

**THE CONNECTICUT HOSPICE, INC.**

**FINANCIAL STATEMENTS**

**SEPTEMBER 30, 2011 AND 2010**

**THE CONNECTICUT HOSPICE, INC.**

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## Independent Auditors' Report

To the Board of Directors  
The Connecticut Hospice, Inc.

We have audited the accompanying statements of financial position of The Connecticut Hospice, Inc. (the Hospital) as of September 30, 2011 and 2010, and the related statements of activities and change in unrestricted net assets, changes in net assets and cash flows for the years then ended. These financial statements are the responsibility of the Hospital's management. Our responsibility is to express an opinion on these financial statements based on our audits.

We conducted our audits in accordance with auditing standards generally accepted in the United States of America. 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 consideration of internal control over financial reporting as a basis for designing audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Hospital's internal control over financial reporting. Accordingly, we express no such opinion. An audit also includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements, 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 financial statements referred to above present fairly, in all material respects, the financial position of The Connecticut Hospice, Inc., as of September 30, 2011 and 2010, 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.

*Blum, Shapiro & Company, P.C.*

January 16, 2012

**THE CONNECTICUT HOSPICE, INC.**  
**STATEMENTS OF FINANCIAL POSITION**  
**SEPTEMBER 30, 2011 AND 2010**

|   | <u>2011</u>          | <u>2010</u>          |
|---|----------------------|----------------------|
| <b>ASSETS</b>   |                      |                      |
| <b>Current Assets</b>   |                      |                      |
| Cash and cash equivalents   | \$ 173,906           | \$ 941,652           |
| Short-term investments  | 48,989               | 258,805              |
| Patient accounts receivable, less allowance for doubtful<br>accounts of \$300,000 in 2011 and \$301,000 in 2010 | 1,331,774            | 1,630,440            |
| Due from third party  | 738,139              | 691,816              |
| Inventories   | 196,548              | 201,362              |
| Other current assets  | 213,061              | 193,656              |
| Total current assets  | <u>2,702,417</u>     | <u>3,917,731</u>     |
| <b>Property and Equipment, Net</b>  | <u>829,599</u>       | <u>913,153</u>       |
| <b>Other Assets</b>   |                      |                      |
| Assets held under split-interest agreements   | 26,371               | 26,371               |
| Long-term investments   | 5,413,592            | 1,991,723            |
| Due from The John D. Thompson Hospice Institute, net  | 11,714,038           | 10,858,856           |
| Total other assets  | <u>17,154,001</u>    | <u>12,876,950</u>    |
| <b>Total Assets</b>   | <u>\$ 20,686,017</u> | <u>\$ 17,707,834</u> |
| <b>LIABILITIES AND NET ASSETS</b>   |                      |                      |
| <b>Liabilities</b>  |                      |                      |
| Accounts payable  | \$ 3,877,902         | \$ 3,269,948         |
| Accrued liabilities   | 2,658,071            | 2,808,938            |
| Due to related party  | 592,799              | 827,043              |
| Line of credit  | 2,477,346            | 2,427,530            |
| Liability under split-interest agreements   | 9,500                | 9,500                |
| Total liabilities   | <u>9,615,618</u>     | <u>9,342,959</u>     |
| <b>Net Assets</b>   |                      |                      |
| Unrestricted  | 8,797,385            | 6,014,281            |
| Temporarily restricted  | 644,622              | 942,202              |
| Permanently restricted  | 1,628,392            | 1,408,392            |
| Total net assets  | <u>11,070,399</u>    | <u>8,364,875</u>     |
| <b>Total Liabilities and Net Assets</b>   | <u>\$ 20,686,017</u> | <u>\$ 17,707,834</u> |

