

**CENTER OF SPECIAL CARE, INC. AND SUBSIDIARIES**  
**CONSOLIDATED FINANCIAL STATEMENTS**

**MARCH 31, 2013 AND 2012**

## CENTER OF SPECIAL CARE, INC. AND SUBSIDIARIES

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## Independent Auditors' Report

To the Board of Directors  
Center of Special Care, Inc.  
New Britain, Connecticut

### Report on the Financial Statements

We have audited the accompanying consolidated financial statements of Center of Special Care, Inc. and Subsidiaries (the Center), which comprise the consolidated statements of financial position as of March 31, 2013 and 2012, and the related consolidated statements of activities and changes in net assets and cash flows for the years then ended, and the related notes to the consolidated financial statements.

#### *Management's Responsibility for the Financial Statements*

Management is responsible for the preparation and fair presentation of these consolidated financial statements in accordance with accounting principles generally accepted in the United States of America; this includes the design, implementation and maintenance of internal control relevant to the preparation and fair presentation of consolidated financial statements that are free from material misstatement, whether due to fraud or error.

#### *Auditors' Responsibility*

Our responsibility is to express an opinion on these consolidated financial statements based on our audits. We conducted our audits in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the consolidated financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the consolidated financial statements. The procedures selected depend on the auditors' judgment, including the assessment of the risks of material misstatement of the consolidated financial statements, whether due to fraud or error. In making those risk assessments, the auditors consider internal control relevant to the entity's preparation and fair presentation of the consolidated financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the consolidated financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

***Opinion***

In our opinion, the consolidated financial statements referred to above present fairly, in all material respects, the financial position of Center of Special Care, Inc. and Subsidiaries as of March 31, 2013 and 2012, and the changes in their net assets and their cash flows for the years then ended in accordance with accounting principles generally accepted in the United States of America.

***Other Reporting Required by Government Auditing Standards***

In accordance with *Government Auditing Standards*, we have also issued a report dated July 16, 2013 on our consideration of Center of Special Care, Inc. and Subsidiaries' internal control over financial reporting and our tests of their compliance with certain provisions of laws, regulations, contracts, grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering Center of Special Care, Inc. and Subsidiaries' internal control over financial reporting and compliance.

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

West Hartford, Connecticut  
July 16, 2013

**CENTER OF SPECIAL CARE, INC. AND SUBSIDIARIES**  
**CONSOLIDATED STATEMENTS OF FINANCIAL POSITION**  
**MARCH 31, 2013 AND 2012**

<b>ASSETS</b>		<u>2013</u>	<u>2012</u>	<b>LIABILITIES AND NET ASSETS</b>		<u>2013</u>	<u>2012</u>
<b>Current Assets</b>				<b>Current Liabilities</b>			
Cash and cash equivalents	\$	17,557,299	\$ 14,970,013	Current portion of long-term debt	\$	890,000	\$ 1,400,000
Accounts receivable, less allowance for doubtful accounts of \$2,606,404 in 2013 and \$3,306,927 in 2012		14,332,309	18,918,298	Accounts payable		2,861,554	2,620,217
Pledges receivable, less allowance of \$35,862 in 2013 and \$25,948 in 2012		496,589	567,903	Salaries, wages, payroll taxes and amounts withheld from employee compensation		7,511,220	8,267,909
Prepaid sinking fund		1,458,737	1,616,410	Accrued insurance costs		3,683,810	4,193,772
Prepaid expenses and other assets		1,983,028	1,686,820	Accrued interest and other liabilities		5,000,713	3,715,836
Inventories of supplies		571,146	560,091	Total current liabilities		<u>19,947,297</u>	<u>20,197,734</u>
Total current assets		<u>36,399,108</u>	<u>38,319,535</u>	<b>Long-Term Liabilities</b>			
<b>Other Assets</b>				Long-term debt, less current portion		53,291,696	62,741,696
Investments		43,739,004	42,338,808	Accrued pension cost		3,352,678	4,500,400
Pledges receivable, less allowance and discount of \$38,438 in 2013 and \$102,643 in 2012, less current portion		291,672	840,306	Other long-term liabilities		4,889,487	4,033,796
Debt Service Reserve Fund		7,109,200	3,107,879	Total long-term liabilities		<u>61,533,861</u>	<u>71,275,892</u>
Debt obligations issuance expense, net of amortization		2,532,871	3,001,798	<b>Net Assets</b>			
Insurance funds		1,944,601	1,791,552	Unrestricted net assets		51,660,885	47,095,792
Other assets		4,889,488	4,033,796	Temporarily restricted net assets		6,204,762	5,602,907
Total other assets		<u>60,506,836</u>	<u>55,114,139</u>	Permanently restricted net assets		456,069	455,821
<b>Property, Plant and Equipment, Net</b>		<u>42,896,930</u>	<u>43,381,540</u>	Total net assets		<u>58,321,716</u>	<u>53,154,520</u>
<b>Assets Held for Sale, Net</b>		<u>-</u>	<u>7,812,932</u>	<b>Total Liabilities and Net Assets</b>		<u>\$ 139,802,874</u>	<u>\$ 144,628,146</u>
<b>Total Assets</b>		<u>\$ 139,802,874</u>	<u>\$ 144,628,146</u>				

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

**CENTER OF SPECIAL CARE, INC. AND SUBSIDIARIES**  
**CONSOLIDATED STATEMENTS OF ACTIVITIES AND CHANGES IN NET ASSETS**  
**FOR THE YEARS ENDED MARCH 31, 2013 AND 2012**

	<u>2013</u>	<u>2012</u>
<b>Revenues</b>		
Net revenues from services to patients	\$ 88,321,584	\$ 89,870,248
Other operating revenues	3,080,701	3,499,116
Bad debts	(232,290)	(464,235)
Net assets released from restrictions	383,939	480,465
Total revenues	<u>91,553,934</u>	<u>93,385,594</u>
<b>Operating Expenses</b>		
Salaries, wages and employee benefits	66,989,611	69,275,131
Supplies and other	18,844,308	19,554,385
Interest	2,240,750	2,268,788
Depreciation and amortization	3,434,616	3,446,480
Total operating expenses	<u>91,509,285</u>	<u>94,544,784</u>
Income (loss) from operations	44,649	(1,159,190)
<b>Nonoperating Gains</b>		
Other income, primarily investment income	1,518,044	1,112,916
Excess (deficiency) of revenues over expenses	<u>1,562,693</u>	<u>(46,274)</u>
<b>Other Changes in Unrestricted Net Assets</b>		
Change in net unrealized gains on investments	2,380,461	814,270
Net assets released for capital additions	244,719	114,819
Change in minimum pension liability	147,722	(3,204,738)
Increase (decrease) in unrestricted net assets	<u>4,335,595</u>	<u>(2,321,923)</u>
<b>Temporarily Restricted Net Assets</b>		
Contributions	792,462	2,251,168
Net realized gains on investments	105,917	139,603
Change in net unrealized gains (losses) on investments	156,873	(48,175)
Net assets released from restrictions used for purchase of capital	(244,719)	(125,619)
Net assets released from restrictions used for operations	(206,339)	(287,232)
Increase in temporarily restricted net assets	<u>604,194</u>	<u>1,929,745</u>
<b>Permanently Restricted Net Assets</b>		
Contributions	248	-
Increase in permanently restricted net assets	<u>248</u>	<u>-</u>
<b>Change in Total Net Assets from Continuing Operations</b>	4,940,037	(392,178)
<b>Loss from Discontinued Operations</b>	(553,655)	(704,494)
<b>Gain on Sale</b>	<u>780,814</u>	<u>-</u>
<b>Change in Net Assets</b>	5,167,196	(1,096,672)
<b>Net Assets - Beginning of Year</b>	<u>53,154,520</u>	<u>54,251,192</u>
<b>Net Assets - End of Year</b>	<u>\$ 58,321,716</u>	<u>\$ 53,154,520</u>

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

**CENTER OF SPECIAL CARE, INC. AND SUBSIDIARIES**  
**CONSOLIDATED STATEMENTS OF CASH FLOWS**  
**FOR THE YEARS ENDED MARCH 31, 2013 AND 2012**

	<u>2013</u>	<u>2012</u>
<b>Cash Flows from Operating Activities</b>		
Change in total net assets	\$ 5,167,196	\$ (1,096,672)
Adjustments to reconcile change in total net assets to net cash provided by operating activities:		
Depreciation and amortization	4,126,083	4,103,331
Bad debt expense	391,822	1,027,671
Gain on disposal of property, plant and equipment	(714)	(4,318)
Net unrealized gains on investments	(2,537,334)	(766,095)
Change in minimum pension liability	(147,722)	3,204,738
Restricted contributions	(792,710)	(2,251,168)
(Increase) decrease in operating assets:		
Accounts receivable	4,194,167	3,434,176
Pledges receivable, net	619,948	(184,557)
Prepaid sinking fund and debt service reserves	(3,843,648)	(40,905)
Prepaid expenses and other assets	(296,208)	(8,447)
Insurance funds	(153,049)	174,333
Inventories of supplies	(14,503)	(48,466)
Other assets	(855,692)	(231,279)
Increase (decrease) in operating liabilities:		
Accounts payable	241,337	(627,580)
Salaries, wages, payroll taxes and amounts withheld from employee compensation	(756,689)	1,490,016
Accrued insurance costs	(509,962)	702,256
Pension contribution	(1,000,000)	(500,000)
Other long-term liabilities	855,691	231,279
Accrued interest and other liabilities	1,284,877	(451,584)
Net cash provided by operating activities	<u>5,972,890</u>	<u>8,156,729</u>
<b>Cash Flows from Investing Activities</b>		
Purchases of investments	(27,511,112)	(3,144,631)
Sales of investments	28,648,250	1,733,440
Purchases of property, plant and equipment	(2,844,869)	(2,103,216)
Proceeds from sale of property, plant and equipment	7,489,417	19,110
Net cash provided by (used in) investing activities	<u>5,781,686</u>	<u>(3,495,297)</u>
<b>Cash Flows from Financing Activities</b>		
Payments on long-term debt	(9,960,000)	(1,350,000)
Restricted contributions	792,710	2,251,168
Net cash provided by (used in) financing activities	<u>(9,167,290)</u>	<u>901,168</u>
<b>Net Increase in Cash and Cash Equivalents</b>	2,587,286	5,562,600
<b>Cash and Cash Equivalents - Beginning of Year</b>	<u>14,970,013</u>	<u>9,407,413</u>
<b>Cash and Cash Equivalents - End of Year</b>	<u>\$ 17,557,299</u>	<u>\$ 14,970,013</u>
<b>Cash Paid During the Year for Interest</b>	\$ 2,268,073	\$ 2,291,033

