11000-MHA53000-16003	202,658
Village of Power Supplement	11000-MHA53000-16003	23,227
Village of Power Supplement	11000-MHA53000-16053	29,088
Outreach and Engagement	11000-MHA53000-16053	71,297
Also Cornerstone (F)	11000-MHA53000-12157	42,000
Latino Behavioral Health System (C)	11000-MHA53000-12157	<u>96,841</u>
Total Department of Mental Health and Addiction Services		<u>748,637</u>
DEPARTMENT OF PUBLIC HEALTH:		
Community Health Services	11000-DPH48500-16060	519,917
School-Based Health Centers (B)	11000-DPH48500-17019	268,225
AIDS Prevention Services	11000-DPH48500-12236	99,842
Family Planning (E)	11000-DPH48500-16060	27,707
School Medical Advisor (G)	12062-DPH48500-12126	<u>38,136</u>
Total Department of Public Health		<u>953,827</u>
DEPARTMENT OF CHILDREN AND FAMILIES:		
Child Guidance Clinic	11000-DCF91110-10624	541,383
Total Department of Children and Families		
DEPARTMENT OF DEVELOPMENTAL SERVICES:		
Birth to Three	12060-DMR50000-20441	416,434
Total Department of Developmental Services		
JUDICIAL BRANCH:		
CCSD Drug Intervention Program	11000-JUD96114-12043	222,000
Total Judicial Branch		
DEPARTMENT OF SOCIAL SERVICES:		
Homeless Healthcare Project 09/11	11000-DSS60000-16149	30,971
Nurturing Families Network	11000-CTF94000-12042	273,602
Medicaid Outreach Program (D)	11000-DSS60000-10020	<u>34,356</u>
Total Department of Social Services		<u>338,929</u>
TOTAL STATE FINANCIAL ASSISTANCE		<u>\$ 3,221,210</u>

The accompanying notes are an integral part of this schedule.

Notes to Schedule

- (A) Basis of Presentation- The Supplemental Schedule of Expenditures of State Financial Assistance is prepared in accordance with regulations established by the State of Connecticut Office of Policy and Management and does not differ materially from accounting principles generally accepted in the United States of America. Expenses are recognized on current available financial resources, and are liquidated within 30 days.
- (B) Passed through City of New Haven Department of Education.
- (C) Passed through Communicare.
- (D) Passed through Community Health Center Association of Connecticut.
- (E) Passed through Planned Parenthood of Southern New England.
- (F) Passed through The Connection, Inc.
- (G) Passed through The City of New Haven Health Department.

CORNELL SCOTT - HILL HEALTH CORPORATION**STATE SCHEDULE OF FINDINGS AND QUESTIONED COSTS FOR THE
YEAR ENDED JUNE 30, 2012****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 no
- Noncompliance material to financial statements noted? yes no

State Financial Assistance:

Internal control over financial reporting:

- 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 4-236-24 of the Regulations to the State Single Audit Act ? yes no

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

<u>State Grantor and Program</u>	<u>CORE-CT Number</u>	<u>Expenditures</u>
DEPARTMENT OF CHILDREN AND FAMILIES		
Child Guidance Clinic	11000-DCF91110-10624	\$541,383
DEPARTMENT OF MENTAL HEALTH AND ADDICTION SERVICES		
Grant Street Partnership	11000-MHA53000-16003	172,558
South Central Rehabilitation Center	11000-MHA53000-16003	110,968
Northside Community Outpatient Services	11000-MHA53000-16003	202,658
Village of Power Supplement	11000-MHA53000-16003	23,227
Village of Power Supplement	11000-MHA53000-16053	29,088
Outreach and Engagement	11000-MHA53000-16053	71,297
DEPARTMENT OF DEVELOPMENTAL SERVICES		
Birth to Three	12060-DMR50000-20441	416,434

\$1,841,215

- Dollar threshold used to distinguish between Type A and Type B programs

\$200,000

II. FINANCIAL STATEMENT FINDINGS

No matters were reported.

III. STATE FINANCIAL ASSISTANCE FINDINGS AND QUESTIONED COSTS

S12-1. QUESTIONED COSTS

Grantor: Department of Mental Health and Addiction Services

State Program Name: Northside Community Outpatient Services

State Program Identification Number: 11000-MHA53000-16003

Pass-through Entity: none

Criteria: The State guidelines and contract requirements state that direct salary costs charged to the grant must be for work performed within that program and not for work on another program.

Condition: Some of the wages charged to this program were for services performed at the State Street Clinic during the pay periods in which the two programs shared an Assistant Director and also for some time periods in which that employee worked only at State Street.

Questioned Costs:

Total wages misallocated to the Northside clinic for the fiscal year ended June 30, 2012 are calculated to be \$38,929.

Context: The misallocation appears to be isolated to one program employee and does not appear to be a systemic issue. The questioned costs noted above represent 1.2% of the state grant expenditures population and 2.1% of the dollar value tested.

Effect: The unallowable costs could potentially be disallowed by the State, which could then request that those funds be returned.

Cause: The error appears to have been caused by a communications failure between the Grants and Human Resources personnel who approved the reassignments and the Payroll personnel who would have been responsible for passing those changes on to the payroll service company. Had the changes been properly made within the payroll system, the salary amounts charged to the Northside grant in the general ledger would have been appropriate.

Recommendation:

The Corporation should implement procedures to ensure that changes in personnel assignments, including changes among cost centers or in allocations among multiple cost centers, are appropriately communicated to the Payroll department and thereby conveyed to the payroll service company.

View of Responsible Officials:

Program expenses reallocating other salaries and/or other operating costs for Northside are sufficient to cover allowable costs under the grant.

Procedures related to notification of changes in cost center allocations are in the process of being implemented.

S12-2. MAJOR GRANT PROGRAM

SPECIFIC REPORTING REQUIREMENTS

Criteria: The State guidelines and grant award agreements require that the Corporation file applicable reports prior to report filing deadlines.

Questioned Costs: None

Condition: It was noted during our testing that the following selected reports required by State guidelines and grant awards were not filed on, or prior to, the applicable report filing deadlines.

<u>Grant</u>	<u>Report Name</u>	<u>Date Due</u>	<u>Date Filed</u>	<u>Days Past Due</u>
DMHAS	Annual financial report	9/30/12	not filed as of yet	

DMHAS – Village of Power monthly admission /discharge programmatic reports:

December, 2011	1/15/12	not filed as of yet
January, 2012	2/15/12	not filed as of yet
February, 2012	3/15/12	not filed as of yet
March, 2012	4/15/12	not filed as of yet
April, 2012	5/15/12	not filed as of yet
May, 2012	6/15/12	not filed as of yet
June, 2012	7/15/12	not filed as of yet

Effect: The grantor may not have adequate information to appropriately monitor the programs. Failure to meet deadlines could result in delays of cash receipts.

Cause: The Corporation receives numerous federal and state grant awards and, as such, is limited by its staffing resources to meet an ever larger number of reporting requirements.

Recommendation:

Management should file all required reports on a timely basis. In cases where this is not possible, written waivers should be obtained from the grantors.

View of Responsible Officials:

Management will emphasize the importance of filing reports timely to the appropriate members of its staff.

IV. DISPOSITION OF PRIOR YEAR FINDINGS

No matters were reported.