The accompanying notes are an integral part of the financial statements

**THE CONNECTICUT HOSPICE, INC.**  
**STATEMENTS OF ACTIVITIES AND CHANGE IN UNRESTRICTED NET ASSETS**  
**FOR THE YEARS ENDED SEPTEMBER 30, 2011 AND 2010**

|   | <u>2011</u>         | <u>2010</u>         |
|---|---------------------|---------------------|
| <b>Unrestricted Revenues, Gains and Other Support</b> |                     |                     |
| Net patient service revenue                           | \$ 28,505,044       | \$ 29,855,209       |
| Net assets released from restrictions                 | 1,070,268           | 900,043             |
| Other revenue   | 92,374              | 172,633             |
| Total unrestricted revenues, gains and other support  | <u>29,667,686</u>   | <u>30,927,885</u>   |
| <b>Expenses</b>                                       |                     |                     |
| Employee compensation                                 | 14,600,079          | 14,998,341          |
| Purchased services and supplies                       | 7,493,990           | 8,087,444           |
| Management services                                   | 4,000,000           | 4,000,000           |
| Fringe benefits                                       | 3,630,279           | 3,386,118           |
| Plant and utilities                                   | 478,916             | 554,958             |
| Nonmedical general                                    | 272,372             | 230,990             |
| Rent  | 284,160             | 284,160             |
| Dietary   | 254,030             | 241,236             |
| Provision for bad debts                               | 251,836             | 51,537              |
| Depreciation  | 198,759             | 198,624             |
| Interest  | 79,072              | 78,907              |
| Total expenses  | <u>31,543,493</u>   | <u>32,112,315</u>   |
| <b>Loss from Operations</b>                           | <u>(1,875,807)</u>  | <u>(1,184,430)</u>  |
| <b>Other Income</b>                                   |                     |                     |
| Unrestricted contributions                            | 4,624,329           | 1,364,981           |
| Investment income                                     | 34,582              | 100,060             |
| Total other income                                    | <u>4,658,911</u>    | <u>1,465,041</u>    |
| <b>Change in Unrestricted Net Assets</b>              | 2,783,104           | 280,611             |
| <b>Unrestricted Net Assets - Beginning of Year</b>    | <u>6,014,281</u>    | <u>5,733,670</u>    |
| <b>Unrestricted Net Assets - End of Year</b>          | <u>\$ 8,797,385</u> | <u>\$ 6,014,281</u> |

The accompanying notes are an integral part of the financial statements

**THE CONNECTICUT HOSPICE, INC.**  
**STATEMENTS OF CHANGES IN NET ASSETS**  
**FOR THE YEARS ENDED SEPTEMBER 30, 2011 AND 2010**

|   | <u>2011</u>                 | <u>2010</u>                |
|---|-----------------------------|----------------------------|
| <b>Unrestricted Net Assets</b>                |                             |                            |
| Change in unrestricted net assets             | \$ <u>2,783,104</u>         | \$ <u>280,611</u>          |
| <b>Temporarily Restricted Net Assets</b>      |                             |                            |
| Investment income                             | 14,073                      | 90,304                     |
| Contributions                                 | 758,615                     | 534,474                    |
| Net assets released from restrictions         | <u>(1,070,268)</u>          | <u>(900,043)</u>           |
| Decrease in temporarily restricted net assets | <u>(297,580)</u>            | <u>(275,265)</u>           |
| <b>Permanently Restricted Net Assets</b>      |                             |                            |
| Contributions                                 | <u>220,000</u>              | <u>180,000</u>             |
| <b>Increase in Net Assets</b>                 | 2,705,524                   | 185,346                    |
| <b>Net Assets - Beginning of Year</b>         | <u>8,364,875</u>            | <u>8,179,529</u>           |
| <b>Net Assets - End of Year</b>               | <u>\$ <u>11,070,399</u></u> | <u>\$ <u>8,364,875</u></u> |