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

**CENTER OF SPECIAL CARE, INC. AND SUBSIDIARIES**  
**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS**

**NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES**

**Organization** - Center of Special Care, Inc. (the Center) is the parent company and sole member of three entities: Hospital for Special Care (the Hospital), HSC Community Services, Inc., and Hospital for Special Care Foundation, Inc. The Center was established to coordinate strategic planning for each of its subsidiaries and affiliates.

The Hospital provides healthcare services as a chronic disease hospital. HSC Community Services, Inc., is committed to developing, operating, managing and evaluating community-based and community-oriented chronic disease and long-term rehabilitation healthcare initiatives and includes Brittany Farms Health Center (Brittany Farms), a nursing home. On October 1, 2012, Brittany Farms was sold (see discontinued operations). HSC Community Services, Inc., has established subsidiary corporations known as CSI Residential, Inc. (CSI Residential) and Manes & Motions Therapeutic Riding Center, Inc. (Manes and Motions). CSI Residential develops housing for persons with chronic physical and medical conditions. Manes & Motions was established to promote the well-being of persons with disabilities through the benefits of therapeutic horseback riding.

Hospital for Special Care Foundation, Inc., provides charitable, scientific and educational services, in particular to operate exclusively for the benefit of and to receive, raise, allocate, invest and expend funds in support of the mission of the Center and its subsidiaries and legal affiliates.

The Center and its subsidiaries are not-for-profit corporations as described in Section 501(c)(3) of the Internal Revenue Code.

The Center, which serves as the parent organization of the subsidiary entities described above, currently conducts no significant business and has no employees.

**Principles of Consolidation** - The accompanying consolidated financial statements present the financial position and results of activities of the Center and its subsidiaries. In consolidating the financial statements of the parent company and its subsidiaries, all significant intercompany revenues and expenses and intercompany asset and liability amounts have been eliminated.

**Use of Estimates** - The preparation of financial statements in conformity with accounting principles generally accepted in the United States of America (GAAP) requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosures of contingent assets and liabilities at the date of the financial statements. Estimates also affect the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates.

Financial statement areas where management applies the use of estimates consist primarily of accounts receivable reserves, the estimated net realizable value of receivables from contributions, accrued insurance costs, accrued pension costs and contractual allowances on revenues. It is management's opinion that the estimates applied in the accompanying financial statements are reasonable.

**CENTER OF SPECIAL CARE, INC. AND SUBSIDIARIES**  
**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS**

**NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)**

**Cash and Cash Equivalents** - The Center considers all highly liquid investments with a maturity of three months or less when purchased to be cash equivalents. The Center maintains deposits in financial institution accounts that, at times, may exceed federal depository limits. However, management believes that its deposits are not subject to significant credit risk.

**Accounts Receivable** - Accounts receivable are considered delinquent and written off when all attempts to collect from individuals or other payor sources have been exhausted.

**Inventories of Supplies** - Inventories are stated at the lower of cost (principally, the first-in, first-out method) or market.

**Investment Valuation and Income Recognition** - Investments are reported at fair value. Fair value is the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date. See Note 14 for a discussion of fair value measurements.

Purchases and sales of securities are recorded on the trade date basis. Interest income is recorded on the accrual basis. Dividends are recorded on the ex-dividend date. Realized investment income or loss (including realized gains and losses, interest and dividends) from investments are included in other income in the consolidated statements of activities and changes in net assets unless the income or loss is restricted by donor or law.

**CHEFA Obligations Issuance Expense** - The State of Connecticut Health and Educational Facilities Authority (CHEFA) obligations issuance expense represents costs incurred in connection with the issuance of the revenue bonds (see Note 9). These costs are being amortized on a straight-line basis over the terms of the associated bonds.

Amortization of bond obligation issuance expense totaled \$114,030 and \$118,835 for the years ended March 31, 2013 and 2012, respectively. The expected yearly amortization of bond issuance expense will be \$104,422 for the next five years.

**Property, Plant and Equipment** - Property, plant and equipment assets are recorded on the basis of cost. Major improvements and betterments to existing plant and equipment in excess of \$500 are capitalized. Expenditures for maintenance and repairs that do not extend the life of the applicable asset are charged to expense as incurred. Upon disposition or retirement of property, plant and equipment, the cost and related accumulated depreciation are eliminated from the respective accounts and the resulting gains and losses are included in the results of operations.

Depreciation is provided for using the straight-line method based on the estimated useful lives of the assets as follows:

Buildings, building improvements and land improvements	5-30 years
Furniture, fixtures and equipment	3-20 years
Vehicles	4 years

**CENTER OF SPECIAL CARE, INC. AND SUBSIDIARIES**  
**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS**

**NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)**

**Donor-Restricted Gifts** - Unconditional promises to give cash and other assets are reported at fair value at the date the promise is received. The gifts are reported as either temporarily or permanently restricted net assets if they are received with donor stipulations that limit the use of the donated assets. When a donor restriction expires, that is, when a stipulated time restriction ends or purpose restriction is accomplished, temporarily restricted net assets are reclassified as unrestricted net assets and reported in the consolidated statements of activities and changes in net assets as net assets released from restrictions. Donor-restricted contributions whose restrictions are met within the same year as received are treated as unrestricted contributions in the accompanying consolidated financial statements.

**Promises to Give** - Unconditional promises to give that are expected to be collected within one year are recorded at net realizable value. Unconditional promises to give that are expected to be collected in future years are recorded at the present value of their estimated future cash flows using an appropriate discount rate. Amortization of the discounts is included in contribution revenue. Conditional promises to give are not included as support until the conditions are substantially met.

**Revenues and Expenses** - Transactions deemed by management to be ongoing, major or central to the provision of health care services are reported as operating revenues and expenses.

**Investments in Foundation** - Investments in Foundation represents the entities' interest in the temporarily and permanently restricted net assets of Hospital for Special Care Foundation, Inc.

**Nonoperating Gains** - Activities other than in connection with providing healthcare services are considered to be nonoperating. Nonoperating gains consist primarily of income earned on invested funds and realized gains and losses on marketable securities.

**Pension Plan** - The Hospital has a defined benefit pension plan and a defined contribution pension plan that cover substantially all eligible employees. The Hospital's defined benefit plan was amended during fiscal year 2005 to freeze future benefit accruals, which resulted in a plan curtailment (see Note 10). Brittany Farms has a 403(b) defined contribution plan and a money purchase pension plan that cover substantially all eligible employees. In addition, the Hospital has a nonqualified supplemental employee retirement plan for certain executives.

**Temporarily and Permanently Restricted Net Assets** - Temporarily restricted net assets include those assets whose use has been limited by donors to a specific time frame or purpose. Permanently restricted net assets include those assets whose use has been restricted by donors to be maintained in perpetuity (see Note 6).

**CENTER OF SPECIAL CARE, INC. AND SUBSIDIARIES**  
**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS**

**NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)**

**Asset Retirement Obligations** - GAAP requires that a liability be recognized for an asset retirement obligation in the period in which it is incurred if a reasonable estimate of fair value can be made. Certain of the Center's buildings contain asbestos, and the Center also maintains underground fuel tanks that must be removed upon demolition or extensive renovations. The Center expects to and has the ability to continue to maintain and operate these buildings without undertaking any activities that would require removal of the asbestos or underground fuel tanks. As a result, the Center is not able to estimate the date or range of potential dates of settlements of these obligations. Accordingly, the liabilities associated with these obligations are not reasonably estimable, and the accompanying consolidated statements of financial position do not include a liability for asset retirement obligations.

**Income Taxes** - The Center and its subsidiaries are not-for-profit corporations as described in Section 501(c)(3) of the Internal Revenue Code (the Code) and are exempt from federal income taxes pursuant to Section 501(a) of the Code. Tax returns for the years ended March 31, 2010 through 2013 are subject to examination by the Internal Revenue Service and the State of Connecticut.

**Discontinued Operations** - The Center sold Brittany Farms on October 1, 2012. This transaction meets the GAAP criteria for recording as discontinued operations in the consolidated financial statements. As a result, the activities, including results of operations, of Brittany Farms are reflected as loss from discontinued operations.

**CENTER OF SPECIAL CARE, INC. AND SUBSIDIARIES**  
**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS**

**NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)**

The revenues and expense of the discontinued operations for the years ended March 31, 2013 and 2012, is as follows:

	<u>2013</u>	<u>2012</u>
Revenues:		
Net revenues from services to patients	\$ 13,364,533	\$ 27,579,286
Other operating revenues	41,613	105,156
Bad debts	(180,000)	(548,360)
Total revenues	<u>13,226,146</u>	<u>27,136,082</u>
Operating expenses:		
Salaries, wages and employees benefits	9,053,883	18,846,086
Supplies and other	4,378,119	8,339,278
Interest	17,229	12,244
Depreciation and amortization	336,571	657,077
Total operating expenses	<u>13,965,802</u>	<u>28,403,045</u>
Operating loss	(559,656)	(718,603)
Nonoperating gains:		
Other income, primarily investment income	3,404	3,309
Deficiency of revenues over expenses	(556,252)	(715,294)
Other changes in unrestricted net assets:		
Net assets released for capital additions	2,597	10,800
Loss from discontinued operations	(553,655)	(704,494)
Temporarily restricted net assets:		
Change in equity interest in Foundation	(21,731)	(18,449)
Change in total net assets from discontinued operations	(575,386)	(722,943)
Gain on sale	780,814	-
Net assets - beginning of year	<u>664,010</u>	<u>1,386,953</u>
Net Assets - End of Year	<u>\$ 869,438</u>	<u>\$ 664,010</u>

**CENTER OF SPECIAL CARE, INC. AND SUBSIDIARIES**  
**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS**

**NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)**

**Reclassifications** - Certain 2012 amounts have been reclassified to conform to the 2013 presentation.

**Recent Accounting Pronouncements** - In July 2011, the FASB issued Accounting Standards Update 2011-07, *Presentation and Disclosure of Patient Service Revenue, Provision for Bad Debts and Allowance for Doubtful Accounts for Certain Health Care Entities* (ASU 2011-07). The guidance requires reclassifying the provision for bad debts associated with patient service revenue from an operating expense to a deduction from patient service revenue. ASU 2011-07 is effective for years ending after December 15, 2012. The Center adopted ASU 2011-07 during fiscal 2013.

**Subsequent Events** - In preparing these consolidated financial statements, management has evaluated subsequent events through July 16, 2013, which represents the date the consolidated financial statements were available to be issued.

**NOTE 2 - REVENUE CONCENTRATIONS**

During 2013 and 2012, approximately 71% and 70%, respectively, of net patient revenue was received under the Medicaid program; 13% and 14%, respectively, under the Medicare program; and 16% from other third parties. Laws and regulations governing the Medicaid and Medicare programs are complex and subject to interpretation. Management believes that the Hospital and Brittany Farms are in compliance with all applicable laws and regulations and is not aware of any pending or threatened investigations involving allegations of potential wrongdoing. While no such regulatory inquiries have been made, compliance with such laws and regulations can be subject to future government review and interpretation as well as significant regulatory action including fines, penalties and exclusion from the Medicaid and Medicare programs. Changes in the Medicaid and Medicare programs and the reduction of funding levels could have an adverse impact on the Hospital.

Revenues derived from federal and state medical assistance programs were based, in part, on cost-reimbursement principles and are subject to audit.

The following table summarizes net revenues from services to patients for the years ended March 31, 2013 and 2012:

	<u>2013</u>	<u>2012</u>
Gross revenues from patients:		
Routine services	\$ 96,897,400	\$ 100,978,100
Special services	44,588,180	47,079,538
	<u>141,485,580</u>	<u>148,057,638</u>
Allowances (primarily Medicare and Medicaid)	<u>53,163,996</u>	<u>58,187,390</u>
Net Revenues from Services to Patients	<u>\$ 88,321,584</u>	<u>\$ 89,870,248</u>

**CENTER OF SPECIAL CARE, INC. AND SUBSIDIARIES**  
**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS**

**NOTE 2 - REVENUE CONCENTRATIONS (Continued)**

Patient accounts receivable and revenues are recorded when patient services are performed. Amounts received from certain payors are different from established billing rates of the Hospital and other providers, and the differences are accounted for as allowances.

Net revenues from services to patients at the Hospital and other providers are reported at the estimated net realizable amounts from patients, third-party payors and others for services rendered, including estimated retroactive adjustments under reimbursement agreements with third-party payors. Retroactive adjustments are accrued on an estimated basis in the period the related services are rendered and adjusted in future periods as final settlements are determined.

It is the Center's policy to provide service to all patients within the reasonable limits of available resources. Patients who apply for admission or seek outpatient services but lack a source of payment are considered on an individual basis for charity care.

**NOTE 3 - ENDOWMENT NET ASSETS**

The Center's endowment consists of several funds established for a variety of purposes, mainly designated by donor restrictions. As required by GAAP, net assets associated with endowment funds are classified and reported as permanently restricted net assets, temporarily restricted net assets or unrestricted net assets based on the existence or absence of donor-imposed restrictions.

**Interpretation of Relevant Law** - The Board of Directors of the Center 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 Center 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 organization in a manner consistent with the standard of prudence prescribed by CTPMIFA. In accordance with CTPMIFA, the organization 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 organization

**CENTER OF SPECIAL CARE, INC. AND SUBSIDIARIES**  
**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS**

**NOTE 3 - ENDOWMENT NET ASSETS (Continued)**

There was one contribution to endowment net assets of \$248 for the year ended March 31, 2013. There were no changes in endowment net assets for the year ended March 31, 2012. See Note 6 for more information regarding the programs that the permanently restricted net assets support.

**NOTE 4 - PLEDGES RECEIVABLE**

The Center's pledges receivable consist of unconditional promises to give and are expected to be collected as follows for the years ended March 31, 2013 and 2012, respectively:

	<b>2013</b>	<b>2012</b>
Receivable in less than one year	\$ 532,451	\$ 593,850
Receivable in one to five years	330,112	942,950
Total pledges receivable	862,563	1,536,800
Less allowance for uncollectible promises	41,339	75,806
Less discounts to net present value	32,963	52,785
 Net Pledges Receivable	 \$ 788,261	 \$ 1,408,209

The discount rate used in calculating the present value of pledges receivable for each of the years ended March 31, 2013 and 2012, was 3.00%.

**NOTE 5 - INVESTMENTS**

The composition of investments at March 31, 2013 and 2012, is set forth below. Investments are stated at market value.

	<b>2013</b>			
	<b>Cost</b>	<b>Market Value</b>	<b>Unrealized Gain</b>	<b>Unrealized (Loss)</b>
Bond funds	\$ 710,682	\$ 733,558	\$ 23,145	\$ (269)
Mutual funds:				
Domestic equity	15,737,629	17,026,552	1,288,923	-
Fixed income	20,470,715	21,045,583	604,074	(29,206)
International equity	4,929,232	4,933,311	4,079	-
	\$ 41,848,258	\$ 43,739,004	\$ 1,920,221	\$ (29,475)

**CENTER OF SPECIAL CARE, INC. AND SUBSIDIARIES**  
**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS**

**NOTE 5 - INVESTMENTS (Continued)**

	2012			
	Cost	Market Value	Unrealized Gain	Unrealized (Loss)
Bond funds	\$ 1,223,621	\$ 1,242,271	\$ 19,139	\$ (489)
Mutual funds:				
Domestic equity	17,092,197	17,748,239	844,027	(187,985)
Fixed income	17,896,120	18,441,839	647,574	(101,855)
International equity	6,681,689	4,906,459	216	(1,775,446)
	\$ 42,893,627	\$ 42,338,808	\$ 1,510,956	\$ (2,065,775)

Investment income (including realized gains and losses, interest and dividends, net of investment fees) earned on investments amounted to \$1,623,657 and \$1,266,847 during the years ended March 31, 2013 and 2012, respectively. This is included in nonoperating gains in the consolidated statements of activities and changes in net assets.

At March 31, 2013, investments with market value below cost included in certain mutual and bond funds were immaterial.

At March 31, 2012, investments with market value below cost for 12 months or more included certain mutual funds with a market value of \$9,859,126 and an unrealized loss of \$2,032,829. At March 31, 2012, investments with market value below cost for less than 12 months included bond funds with a market value of \$554,098 and an unrealized loss of \$38,070.

Management continually reviews its investment portfolio and evaluates whether declines in the market value of securities should be considered other-than-temporary. Factored into this evaluation are general market conditions, the recommendation of advisors and the length of time and extent to which the market value has been less than cost. The Center's investments are mainly in mutual funds managed by an outside investment manager. The Investment Subcommittee of the Board oversees the activities of the investment manager. The Center has the ability to and intends to hold the mutual funds until such time that the market losses recover. As a result, there were no declines in market value deemed to be other-than-temporary in fiscal year 2013 or 2012.