The accompanying notes are an integral part of the financial statements

**THE CONNECTICUT HOSPICE, INC.**  
**STATEMENTS OF CASH FLOWS**  
**FOR THE YEARS ENDED SEPTEMBER 30, 2011 AND 2010**

|   | <u>2011</u>        | <u>2010</u>        |
|---|--------------------|--------------------|
| <b>Cash Flows from Operating Activities</b>   |                    |                    |
| Increase in net assets  | \$ 2,705,524       | \$ 185,346         |
| Adjustments to reconcile increase in net assets to net cash provided by (used in) operating activities: |                    |                    |
| Depreciation  | 198,759            | 198,624            |
| Bad debt expense  | 251,836            | 51,537             |
| Net realized and unrealized gains on sales of securities  | 69,660             | (99,615)           |
| (Increase) decrease in operating assets:  |                    |                    |
| Patient accounts receivable   | 46,830             | 1,894,809          |
| Due from third party  | (46,323)           | (176,582)          |
| Grant receivable  | -                  | 105,877            |
| Inventories and other current assets  | (14,591)           | 43,429             |
| Due from The John D. Thompson Hospice Institute, net  | (855,182)          | (2,920,492)        |
| Increase (decrease) in operating liabilities:   |                    |                    |
| Accounts payable and accrued liabilities  | 457,087            | (2,256,759)        |
| Net cash provided by (used in) operating activities   | <u>2,813,600</u>   | <u>(2,973,826)</u> |
| <b>Cash Flows from Investing Activities</b>   |                    |                    |
| Purchases of property and equipment, net  | (115,205)          | (198,657)          |
| Purchase of investments   | (3,823,554)        | (1,223,939)        |
| Sale of investments   | 541,841            | 186,824            |
| Net cash used in investing activities   | <u>(3,396,918)</u> | <u>(1,235,772)</u> |
| <b>Cash Flows from Financing Activities</b>   |                    |                    |
| Repayments to related party   | (234,244)          | -                  |
| Proceeds from line of credit  | 49,816             | 2,427,530          |
| Net cash provided by (used in) financing activities   | <u>(184,428)</u>   | <u>2,427,530</u>   |
| <b>Net Decrease in Cash and Cash Equivalents</b>  | (767,746)          | (1,782,068)        |
| <b>Cash and Cash Equivalents - Beginning of Year</b>  | <u>941,652</u>     | <u>2,723,720</u>   |
| <b>Cash and Cash Equivalents - End of Year</b>  | <u>\$ 173,906</u>  | <u>\$ 941,652</u>  |
| <b>Cash Paid During the Year for Interest</b>   | \$ 79,072          | \$ 78,907          |

The accompanying notes are an integral part of the financial statements

**THE CONNECTICUT HOSPICE, INC.**  
**NOTES TO FINANCIAL STATEMENTS**

**NOTE 1 - ORGANIZATION**

The Connecticut Hospice, Inc. (the Hospital) is a not-for-profit corporation exempt from federal and state income taxes. The Hospital is engaged principally in providing inpatient and homecare services for patients with progressive and irreversible illnesses. The Hospital is accredited with commendation by The Joint Commission (TJC) with the first certification in the United States of America for a hospital in Advanced Palliative Care with no requirements for improvement identified. TJC also accredits the home care agency. The State of Connecticut Department of Public Health licenses and Medicare certifies the hospital, hospice and home care agency.

**NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES**

**Basis of Presentation** - The accompanying financial statements have been prepared on the accrual basis of accounting in conformity with accounting principles generally accepted in the United States of America (GAAP).

**Net Asset Categories** - To ensure observance of limitations and restrictions placed on the use of resources available to the Hospital, the accounts of the Hospital are maintained in the following net asset categories:

**Unrestricted** - Unrestricted net assets represent available resources other than donor-restricted contributions. Net assets set aside by the Board of Directors for future capital improvements over which the Board retains control and may, at its discretion, subsequently use for other purposes are included in unrestricted net assets.

**Temporarily Restricted** - Temporarily restricted net assets represent contributions that are restricted by the donor either as to purpose or as to time of expenditure. Temporarily restricted net assets as of September 30, 2011 and 2010, are available to support operations and repayment of long-term debt.

**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 be available for operations. Permanently restricted net assets of \$1,628,392 and \$1,408,392 as of September 30, 2011 and 2010, respectively, are to be held in perpetuity, the income from which is expendable to support health care services and is reported as investment income.

**Use of Estimates** - The preparation of financial statements in conformity with GAAP 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. Actual results could differ from those estimates. Significant estimates are made in the areas of patient accounts receivable.



**THE CONNECTICUT HOSPICE, INC.**  
**NOTES TO FINANCIAL STATEMENTS**

**NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)**

**Federal Income Taxes** - The Hospital is a not-for-profit corporation as described in Section 501(c)(3) of the Internal Revenue Code (the Code) and is exempt from federal income taxes pursuant to Section 501(a) of the Code. Tax returns for the years ended September 30, 2008 through 2011 are subject to examination by the Internal Revenue Service and the State of Connecticut.

**Cash and Cash Equivalents** - Cash and cash equivalents include cash and investments in highly liquid securities. The Hospital's deposits in financial institutions may, at times, exceed federal depository insurance limits. Management believes that its deposits are not subject to credit risk.

**Inventories** - Inventories, consisting principally of medical and pharmaceutical supplies, are stated at the lower of cost or market.

**Property and Equipment** - Property and equipment acquisitions and improvements thereon that individually exceed \$600 are capitalized at cost. The Hospital provides for depreciation using the straight-line method over the estimated useful lives of the various assets, which range from 3 to 40 years. Repairs and maintenance are charged to expense as incurred.

**Investments** - Investments in equity securities with readily determinable fair values and investments in debt securities are carried at fair value in the statements of financial position.

Realized and unrealized gains and losses and investment income on donor-restricted endowment assets are classified as increases or decreases in temporarily restricted net assets until appropriated for expenditure.

**Contributions** - Contributions are defined as voluntary, nonreciprocal transfers. Unrestricted and unconditional contributions are recognized as support when received or pledged, if applicable. Contributions are reported as temporarily restricted support if they are received with donor stipulations that limit the use of such assets. When a stipulated time restriction ends or the purpose of the restriction is accomplished, temporarily restricted net assets are reclassified to unrestricted net assets and reported in the accompanying statements of activities and change in unrestricted net assets as net assets released from restrictions. Conditional promises to give and indications of intentions to give are reported at fair value at the date the gift is received.

The Hospital's policy is to recognize the expiration of donor restrictions for contributions of property and equipment or the use of contributions restricted for property and equipment in the year the property and equipment are placed in service.

**Net Patient Service Revenue and Patient Accounts Receivable** - Net patient service revenue is reported at the established net realizable amounts from patients, third-party agencies and others for services rendered, including estimated retroactive adjustments under reimbursement agreements with third-party agencies. Net patient service revenue and patient accounts receivable are recorded when patient services are performed. Adjustments and settlements under reimbursement agreements with third-party agencies are accrued on an estimated basis in the period the related services are provided and adjusted in future periods, if necessary, as final settlements are determined and estimates are refined.

**THE CONNECTICUT HOSPICE, INC.**  
**NOTES TO FINANCIAL STATEMENTS**

**NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)**

As of September 30, 2011 and 2010, 85% and 80%, respectively, of patient accounts receivable were due from federal and state governmental payors and 15% and 20%, respectively, were due from nongovernmental payors. Nongovernmental payors are primarily managed-care companies. As of September 30, 2011, the Hospital had approximately 10 managed-care contracts. Risk of nonpayment from federal and state governmental payors and managed-care companies is considered minimal. Risk of nonpayment from self-pay payors is more significant than with third-party payors. Management has recorded an allowance for doubtful accounts that, in its opinion, is sufficient to provide for any risks related to nonpayment.

**Charity Care** - The Hospital's policy is to provide care to all patients and their families, regardless of their ability to pay for services.

All care provided to patients that do not have the means to pay for services and that are not covered by Medicaid or any other third-party payor and certain services that are only partially covered by Medicare are considered to be charity care.

The Hospital estimates the amount of charity care approximated \$2,271,000 and \$2,011,000 for the years ended September 30, 2011 and 2010, respectively. The Hospital depends on the success of its philanthropic programs to offset the costs of providing this charity care.

**Contributed Services** - Under GAAP, contributed services are recognized in the financial statements if they enhance nonfinancial assets or require specialized skills, are provided by individuals possessing those skills and would typically need to be purchased if not provided by donation. General volunteer services do not meet these criteria for recognition. However, many volunteers have donated significant amounts of time in supporting the Hospital's mission.

Volunteers assist the employees of the Hospital in carrying out a wide array of services including art, bereavement, pastoral care, nursing, social work, groundskeeping, maintenance, development and clerical assistance. These volunteers are essential to the operations of the Hospital. They enhance the quality of care provided to the patients and their families. Although they do not qualify for inclusion in the financial statements under GAAP, the estimated value of contributed services was \$1,908,000 and \$1,899,000 for the years ended September 30, 2011 and 2010, respectively.