**CENTER OF SPECIAL CARE, INC. AND SUBSIDIARIES**  
**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS**

**NOTE 6 - TEMPORARILY AND PERMANENTLY RESTRICTED NET ASSETS**

Temporarily restricted net assets at March 31, 2013 and 2012, are available for the following purposes:

	<u>2013</u>	<u>2012</u>
Outpatient Capital Campaign	\$ 4,924,686	\$ 4,615,669
Sports and fitness programs	354,281	352,003
Manes & Motion Capital Campaign	262,909	50,324
ALS Clinic/Neuromuscular Fund	98,088	56,200
Timura Scholarship Fund	53,708	54,206
Paula Sutula Nursing Scholarship Fund	50,996	51,537
Pulmonary	45,411	38,530
Aquatic rehabilitation	40,877	25,958
Other	36,845	32,037
Autism	30,399	1,482
Pediatric	29,661	19,231
H.R. Gossling Lecture Fund	29,646	35,172
Brittany Farms	29,164	48,556
Manes & Motion Rider Assistance Program	27,937	23,985
Horticultural	27,547	26,732
Gustin Lecture	26,276	16,257
Respiratory therapist education	25,866	22,886
Patient Recreation Center	20,669	20,013
Adaptive equipment	20,421	13,410
Research	16,728	11,918
Gait and Balance Training System Fund	14,488	31,275
Resource center	13,714	16,854
Joy of Art	12,224	18,009
Lobby renovations	6,688	6,440
Satellite	2,872	6,402
Dental clinic	2,661	7,821
	<u>\$ 6,204,762</u>	<u>\$ 5,602,907</u>

During fiscal 2010, the Hospital for Special Care Foundation, Inc., began a capital campaign to raise money for the expansion of its outpatient facility. The campaign is expected to raise \$6,472,888. Funds raised as of March 31, 2013 are \$4,897,823.

During fiscal 2012, Manes & Motions began a capital campaign to raise money to build an indoor arena, with a covered walkway to the stable, to allow the program to operate year round and in inclement weather. The campaign is expected to raise \$450,000. Funds raised as of March 31, 2013 are \$262,909.

**CENTER OF SPECIAL CARE, INC. AND SUBSIDIARIES**  
**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS**

**NOTE 6 - TEMPORARILY AND PERMANENTLY RESTRICTED NET ASSETS**  
**(Continued)**

The Center maintains policies related to its permanently restricted net assets. The policy indicates that all earnings are spent in the year earned. Permanently restricted net assets of \$456,069 and \$455,821 at March 31, 2013 and 2012, respectively, are to be held in perpetuity, the income from which is used for unrestricted and temporarily restricted Center activities and is expendable to support healthcare services.

**NOTE 7 - PROPERTY, PLANT AND EQUIPMENT**

Property, plant and equipment consists of the following at March 31, 2013 and 2012:

	<u>2013</u>	<u>2012</u>
Buildings	\$ 58,861,130	\$ 58,695,851
Fixed and moveable equipment	32,807,635	31,622,452
Land and land improvements	3,008,094	2,949,363
	<u>94,676,859</u>	<u>93,267,666</u>
Less accumulated depreciation	<u>53,246,327</u>	<u>50,030,571</u>
	41,430,532	43,237,095
Construction in progress	<u>1,466,398</u>	<u>144,445</u>
Net Property, Plant and Equipment	<u>\$ 42,896,930</u>	<u>\$ 43,381,540</u>

Depreciation expense was \$3,330,194 and \$3,341,004 for the years ended March 31, 2013 and 2012, respectively.

**NOTE 8 - SELF-INSURED PROGRAMS**

**Medical Malpractice** - The Hospital self-insures the deductible portion of its medical malpractice insurance. The deductible limits are \$1,000,000 per claim and \$1,000,000 in the aggregate for the years ended March 31, 2013 and 2012. The Hospital has excess insurance in the form of an umbrella policy for claims settled in excess of \$1,000,000.

The malpractice liability was actuarially determined to be \$1,343,986 and \$1,257,408 for the years ended March 31, 2013 and 2012, respectively, and is included in accrued insurance costs on the consolidated statements of financial position. This amount was calculated at a confidence level of 75% of the expected level for the years ended March 31, 2013 and 2012, with a 4% discount rate in 2013 and 2012. Management considers these reserves to be adequate as of March 31, 2013 and 2012. However, no assurance can be given that the ultimate settlement of losses may not vary materially from the liability recorded.

**CENTER OF SPECIAL CARE, INC. AND SUBSIDIARIES**  
**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS**

**NOTE 8 - SELF-INSURED PROGRAMS (Continued)**

The Hospital established an irrevocable trust for the purpose of setting aside assets to be used for the payment of malpractice losses, related expenses and the cost of administering the trust. The trust balance was \$1,804,601 and \$1,714,829 at March 31, 2013 and 2012, respectively, and is based on actuarial funding recommendations and active claims. These assets are included in insurance funds on the consolidated statements of financial position.

Brittany Farms carries insurance for medical malpractice under a claims-made policy with an insurance company.

**Workers' Compensation** - The Center is self-insured for the deductible portion of workers' compensation claims. The deductible amount per claim was \$400,000 and \$350,000 at March 31, 2013 and 2012, respectively. The Center has purchased excess insurance from a commercial carrier that would cover claims settled above \$400,000. The self-insurance workers' compensation liability was determined to be \$2,775,700 and \$1,311,382 at March 31, 2013 and 2012, respectively. The current portion of \$1,020,843 and \$1,311,382 at March 31, 2013 and 2012, respectively, is included in accrued insurance costs on the consolidated statements of financial position. The long-term portion of \$1,754,857 and \$-0- at March 31, 2013 and 2012, respectively, is included in other long-term liabilities on the consolidated statements of financial position. Receivables related to workers' compensation claims totaled \$2,411,067 and \$-0- at March 31, 2013 and 2012, respectively. The current portion of \$656,210 and \$-0- at March 31, 2013 and 2012, respectively, is included in prepaid expenses and other assets on the consolidated statements of financial position. The long-term portion of \$1,754,857 and \$-0- at March 31, 2013 and 2012, respectively, is included in other assets on the consolidated statements of financial position.

A letter of credit with a bank of \$858,000 at March 31, 2013 and 2012, was established to cover the funding requirements of the self-insurance program. The letter of credit has a variable per annum rate of interest equal to the prime rate plus 5%. As of March 31, 2013 and 2012, the Center had not drawn on the letter of credit.

**Health Insurance** - The Center is self-insured for its health insurance and carries a stop-loss policy for individual claims in excess of \$250,000. The self-insurance liability was determined to be \$1,318,981 and \$1,624,982 for the years ended March 31, 2013 and 2012, respectively, and is included in accrued insurance costs on the consolidated statements of financial position.

**NOTE 9 - LONG-TERM DEBT OBLIGATIONS**

On June 28, 2007, the Hospital issued Series C CHEFA revenue bonds (Series C) in the amount of \$46,635,000. The Hospital received funds to repay its Series B CHEFA revenue bonds, to fund the required Debt Service Reserve Fund, to pay for cost of bond issuance and for future construction and renovations related to its existing facilities. The Series C debt is secured by a pledge of the gross receipts of the Obligated Group, which is now defined as the Hospital, HSC Community Services, Inc., and the Hospital for Special Care Foundation, Inc., and a mortgage on the capital assets of the Obligated Group, subject to permitted encumbrances, and Series C debt is insured under a financial guaranty insurance policy.

**CENTER OF SPECIAL CARE, INC. AND SUBSIDIARIES**  
**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS**

**NOTE 9 - LONG-TERM DEBT OBLIGATIONS (Continued)**

The Series C debt is fixed-interest debt with the following maturities:

- Yearly on July 1 from 2008-2022 in the total amount of \$14,960,000 with interest rates ranging from 4% - 5.25%
- July 1, 2027 in the amount of \$8,000,000 with a 5.25% interest rate
- July 1, 2032 in the amount of \$10,330,000 with a 5.25% interest rate
- July 1, 2037 in the amount of \$13,345,000 with a 5.25% interest rate

On July 14, 2010, the Hospital issued Series E CHEFA revenue bonds (Series E) in the amount of \$20,185,000. The Hospital received funds to repay its Series D CHEFA revenue bonds, to fund the required Debt Service Reserve Fund, to pay for cost of bond issuance, and to finance and refinance construction and renovations related to its existing facilities. The terms of the Series E debt are variable interest debt with maturities occurring yearly on July 1 from 2011-2037. Interest shall be paid in consecutive monthly installments at the Weekly Rate, which is the rate of interest borne by bonds during any Weekly Rate period, which shall be determined by the Remarketing Agent on each Rate Determination Date for a Weekly Rate Bond as provided in the Indenture. The interest rate at March 31, 2013 was 0.24%. The Series E debt is secured by a pledge of the gross receipts of the Obligated Group, which is now defined as the Hospital, HSC Community Services, Inc., and the Hospital for Special Care Foundation, Inc., and a mortgage on the capital assets of the Obligated Group, subject to permitted encumbrances. The Series E debt is secured by a letter of credit issued by the Federal Home Loan Bank of Boston in the amount of \$20,483,627.

Monthly payments by the Obligated Group to the trustee are based on the agreement and correspond in time and amount to the payments of principal and interest on the Series C and E bonds.

The Obligated Group is also required to maintain debt service reserve funds for the Series C bonds. The Debt Service Reserve Fund is equal in amount to the largest total debt service to be paid within a year. During 2013, this amount was increased as the Center has agreed to post \$4,000,000 as restricted cash to reduce future Series C long-term debt payments. The bonds are subject to redemption prior to maturity beginning on July 1, 2008 for Series C and July 1, 2011 for Series E, and annually on July 1 thereafter by operation of a sinking fund.

The Series C and Series E debt contains certain financial debt covenant requirements, including maintenance of a debt service coverage ratio in excess of 1.25, maintenance of a debt-to-capital ratio not to exceed 75%, maintenance of fixed charge coverage ratio not to fall below 1.00 and days cash on hand in excess of 60 days.