**Subsequent Events** - In preparing these financial statements, management has evaluated subsequent events through January 16, 2012, which represents the date the financial statements were available to be issued.

**Reclassifications** - Certain amounts in the prior year financial statements have been reclassified to conform to the current year presentation.

**THE CONNECTICUT HOSPICE, INC.**  
**NOTES TO FINANCIAL STATEMENTS**

**NOTE 3 - RELATED PARTY TRANSACTIONS**

The Connecticut Hospice Institute a/k/a The John D. Thompson Hospice Institute for Education, Training and Research, Inc. (the Institute) is a separate not-for-profit corporation exempt from federal and state income taxes engaged principally in offering education, training, research, clerkships, internships and residencies to physicians, nurses, social workers and others pertaining to the care of patients with progressive and irreversible illnesses and their families. The programs of the Institute previously mentioned are achieved through a strategic alliance of the management and Board of Directors of the Institute and the Hospital. The accounting records of the Institute and the Hospital are separately maintained, and separate financial statements are prepared.

As strategically allied entities, the Hospital and the Institute periodically pay expenses and advance cash to each other in order to pay for operating expenses and capital additions.

The Hospital leases the facility used for clinical and administrative activities from the Institute under an operating lease which expires in 2021. Under this lease, effective May 6, 2001, the Hospital leases 23,489 square feet of the facility located at 100 Double Beach Road, Branford, Connecticut. Under this lease, the Hospital will pay \$284,160 per year through May 6, 2016. The succeeding five-year term will be negotiated based on the then prevailing rates in New Haven County and building appraisals. Included in the lease are electricity, heat and hot water.

The Hospital also purchases certain administrative, management, dietary, housekeeping and system technology services from the Institute for a fee of \$333,333 per month for the years ended September 30, 2011 and 2010.

**NOTE 4 - INVESTMENTS**

GAAP has established a fair value hierarchy that prioritizes the inputs to valuation techniques to measure fair value. Highest rank is given to unadjusted quoted prices in active markets for identical assets (Level 1) and lowest rank to unobservable inputs (Level 3). Investments are ranked based on the lowest level of input that is significant to their fair value measurement. The three levels of the fair value hierarchy are described below:

**Level 1** - Unadjusted quoted prices in active markets that are accessible at the measurement date.

**Level 2** - Pricing inputs that are generally those other than exchange quoted prices in active markets, which are either directly or indirectly observable as of the reporting date, and fair value is determined through the use of other valuation methodologies. Level 2 assets may include certain investments valued at Net Asset Value (NAV) with liquidity of 90 days or less.

**Level 3** - Pricing inputs are unobservable for the investment. Level 3 assets may also include certain investments valued at NAV with liquidity of greater than 90 days. The Hospital has no Level 3 investments at September 30, 2011 or 2010.

**THE CONNECTICUT HOSPICE, INC.**  
**NOTES TO FINANCIAL STATEMENTS**

**NOTE 4 - INVESTMENTS (Continued)**

Investments in which both the investment fund's and the underlying investments' values are based on quoted market prices in active markets are classified as Level 1. Investment funds classified as Level 2 may contain underlying investments that are actively traded; however, the ownership rights of the investment fund itself are not actively traded or are determined through the use of other methodologies.

The following is a summary of the source and fair value measurements for investments:

| <u>Description</u>               | <u>September 30,</u> | <u>Fair Value Measurements Using</u> |                     |
|----------------------------------|----------------------|--------------------------------------|---------------------|
|                                  | <u>2011</u>          | <u>Level 1</u>                       | <u>Level 2</u>      |
| Government and agency securities | \$ 48,989            | \$ 48,989                            | \$ -                |
| Corporate bonds                  | 2,221,789            | -                                    | 2,221,789           |
| Municipal securities             | 2,174,342            | -                                    | 2,174,342           |
| Mutual funds:                    |                      |                                      |                     |
| Equities                         | 101,940              | 101,940                              | -                   |
| Alternative strategies           | 237,446              | 237,446                              | -                   |
| Broad commodities                | 209,106              | 209,106                              | -                   |
| Fixed income                     | 360,584              | 360,584                              | -                   |
| Other                            | 108,385              | 108,385                              | -                   |
| Total Assets                     | <u>\$ 5,462,581</u>  | <u>\$ 1,066,450</u>                  | <u>\$ 4,396,131</u> |

| <u>Description</u>               | <u>September 30,</u> | <u>Fair Value Measurements Using</u> |                     |
|----------------------------------|----------------------|--------------------------------------|---------------------|
|                                  | <u>2010</u>          | <u>Level 1</u>                       | <u>Level 2</u>      |
| Certificates of deposit          | \$ 211,229           | \$ 211,229                           | \$ -                |
| Government and agency securities | 349,177              | 349,177                              | -                   |
| Corporate bonds                  | 929,405              | -                                    | 929,405             |
| Municipal securities             | 501,051              | -                                    | 501,051             |
| Mutual funds                     | 259,666              | 259,666                              | -                   |
| Total Assets                     | <u>\$ 2,250,528</u>  | <u>\$ 820,072</u>                    | <u>\$ 1,430,456</u> |

Investment income for the years ended September 30, 2011 and 2010, consists of the following:

|                               | <u>2011</u>      | <u>2010</u>       |
|-------------------------------|------------------|-------------------|
| Realized and unrealized gains | \$ (69,660)      | \$ 99,615         |
| Interest and dividends        | 118,315          | 90,749            |
| Net Investment Income         | <u>\$ 48,655</u> | <u>\$ 190,364</u> |

**THE CONNECTICUT HOSPICE, INC.**  
**NOTES TO FINANCIAL STATEMENTS**

**NOTE 5 - RETIREMENT PLAN**

The Hospital has a defined contribution retirement plan (the Plan) covering all eligible employees. The provision for pension costs charged against operations each year is sufficient to match a portion of employee contributions as specified under the terms of the plan agreement. The Hospital makes contributions to the Plan equal to amounts accrued for pension expense. The total employer pension contributions were approximately \$327,000 and \$336,000 for the years ended September 30, 2011 and 2010, respectively.

**NOTE 6 - PROPERTY AND EQUIPMENT**

The components of property and equipment as of September 30, 2011 and 2010, are as follows:

|                               | <b>2011</b>  | <b>2010</b>  |
|-------------------------------|--------------|--------------|
| Furniture and equipment       | \$ 3,393,897 | \$ 3,278,692 |
| Property held for future use  | 323,000      | 323,000      |
|                               | 3,716,897    | 3,601,692    |
| Less accumulated depreciation | 2,887,298    | 2,688,539    |
| Net Property and Equipment    | \$ 829,599   | \$ 913,153   |

**NOTE 7 - OPERATING LEASES**

The Hospital is obligated under leases for office space and equipment through 2013. Total rent expense under the operating leases totaled approximately \$254,000 and \$267,000 in 2011 and 2010, respectively.

Future minimum lease payments are as follows:

| <b><u>Year Ending September 30</u></b> |            |
|--|------------|
| 2012                                   | \$ 254,122 |
| 2013                                   | 25,479     |
| 2014                                   | 7,850      |
|  | 287,451    |
| Total Future Minimum Lease Payments    | \$ 287,451 |

**THE CONNECTICUT HOSPICE, INC.**  
**NOTES TO FINANCIAL STATEMENTS**

**NOTE 8 - DUE TO RELATED PARTY**

During 2009, a board member advanced \$800,000 to the Hospital. This amount is recorded as due to related party on the statements of financial position. This note bears interest at 2.0% per year, and there currently is no formal repayment plan. During 2011, the Hospital made principal payments totaling \$216,246. Outstanding principal and interest on the note as of September 30, 2011 and 2010, was 592,799 and \$827,043, respectively.

**NOTE 9 - LINE OF CREDIT**

The Hospital has a line of credit in the amount of \$2,530,000. The line has a one-year term, provisions for annual extensions, and includes a due on demand feature. The Hospital has drawn down \$2,477,346 as of September 30, 2011. Interest, at a rate of 2% over LIBOR (2.734% at September 30, 2011), is payable monthly. The Hospital's investments are pledged as security on the line of credit.

**NOTE 10 - ENDOWMENT**

The Hospital's endowment consists of approximately three individual funds established for a variety of purposes. Its endowment includes donor-restricted endowment funds. As required by GAAP, net assets associated with endowment funds are classified and reported based on the existence or absence of donor-imposed restrictions.