The proceeds from the sale of Brittany Farms were used to repay \$9,000,000 in Series E long-term debt. Deferred financing costs of \$364,504 related to the Series E long-term debt were also written off, and are included in loss from discontinued operations on the consolidated statements of activities and net assets.

**CENTER OF SPECIAL CARE, INC. AND SUBSIDIARIES**  
**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS**

**NOTE 9 - LONG-TERM DEBT OBLIGATIONS (Continued)**

In addition, the Hospital has a \$3,000,000 line of credit with a bank. The availability of the line is reduced by the self-insurance letter of credit in place (see Note 8). As of March 31, 2013 and 2012, the full amount of the remaining line was available. Interest on the line accrues at the bank's prevailing prime rate, and amounts drawn are repayable on demand. The line of credit has a revolving credit termination date of October 1, 2015.

The Hospital escrowed \$1,075,000 in the form of a letter of credit for a three-year period to satisfy any potential indemnification claims resulting from the sale of Brittany Farms. The letter of credit has a termination date of October 1, 2015.

During fiscal years 2013 and 2012, interest expense was \$2,240,750 and \$2,268,788, respectively.

During fiscal year 2002, HSC Community Services, Inc., entered into a Capital Advance Program Mortgage Note with the United States Department of Housing and Urban Development (HUD) for \$926,696 in connection with the acquisition of certain housing properties by CSI Residential, Inc. This note matures on March 29, 2041, does not bear interest and repayment is not required as long as the housing remains available for very low-income persons with disabilities in accordance with Section 202 of the Housing Act of 1959 or Section 811 of the National Affordable Housing Act of 1990 until the maturity date.

Principal payments and annual sinking fund payments for the next five years and thereafter are as follows:

<u>Year Ending March 31</u>	<u>Series C</u>	<u>Series E</u>	<u>HUD Mortgage</u>	<u>Total</u>
2013	\$ 890,000	\$ -	\$ -	\$ 890,000
2014	930,000	-	-	930,000
2015	965,000	-	-	965,000
2016	1,005,000	-	-	1,005,000
2017	1,060,000	-	-	1,060,000
Aggregate thereafter	<u>37,855,000</u>	<u>10,550,000</u>	<u>926,696</u>	<u>49,331,696</u>
	42,705,000	10,550,000	926,696	54,181,696
Less current portion	<u>890,000</u>	<u>-</u>	<u>-</u>	<u>890,000</u>
Total Long-Term Debt	<u>\$ 41,815,000</u>	<u>\$ 10,550,000</u>	<u>\$ 926,696</u>	<u>\$ 53,291,696</u>

**NOTE 10 - PENSION PLAN**

**General** - The Hospital has a defined benefit plan covering many of its employees. The benefits are based upon years of service, and employees are fully vested in the company contribution after five years of service. The Hospital's policy is to contribute an amount sufficient to cover benefits to be paid as required by ERISA funding standards. Contributions are intended to provide benefits attributed to service to date.

**CENTER OF SPECIAL CARE, INC. AND SUBSIDIARIES**  
**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS**

**NOTE 10 - PENSION PLAN (Continued)**

GAAP requires companies to record a liability on the consolidated statements of financial position for the underfunded portion of its postretirement plans, defined as the amount by which the projected benefit obligation exceeds the fair value of the plan assets.

**Obligations and Funded Status** - The plan was amended to freeze future benefit accruals in the plan effective June 30, 2004. The effect of this amendment was a plan curtailment.

The following table sets forth the plan's funded status and amounts recognized in the accompanying consolidated statements of financial position as of March 31, 2013 and 2012:

	<b>Pension Benefits</b>	
	<b>2013</b>	<b>2012</b>
Change in benefit obligation:		
Projected benefit obligation at beginning of year	\$ (21,574,891)	\$ (18,075,635)
Interest cost	(984,105)	(1,022,945)
Impact of assumption changes	(1,156,129)	(3,071,096)
Experience gain	246,583	37,470
Benefits paid	616,308	557,315
Projected benefit obligation at end of year	<u>(22,852,234)</u>	<u>(21,574,891)</u>
Change in plan assets:		
Fair value of plan assets at beginning of year	17,074,491	16,279,973
Actual return on plan assets	2,041,373	851,833
Employer contributions	1,000,000	500,000
Benefits paid	(616,308)	(557,315)
Fair value of plan assets at end of year	<u>19,499,556</u>	<u>17,074,491</u>
Unfunded Status	<u>\$ (3,352,678)</u>	<u>\$ (4,500,400)</u>

Net periodic pension costs for 2013 and 2012 included the following components:

	<b>Pension Benefits</b>	
	<b>2013</b>	<b>2012</b>
Components of net periodic benefit cost:		
Interest cost	\$ 984,105	\$ 1,022,945
Expected return on plan assets	(1,029,817)	(1,297,010)
Amortization of net loss	438,350	143,485
Net Periodic Pension Cost (Income)	<u>\$ 392,638</u>	<u>\$ (130,580)</u>

**CENTER OF SPECIAL CARE, INC. AND SUBSIDIARIES**  
**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS**

**NOTE 10 - PENSION PLAN (Continued)**

**Assumptions** - The following assumptions were used in accounting for the plan.

Assumptions used to determine benefit obligations and net periodic benefit cost at March 31, 2013 and 2012, are as follows:

	<u>2013</u>	<u>2012</u>
Discount rate	4.32%	4.67%
Long-term rate of return	6%	8%

The expected rate of return on plan assets is determined by adding expected inflation to expected long-term real returns of various asset classes, taking into account expected volatility and correlation between the returns of various asset classes.

**Plan Assets** - The percentage of the fair value of total plan assets held as of March 31, 2013 and 2012, by asset category is as follows:

	<u>2013</u>	<u>2012</u>
Equity mutual funds	63%	49%
Fixed income mutual funds	37%	51%

Plan asset investments in U.S. Government issues and corporate and municipal issues are assets traded on active markets with readily available daily values. The inputs are, therefore, Level 1 (see Note 14).

The Hospital's investment strategy is based on a portfolio comprised of assets held in mutual funds with an asset mix target based on an allocation of 47% equities and 53% fixed income funds at March 31, 2013 and 2012. Investments held in mutual funds are diversified with the intent to minimize the risk of large losses to the plan. The asset mix was determined by evaluating the expected return against the plan's long-term objectives. Performance is monitored on a monthly basis and rebalanced back to target to ensure the targets are within range. The investment policy describes which securities are allowed in the portfolios and the financial objectives of the plan, which the Investment Subcommittee of the Center's Board oversees. The Investment Subcommittee monitors the investment performance annually to determine the continued feasibility of achieving the investment objectives and the appropriateness of the investment policy.

**Cash Flows** - The Hospital expects to make a contribution to the pension plan in the amount of \$500,000 for the year ending March 31, 2014.

**CENTER OF SPECIAL CARE, INC. AND SUBSIDIARIES**  
**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS**

**NOTE 10 - PENSION PLAN (Continued)**

The expected benefit payments for the next ten years are as follows:

2014	\$	628,200
2015		669,600
2016		760,700
2017		874,600
2018		960,300
2019-2023		6,111,200

**Other Information** - The Hospital also has a defined contribution 403(b) tax-free annuity savings plan covering all full-time and permanent part-time employees with at least 1 year of service and 1,000 hours worked. Employees are allowed to contribute up to the maximum contribution allowable each year under Internal Revenue Service regulations. The Hospital matches bi-weekly employee contributions at varying percentages based on age and years of service (maximum match is 40%). The Hospital's expense amounted to \$476,852 and \$473,022 for the years ended March 31, 2013 and 2012, respectively.

The Hospital also has a capital accumulation 457(f) deferred compensation plan for certain executives. The Hospital is not required to make any contributions to this plan. In addition, the Hospital has a supplemental employee retirement plan for certain executives. The plan provides for a targeted benefit and is funded through insurance policies and the 457(f). The Hospital's expense amounted to \$317,762 and \$165,721 in 2013 and 2012, respectively. Assets and liabilities relating to this plan were \$3,134,631 and \$4,033,796 at March 31, 2013 and 2012, respectively, and are included in other assets and other long-term liabilities.

Brittany Farms has a defined contribution pension plan that covers substantially all eligible nonunion employees. Upon sale of Brittany Farms on October 1, 2012, the plan was frozen and participants became fully vested.

**NOTE 11 - FUNCTIONAL EXPENSES**

Functional expenses for the Center are as follows:

	<u>2013</u>	<u>2012</u>
Health care services	\$ 79,613,078	\$ 81,308,514
General and administrative	11,896,207	13,236,270
	<u>\$ 91,509,285</u>	<u>\$ 94,544,784</u>

**CENTER OF SPECIAL CARE, INC. AND SUBSIDIARIES**  
**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS**

**NOTE 12 - CONTINGENCIES**

The Center is a party to various lawsuits incidental to its business. Management believes that the lawsuits will not have a material adverse effect on the Center's financial position.

**NOTE 13 - COMMITMENTS**

The Center leases certain office space and equipment under operating leases. The future minimum annual payments under these agreements as of March 31, 2013 are as follows:

**Year Ending March 31**

2014	\$ 861,196
2015	895,121
2016	685,910
2017	389,004
2018	<u>248,529</u>
	<u>\$ 3,079,760</u>

Rent expense recorded by the Center for the years ended March 31, 2013 and 2012, was \$1,320,189 and \$1,677,837, respectively.

The Center entered into a contract to purchase new software on March 29, 2012. The contract is estimated to be completed in fiscal year 2014 and is estimated to cost \$1.1 million. As of March 31, 2013, approximately \$916,000 in costs has been incurred and is included in construction in progress.

**NOTE 14 - FAIR VALUE OF FINANCIAL INSTRUMENTS**

Generally accepted accounting principles establish a framework for measuring fair value. That framework provides a fair value hierarchy that prioritizes the inputs to valuation techniques used to measure fair value. The hierarchy gives the highest priority to unadjusted quoted prices in active markets for identical assets or liabilities (Level 1 measurements) and the lowest priority to unobservable inputs (Level 3 measurements). The three levels of the fair value hierarchy are described below:

**Level 1** - Inputs to the valuation methodology are unadjusted quoted prices for identical assets or liabilities in active markets that the Center has the ability to access.

**CENTER OF SPECIAL CARE, INC. AND SUBSIDIARIES**  
**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS**

**NOTE 14 - FAIR VALUE OF FINANCIAL INSTRUMENTS (Continued)**

**Level 2** - Inputs to the valuation methodology include:

- Quoted prices for similar assets or liabilities in active markets;
- Quoted prices for identical or similar assets or liabilities in inactive markets;
- Inputs other than quoted prices that are observable for the asset or liability;
- Inputs that are derived principally from or corroborated by observable market data by correlation or other means.

If the asset or liability has a specified (contractual) term, the Level 2 input must be observable for substantially the full term of the asset or liability.

**Level 3** - Inputs to the valuation methodology are unobservable and significant to the fair value measurement.

The asset's or liability's fair value measurement level within the fair value hierarchy is based on the lowest level of any input that is significant to the fair value measurement. Valuation techniques used need to maximize the use of observable inputs and minimize the use of unobservable inputs.

**Mutual Funds** - Mutual funds are valued at the quoted net asset value of shares held by the Center at March 31, 2013.

**Bonds** - Certain bonds are valued at the closing price reported in the active market in which the individual securities are traded. Other bonds are valued based on yields currently available on comparable securities of issuers with similar durations and credit ratings.

**Insurance Funds** - Insurance funds are stated at their net unit values as reported by the trustee of the fund based on the fair value of the underlying assets and liabilities at the measurement date.

**Long-Term Debt** - The carrying amounts of the Series C bonds and HUD Mortgage approximate fair value based on yields currently available on comparable securities of issuers with similar durations and credit ratings. The Series E bonds are valued based on yields currently available on comparable securities of issuers with similar durations and credit ratings. The inputs are, therefore, Level 2.

The carrying amounts reflected in the accompanying consolidated statements of financial position for cash and cash equivalents, accounts receivable and accounts payable approximate fair value due to short maturities of those instruments. The inputs are, therefore, Level 1.

**CENTER OF SPECIAL CARE, INC. AND SUBSIDIARIES**  
**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS**

**NOTE 14 - FAIR VALUE OF FINANCIAL INSTRUMENTS (Continued)**

The following is a summary of the source of fair value measurements for assets that are measured at fair value as of March 31, 2013 and 2012:

<b>Description</b>	<b>Fair Value March 31, 2013</b>	<b>Fair Value Measurements Using</b>		
		<b>Level 1</b>	<b>Level 2</b>	<b>Level 3</b>
Investments:				
Bond funds	\$ 733,558	\$ 285,448	\$ 448,110	\$ -
Mutual funds:				
Domestic equity	17,026,552	17,026,552	-	-
Fixed income	21,045,583	21,045,583	-	-
International equity	4,933,311	4,933,311	-	-
Insurance funds	1,944,601	-	-	1,944,601
Pledges receivable	788,261	-	-	788,261
<b>Total</b>	<b>\$ 46,471,866</b>	<b>\$ 43,290,894</b>	<b>\$ 448,110</b>	<b>\$ 2,732,862</b>

<b>Description</b>	<b>Fair Value March 31, 2012</b>	<b>Fair Value Measurements Using</b>		
		<b>Level 1</b>	<b>Level 2</b>	<b>Level 3</b>
Investments:				
Bond funds	\$ 1,242,271	\$ 931,303	\$ 310,968	\$ -
Mutual funds:				
Domestic equity	17,748,239	17,748,239	-	-
Fixed income	18,441,839	18,441,839	-	-
International equity	4,906,459	4,906,459	-	-
Insurance funds	1,791,552	-	-	1,791,552
Pledges receivable	1,408,209	-	-	1,408,209
<b>Total</b>	<b>\$ 45,538,569</b>	<b>\$ 42,027,840</b>	<b>\$ 310,968</b>	<b>\$ 3,199,761</b>

**CENTER OF SPECIAL CARE, INC. AND SUBSIDIARIES**  
**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS**

**NOTE 14 - FAIR VALUE OF FINANCIAL INSTRUMENTS (Continued)**

**Assets Measured at Fair Value on a Recurring Basis Using Significant Unobservable Inputs (Level 3)** - The following is a summary of the changes in the balances of assets measured at fair value on a recurring basis using significant unobservable inputs for the years ended March 31, 2013 and 2012:

	<b>Insurance Funds 2013</b>	<b>Insurance Funds 2012</b>
	<u>2013</u>	<u>2012</u>
Balance - beginning	\$ 1,791,552	\$ 1,965,885
Contributions	2,774,443	507,314
Fees	(12,392)	(11,764)
Income	102,164	87,824
Withdrawals	<u>(2,711,166)</u>	<u>(757,707)</u>
Balance - Ending	<u>\$ 1,944,601</u>	<u>\$ 1,791,552</u>
	<b>Pledges Receivable 2013</b>	<b>Pledges Receivable 2012</b>
	<u>2013</u>	<u>2012</u>
Balance - beginning	\$ 1,408,209	\$ 1,223,652
New pledges receivable	159,459	1,385,294
Collections	(811,273)	(1,149,394)
Direct write-offs	(22,422)	(33,927)
Change in allowance and discount	<u>54,288</u>	<u>(17,416)</u>
Balance - Ending	<u>\$ 788,261</u>	<u>\$ 1,408,209</u>

**CENTER OF SPECIAL CARE, INC. AND SUBSIDIARIES**  
**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS**

**NOTE 14 - FAIR VALUE OF FINANCIAL INSTRUMENTS (Continued)**

The carrying amounts and estimated fair values of the Center's long-term debt at March 31, 2013 are as follows:

<u>Description</u>	<u>Carrying Amount at March 31, 2013</u>	<u>Fair Value at March 31, 2013</u>
Financial liabilities:		
Series C revenue bonds	\$ 42,705,000	\$ 44,529,402
Series E revenue bonds	10,550,000	10,550,000
HUD mortgage	926,696	926,696

The carrying amounts and estimated fair values of the Center's long-term debt at March 31, 2012 are as follows:

<u>Description</u>	<u>Carrying Amount at March 31, 2012</u>	<u>Fair Value at March 31, 2012</u>
Financial liabilities:		
Series C revenue bonds	\$ 43,560,000	\$ 44,380,000
Series D revenue bonds	19,655,000	20,185,000
HUD mortgage	926,696	926,696

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## Independent Auditors' Report on Supplementary Information

To the Board of Directors  
Center of Special Care, Inc.  
New Britain, Connecticut

We have audited the consolidated financial statements of Center of Special Care, Inc. and Subsidiaries (the Center) as of and for the years ended March 31, 2013 and 2012, and our report thereon dated July 16, 2013, which expressed an unmodified opinion on those consolidated financial statements, appears on pages 1 and 2. Our audits were conducted for the purpose of forming an opinion on the consolidated financial statements as a whole. The consolidating information on the following pages is presented for the purposes of additional analysis and is not a required part of the consolidated financial statements. Such information is the responsibility of management and was derived from and relates directly to the underlying accounting and other records used to prepare the consolidated financial statements. The information has been subjected to the auditing procedures applied in the audits of the consolidated financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the consolidated financial statements or to the consolidated financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the information is fairly stated in all material respects in relation to the consolidated financial statements as a whole.

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

West Hartford, Connecticut  
July 16, 2013

**CENTER OF SPECIAL CARE, INC. AND SUBSIDIARIES**  
**CONSOLIDATING STATEMENT OF FINANCIAL POSITION**  
**MARCH 31, 2013**