**Interpretation of Relevant Law** - The Board of Directors of the Hospital has interpreted the Connecticut Prudent Management of Institutional Funds Act (CTPMIFA) as requiring the preservation of the fair value of the original gift as of the gift date of the donor-restricted endowment funds absent explicit donor stipulations to the contrary. As a result of this interpretation, the Hospital classifies as permanently restricted net assets (a) the original value of gifts donated to the permanent endowment, (b) the original value of subsequent gifts to the permanent endowment, and (c) accumulations to the permanent endowment made in accordance with the direction of the applicable donor gift instrument at the time the accumulation is added to the fund. The remaining portion of the donor-restricted endowment fund that is not classified in permanently restricted net assets is classified as temporarily restricted net assets until those amounts are appropriated for expenditure by the Hospital in a manner consistent with the standard of prudence prescribed by CTPMIFA. In accordance with CTPMIFA, the Hospital considers the following factors in making a determination to appropriate or accumulate donor-restricted endowment funds:

- The duration and preservation of the fund
- The purposes of the organization and the donor-restricted endowment fund
- General economic conditions
- The possible effect of inflation and deflation
- The expected total return from income and the appreciation of investments
- Other resources of the organization
- The investment policies of the Hospital

**THE CONNECTICUT HOSPICE, INC.**  
**NOTES TO FINANCIAL STATEMENTS**

**NOTE 10 - ENDOWMENT (Continued)**

**Endowment Net Assets** - Endowment net asset composition by type of fund is as follows as of September 30, 2011:

|                                     | <u>Unrestricted</u> | <u>Temporarily<br/>Restricted</u> | <u>Permanently<br/>Restricted</u> | <u>Total</u>        |
|-------------------------------------|---------------------|-----------------------------------|-----------------------------------|---------------------|
| Donor-restricted<br>endowment funds | \$ -                | \$ -                              | \$ 1,628,392                      | \$ 1,628,392        |
| Total                               | <u>\$ -</u>         | <u>\$ -</u>                       | <u>\$ 1,628,392</u>               | <u>\$ 1,628,392</u> |

Changes in endowment net assets for the year ended September 30, 2011 are as follows:

|   | <u>Unrestricted</u> | <u>Temporarily<br/>Restricted</u> | <u>Permanently<br/>Restricted</u> | <u>Total</u>        |
|---|---------------------|-----------------------------------|-----------------------------------|---------------------|
| Endowment net assets -<br>beginning of year             | \$ -                | \$ -                              | \$ 1,408,392                      | \$ 1,408,392        |
| Investment return:                                      |                     |                                   |                                   |                     |
| Investment income                                       | -                   | 34,578                            | -                                 | 34,578              |
| Investment losses                                       | -                   | (20,505)                          | -                                 | (20,505)            |
| Total investment return                                 | <u>-</u>            | <u>14,073</u>                     | <u>-</u>                          | <u>14,073</u>       |
| Contributions   | <u>-</u>            | <u>-</u>                          | <u>220,000</u>                    | <u>220,000</u>      |
| Appropriation of<br>endowment assets for<br>expenditure | <u>-</u>            | <u>(14,073)</u>                   | <u>-</u>                          | <u>(14,073)</u>     |
| Endowment Net Assets -<br>End of Year                   | <u>\$ -</u>         | <u>\$ -</u>                       | <u>\$ 1,628,392</u>               | <u>\$ 1,628,392</u> |

Endowment net asset composition by type of fund is as follows as of September 30, 2010:

|                                     | <u>Unrestricted</u> | <u>Temporarily<br/>Restricted</u> | <u>Permanently<br/>Restricted</u> | <u>Total</u>        |
|-------------------------------------|---------------------|-----------------------------------|-----------------------------------|---------------------|
| Donor-restricted<br>endowment funds | \$ -                | \$ -                              | \$ 1,408,392                      | \$ 1,408,392        |
| Total funds                         | <u>\$ -</u>         | <u>\$ -</u>                       | <u>\$ 1,408,392</u>               | <u>\$ 1,408,392</u> |