	<u>Brittany Farms</u>	<u>Other HSC Community Services, Inc. Subsidiaries</u>	<u>HSC Community Services, Inc. Consolidated</u>	<u>Hospital for Special Care</u>	<u>Center of Special Care, Inc.</u>	<u>Hospital for Special Care Foundation, Inc.</u>	<u>Elimination</u>	<u>Consolidated</u>
<b>ASSETS</b>								
Current assets:								
Cash and cash equivalents	\$ 836,146	\$ 481,466	\$ 1,317,612	\$ 11,981,558	\$ 259,059	\$ 3,999,070	-	\$ 17,557,299
Accounts receivable, less allowance of \$2,606,404	950,420	20,585	971,005	13,361,304	-	-	-	14,332,309
Pledges receivable, net of allowance and discount of \$35,862	-	35,785	35,785	-	-	460,804	-	496,589
Prepaid sinking fund	-	-	-	1,458,737	-	-	-	1,458,737
Prepaid expenses and other assets	379,175	3,140	382,315	1,597,563	-	3,150	-	1,983,028
Inventories of supplies	-	-	-	571,146	-	-	-	571,146
Due from affiliates	-	14,555	14,555	675,717	-	-	(690,272)	-
Total current assets	<u>2,165,741</u>	<u>555,531</u>	<u>2,721,272</u>	<u>29,646,025</u>	<u>259,059</u>	<u>4,463,024</u>	<u>(690,272)</u>	<u>36,399,108</u>
Other assets:								
Investments	-	-	-	36,868,949	-	6,870,055	-	43,739,004
Pledges receivable, net of allowance and discount of \$38,438 less current portion	-	-	-	-	-	291,672	-	291,672
Investments in Foundation	49,209	385,954	435,163	9,012,164	-	-	(9,447,327)	-
Debt Service Reserve Fund	-	-	-	7,109,200	-	-	-	7,109,200
Debt obligations issuance expense, net of amortization	-	-	-	2,532,871	-	-	-	2,532,871
Insurance funds	40,000	-	40,000	1,904,601	-	-	-	1,944,601
Other assets	-	-	-	4,889,488	-	-	-	4,889,488
Total other assets	<u>89,209</u>	<u>385,954</u>	<u>475,163</u>	<u>62,317,273</u>	<u>-</u>	<u>7,161,727</u>	<u>(9,447,327)</u>	<u>60,506,836</u>
Property, plant and equipment, net	<u>-</u>	<u>989,184</u>	<u>989,184</u>	<u>41,907,746</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>42,896,930</u>
<b>Total Assets</b>	<u>\$ 2,254,950</u>	<u>\$ 1,930,669</u>	<u>\$ 4,185,619</u>	<u>\$ 133,871,044</u>	<u>\$ 259,059</u>	<u>\$ 11,624,751</u>	<u>\$ (10,137,599)</u>	<u>\$ 139,802,874</u>

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**CENTER OF SPECIAL CARE, INC. AND SUBSIDIARIES**  
**CONSOLIDATING STATEMENT OF FINANCIAL POSITION (CONTINUED)**  
**MARCH 31, 2013**

	<u>Brittany Farms</u>	<u>Other HSC Community Services, Inc. Subsidiaries</u>	<u>HSC Community Services, Inc. Consolidated</u>	<u>Hospital for Special Care</u>	<u>Center of Special Care, Inc.</u>	<u>Hospital for Special Care Foundation, Inc.</u>	<u>Elimination</u>	<u>Consolidated</u>
<b>LIABILITIES AND NET ASSETS</b>								
Current liabilities:								
Current portion of long-term debt	\$ -	\$ -	\$ -	\$ 890,000	\$ -	\$ -	\$ -	\$ 890,000
Accounts payable	333,708	26,232	359,940	2,501,614	-	-	-	2,861,554
Salaries, wages, payroll taxes and amounts withheld from employee compensation	-	-	-	7,511,220	-	-	-	7,511,220
Accrued insurance costs	167,733	-	167,733	3,516,077	-	-	-	3,683,810
Due to affiliates	673,216	5,773	678,989	-	-	11,283	(690,272)	-
Accrued interest and other liabilities	210,855	44,466	255,321	4,679,182	-	66,210	-	5,000,713
Total current liabilities	<u>1,385,512</u>	<u>76,471</u>	<u>1,461,983</u>	<u>19,098,093</u>	<u>-</u>	<u>77,493</u>	<u>(690,272)</u>	<u>19,947,297</u>
Long-term liabilities:								
Long-term debt, less current portion	-	926,696	926,696	52,365,000	-	-	-	53,291,696
Accrued pension cost	-	-	-	3,352,678	-	-	-	3,352,678
Other long-term liabilities	-	-	-	4,889,487	-	-	-	4,889,487
Total long-term liabilities	<u>-</u>	<u>926,696</u>	<u>926,696</u>	<u>60,607,165</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>61,533,861</u>
Net assets:								
Unrestricted net assets	824,907	275,149	1,100,056	48,201,839	259,059	2,326,589	(226,658)	51,660,885
Temporarily restricted net assets	24,486	652,353	676,839	5,527,923	-	8,764,600	(8,764,600)	6,204,762
Permanently restricted net assets	20,045	-	20,045	436,024	-	456,069	(456,069)	456,069
Total net assets	<u>869,438</u>	<u>927,502</u>	<u>1,796,940</u>	<u>54,165,786</u>	<u>259,059</u>	<u>11,547,258</u>	<u>(9,447,327)</u>	<u>58,321,716</u>
<b>Total Liabilities and Net Assets</b>	<u>\$ 2,254,950</u>	<u>\$ 1,930,669</u>	<u>\$ 4,185,619</u>	<u>\$ 133,871,044</u>	<u>\$ 259,059</u>	<u>\$ 11,624,751</u>	<u>\$ (10,137,599)</u>	<u>\$ 139,802,874</u>

**CENTER OF SPECIAL CARE, INC. AND SUBSIDIARIES**  
**CONSOLIDATING STATEMENT OF FINANCIAL POSITION**  
**MARCH 31, 2012**

	<u>Brittany Farms</u>	<u>Other HSC Community Services, Inc. Subsidiaries</u>	<u>HSC Community Services, Inc. Consolidated</u>	<u>Hospital for Special Care</u>	<u>Center of Special Care, Inc.</u>	<u>Hospital for Special Care Foundation, Inc.</u>	<u>Elimination</u>	<u>Consolidated</u>
<b>ASSETS</b>								
Current assets:								
Cash and cash equivalents	\$ 821,478	\$ 223,383	\$ 1,044,861	\$ 9,791,849	\$ 258,887	\$ 3,874,416	\$ -	\$ 14,970,013
Accounts receivable, less allowance of \$3,306,927	4,573,063	13,136	4,586,199	14,332,099	-	-	-	18,918,298
Pledges receivable, net of allowance of \$25,948	-	22,040	22,040	-	-	545,863	-	567,903
Prepaid sinking fund	201,300	-	201,300	1,415,110	-	-	-	1,616,410
Prepaid expenses and other assets	635,744	4,162	639,906	1,046,914	-	-	-	1,686,820
Inventories of supplies	-	-	-	560,091	-	-	-	560,091
Due from affiliates	49,458	21,804	71,262	355,967	-	1,324	(428,553)	-
Total current assets	<u>6,281,043</u>	<u>284,525</u>	<u>6,565,568</u>	<u>27,502,030</u>	<u>258,887</u>	<u>4,421,603</u>	<u>(428,553)</u>	<u>38,319,535</u>
Other assets:								
Investments	-	-	-	36,546,289	-	5,792,519	-	42,338,808
Pledges receivable, net of allowance and discount of \$102,643 less current portion	-	5,800	5,800	-	-	834,506	-	840,306
Investments in Foundation	70,940	386,227	457,167	8,396,215	-	-	(8,853,382)	-
Debt Service Reserve Fund	-	-	-	3,107,879	-	-	-	3,107,879
Debt obligations issuance expense, net of amortization	364,504	-	364,504	2,637,294	-	-	-	3,001,798
Insurance funds	40,000	-	40,000	1,751,552	-	-	-	1,791,552
Other assets	-	-	-	4,033,796	-	-	-	4,033,796
Total other assets	<u>475,444</u>	<u>392,027</u>	<u>867,471</u>	<u>56,473,025</u>	<u>-</u>	<u>6,627,025</u>	<u>(8,853,382)</u>	<u>55,114,139</u>
Property, plant and equipment, net	<u>-</u>	<u>864,822</u>	<u>864,822</u>	<u>42,516,718</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>43,381,540</u>
Assets held for sale	<u>7,812,932</u>	<u>-</u>	<u>7,812,932</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>7,812,932</u>
<b>Total Assets</b>	<u>\$ 14,569,419</u>	<u>\$ 1,541,374</u>	<u>\$ 16,110,793</u>	<u>\$ 126,491,773</u>	<u>\$ 258,887</u>	<u>\$ 11,048,628</u>	<u>\$ (9,281,935)</u>	<u>\$ 144,628,146</u>

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**CENTER OF SPECIAL CARE, INC. AND SUBSIDIARIES**  
**CONSOLIDATING STATEMENT OF FINANCIAL POSITION (CONTINUED)**  
**MARCH 31, 2012**