**THE CONNECTICUT HOSPICE, INC.  
NOTES TO FINANCIAL STATEMENTS**

**NOTE 10 - ENDOWMENT (Continued)**

Changes in endowment net assets for the year ended September 30, 2010 are as follows:

|   | <u>Unrestricted</u> | <u>Temporarily<br/>Restricted</u> | <u>Permanently<br/>Restricted</u> | <u>Total</u> |
|---|---------------------|-----------------------------------|-----------------------------------|--------------|
| Endowment net assets -<br>beginning of year             | \$ -                | \$ -                              | \$ 1,228,392                      | \$ 1,228,392 |
| Investment return:                                      |                     |                                   |                                   |              |
| Investment income                                       | -                   | 43,040                            | -                                 | 43,040       |
| Investment gains  | -                   | 47,264                            | -                                 | 47,264       |
| Total investment return                                 | -                   | 90,304                            | -                                 | 90,304       |
| Contributions   | -                   | -                                 | 180,000                           | 180,000      |
| Appropriation of<br>endowment assets for<br>expenditure | -                   | (90,304)                          | -                                 | (90,304)     |
| Endowment Net Assets -<br>End of Year                   | \$ -                | \$ -                              | \$ 1,408,392                      | \$ 1,408,392 |

Amounts classified as permanently restricted net assets and temporarily restricted net assets (endowment only) are as follows as of September 30, 2011 and 2010:

|   | <u>2011</u>  | <u>2010</u>  |
|---|--------------|--------------|
| Permanently restricted net assets:  |              |              |
| The portion of perpetual endowment funds that is<br>required to be retained permanently either by explicit<br>donor stipulation or by CTPMIFA | \$ 1,628,392 | \$ 1,408,392 |
| Total Endowment Funds Classified as Permanently<br>Restricted Net Assets  | \$ 1,628,392 | \$ 1,408,392 |

**Funds with Deficiencies** - From time to time, the fair value of assets associated with individual donor-restricted endowment funds may fall below the level that the donor or CTPMIFA requires the Hospital to retain as a fund of perpetual duration. There were no such deficiencies as of September 30, 2011 and 2010.



**THE CONNECTICUT HOSPICE, INC.**  
**NOTES TO FINANCIAL STATEMENTS**

**NOTE 10 - ENDOWMENT (Continued)**

**Return Objectives and Risk Parameters** - The Hospital has adopted investment and spending policies for endowment assets that attempt to provide a predictable stream of funding to programs supported by its endowment. Endowment assets include those assets of donor-restricted funds that the organization must hold in perpetuity or for a donor-specified period. Under this policy, as approved by the Board of Directors, the endowment assets are invested in a manner that is broadly diversified among asset classes determined appropriate by the Board of Directors. The overall objective is the highest possible long-term rate of return consistent with accepting a low level of risk as it relates to the investment of total assets. Actual returns in any given year may vary from this amount.

**Strategies Employed for Achieving Objectives** - To satisfy its long-term rate-of-return objectives, the Hospital relies on a total return strategy in which investment returns are achieved through both capital appreciation (realized and unrealized) and current yield (interest and dividends). The Hospital targets a diversified asset allocation that places a greater emphasis on equity-based investments to achieve its long-term return objectives within prudent risk constraints.

**Spending Policy and How the Investment Objectives Relate to Spending Policy** - The Hospital has a policy of appropriating for distribution each year the income earned on its endowment subject to prudent spending consideration to offset operating expenses. All funds appropriated for distribution are done with approval from the Board of Directors.

**NOTE 11 - HEALTHCARE INDUSTRY**

The healthcare industry is subject to numerous laws and regulations of federal, state and local governments. These laws and regulations include, but are not necessarily limited to, matters such as licensure, accreditation, government healthcare program participation requirements, reimbursement for patient services, and Medicare and Medicaid fraud and abuse. Government activity has increased with respect to investigations and allegations concerning possible violations of fraud and abuse statutes and regulations by healthcare providers. Violations of these laws and regulations could result in expulsion from government healthcare programs together with the imposition of significant fines and penalties, as well as significant repayments for patient services previously billed. Management believes that the Hospital is in compliance with fraud and abuse regulations, as well as other applicable government laws and regulations. Compliance with such laws and regulations can be subject to future government review and interpretation.