	<u>Brittany Farms</u>	<u>Other HSC Community Services, Inc. Subsidiaries</u>	<u>HSC Community Services, Inc. Consolidated</u>	<u>Hospital for Special Care</u>	<u>Center of Special Care, Inc.</u>	<u>Hospital for Special Care Foundation, Inc.</u>	<u>Elimination</u>	<u>Consolidated</u>
<b>LIABILITIES AND NET ASSETS</b>								
Current liabilities:								
Current portion of long-term debt	\$ 267,050	\$ -	\$ 267,050	\$ 1,132,950	\$ -	\$ -	\$ -	\$ 1,400,000
Accounts payable	800,989	39,797	840,786	1,779,431	-	-	-	2,620,217
Salaries, wages, payroll taxes and amounts withheld from employee compensation	915,422	-	915,422	7,352,487	-	-	-	8,267,909
Accrued insurance costs	681,830	-	681,830	3,511,942	-	-	-	4,193,772
Due to affiliates	353,885	5,649	359,534	1,324	-	67,695	(428,553)	-
Accrued interest and other liabilities	1,546,483	42,963	1,589,446	2,047,150	-	79,240	-	3,715,836
Current portion of loan payable - intercompany	-	-	-	-	-	-	-	-
Total current liabilities	<u>4,565,659</u>	<u>88,409</u>	<u>4,654,068</u>	<u>15,825,284</u>	<u>-</u>	<u>146,935</u>	<u>(428,553)</u>	<u>20,197,734</u>
Long-term liabilities:								
Long-term debt, less current portion	9,339,750	926,696	10,266,446	52,475,250	-	-	-	62,741,696
Accrued pension cost	-	-	-	4,500,400	-	-	-	4,500,400
Other long-term liabilities	-	-	-	4,033,796	-	-	-	4,033,796
Total long-term liabilities	<u>9,339,750</u>	<u>926,696</u>	<u>10,266,446</u>	<u>61,009,446</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>71,275,892</u>
Net assets:								
Unrestricted net assets	595,409	87,630	683,039	44,105,555	258,887	2,274,315	(226,004)	47,095,792
Temporarily restricted net assets	48,556	438,639	487,195	5,115,712	-	8,171,557	(8,171,557)	5,602,907
Permanently restricted net assets	20,045	-	20,045	435,776	-	455,821	(455,821)	455,821
Total net assets	<u>664,010</u>	<u>526,269</u>	<u>1,190,279</u>	<u>49,657,043</u>	<u>258,887</u>	<u>10,901,693</u>	<u>(8,853,382)</u>	<u>53,154,520</u>
<b>Total Liabilities and Net Assets</b>	<u>\$ 14,569,419</u>	<u>\$ 1,541,374</u>	<u>\$ 16,110,793</u>	<u>\$ 126,491,773</u>	<u>\$ 258,887</u>	<u>\$ 11,048,628</u>	<u>\$ (9,281,935)</u>	<u>\$ 144,628,146</u>

**CENTER OF SPECIAL CARE, INC. AND SUBSIDIARIES**  
**CONSOLIDATING STATEMENT OF ACTIVITIES AND CHANGES IN NET ASSETS**  
**FOR THE YEAR ENDED MARCH 31, 2013**

	Brittany Farms	Other HSC Community Services, Inc. Subsidiaries	HSC Community Services, Inc. Consolidated	Hospital for Special Care	Center of Special Care, Inc.	Hospital for Special Care Foundation, Inc.	Elimination	Consolidated
<b>Revenues:</b>								
Net revenues from services to patients	\$ -	\$ 151,487	\$ 151,487	\$ 88,288,366	\$ -	\$ -	\$ (118,269)	\$ 88,321,584
Other operating revenues	-	580,965	580,965	2,739,727	-	11,544	(251,535)	3,080,701
Bad debts	-	(603)	(603)	(231,687)	-	-	-	(232,290)
Net assets released from restrictions	-	5,132	5,132	-	-	378,807	-	383,939
Total revenues	<u>-</u>	<u>736,981</u>	<u>736,981</u>	<u>90,796,406</u>	<u>-</u>	<u>390,351</u>	<u>(369,804)</u>	<u>91,553,934</u>
<b>Operating expenses:</b>								
Salaries, wages and employees benefits	-	514,154	514,154	66,170,734	-	422,992	(118,269)	66,989,611
Supplies and other	-	396,165	396,165	17,924,568	-	724,783	(201,208)	18,844,308
Interest	-	-	-	2,240,750	-	-	-	2,240,750
Depreciation and amortization	-	90,920	90,920	3,343,696	-	-	-	3,434,616
Total operating expenses	<u>-</u>	<u>1,001,239</u>	<u>1,001,239</u>	<u>89,679,748</u>	<u>-</u>	<u>1,147,775</u>	<u>(319,477)</u>	<u>91,509,285</u>
Income (loss) from operations	-	(264,258)	(264,258)	1,116,658	-	(757,424)	(50,327)	44,649
<b>Nonoperating gains (losses):</b>								
Other income, primarily investment income	-	324	324	1,568,638	172	(25,810)	(25,280)	1,518,044
Excess (deficiency) of revenues over expenses	<u>-</u>	<u>(263,934)</u>	<u>(263,934)</u>	<u>2,685,296</u>	<u>172</u>	<u>(783,234)</u>	<u>(75,607)</u>	<u>1,562,693</u>
<b>Other changes in unrestricted net assets:</b>								
Change in equity interest in Foundation	-	2,550	2,550	203,492	-	-	(206,042)	-
Change in net unrealized gains on investments	-	-	-	1,948,897	-	150,569	280,995	2,380,461
Net assets released for capital additions	-	-	-	244,719	-	-	-	244,719
Change in minimum pension liability	-	-	-	147,722	-	-	-	147,722
Transfer among affiliates	-	448,903	448,903	(1,133,842)	-	684,939	-	-
Increase in unrestricted net assets	<u>-</u>	<u>187,519</u>	<u>187,519</u>	<u>4,096,284</u>	<u>172</u>	<u>52,274</u>	<u>(654)</u>	<u>4,335,595</u>
<b>Temporarily restricted net assets:</b>								
Contributions	-	221,538	221,538	-	-	698,196	(127,272)	792,462
Net realized gains on investments	-	132	132	-	-	80,505	25,280	105,917
Change in net unrealized gains on investments	-	-	-	-	-	437,868	(280,995)	156,873
Change in equity interest in Foundation	-	(2,824)	(2,824)	412,211	-	-	(409,387)	-
Net assets released from restrictions used for purchase of capital	-	-	-	-	-	(244,719)	-	(244,719)
Net assets released from restrictions used for operations	-	(5,132)	(5,132)	-	-	(378,807)	177,600	(206,339)
Increase in temporarily restricted net assets	<u>-</u>	<u>213,714</u>	<u>213,714</u>	<u>412,211</u>	<u>-</u>	<u>593,043</u>	<u>(614,774)</u>	<u>604,194</u>
<b>Permanently restricted net assets:</b>								
Contributions	-	-	-	-	-	248	-	248
Change in equity interest in Foundation	-	-	-	248	-	-	(248)	-
Increase in permanently restricted net assets	<u>-</u>	<u>-</u>	<u>-</u>	<u>248</u>	<u>-</u>	<u>248</u>	<u>(248)</u>	<u>248</u>
Change in total net assets from continuing operations	-	401,233	401,233	4,508,743	172	645,565	(615,676)	4,940,037
Loss on discontinued operations	(575,386)	-	(575,386)	-	-	-	21,731	(553,655)
Gain on sale	780,814	-	780,814	-	-	-	-	780,814
Net assets - beginning of year	<u>664,010</u>	<u>526,269</u>	<u>1,190,279</u>	<u>49,657,043</u>	<u>258,887</u>	<u>10,901,693</u>	<u>(8,853,382)</u>	<u>53,154,520</u>
Net Assets - End of Year	<u>\$ 869,438</u>	<u>\$ 927,502</u>	<u>\$ 1,796,940</u>	<u>\$ 54,165,786</u>	<u>\$ 259,059</u>	<u>\$ 11,547,258</u>	<u>\$ (9,447,327)</u>	<u>\$ 58,321,716</u>

**CENTER OF SPECIAL CARE, INC. AND SUBSIDIARIES**  
**CONSOLIDATING STATEMENT OF ACTIVITIES AND CHANGES IN NET ASSETS**  
**FOR THE YEAR ENDED MARCH 31, 2012**

	Brittany Farms	Other HSC Community Services, Inc. Subsidiaries	HSC Community Services, Inc. Consolidated	Hospital for Special Care	Center of Special Care, Inc.	Hospital for Special Care Foundation, Inc.	Elimination	Consolidated
Revenues:								
Net revenues from services to patients	\$ -	\$ 192,329	\$ 192,329	\$ 89,881,431	\$ -	\$ -	\$ (203,512)	\$ 89,870,248
Other operating revenues	-	556,436	556,436	3,141,204	-	36,650	(235,174)	3,499,116
Bad debts	-	(464)	(464)	(463,771)	-	-	-	(464,235)
Net assets released from restrictions	-	3,305	3,305	117,243	-	359,917	-	480,465
Total revenues	<u>-</u>	<u>751,606</u>	<u>751,606</u>	<u>92,676,107</u>	<u>-</u>	<u>396,567</u>	<u>(438,686)</u>	<u>93,385,594</u>
Operating expenses:								
Salaries, wages and employees benefits	-	517,812	517,812	68,351,710	-	609,121	(203,512)	69,275,131
Supplies and other	-	501,035	501,035	18,551,046	-	668,980	(166,676)	19,554,385
Interest	-	-	-	2,268,788	-	-	-	2,268,788
Depreciation and amortization	-	69,006	69,006	3,377,474	-	-	-	3,446,480
Total operating expenses	<u>-</u>	<u>1,087,853</u>	<u>1,087,853</u>	<u>92,549,018</u>	<u>-</u>	<u>1,278,101</u>	<u>(370,188)</u>	<u>94,544,784</u>
Income (loss) from operations	-	(336,247)	(336,247)	127,089	-	(881,534)	(68,498)	(1,159,190)
Nonoperating gains:								
Other income, primarily investment income	-	379	379	1,102,160	101	35,925	(25,649)	1,112,916
Change in equity interest in Foundation	-	-	-	5,900	-	-	(5,900)	-
Excess (deficiency) of revenues over expenses	<u>-</u>	<u>(335,868)</u>	<u>(335,868)</u>	<u>1,235,149</u>	<u>101</u>	<u>(845,609)</u>	<u>(100,047)</u>	<u>(46,274)</u>
Other changes in unrestricted net assets:								
Change in equity interest in Foundation	-	1,235	1,235	49,779	-	-	(51,014)	-
Change in net unrealized gains on investments	-	-	-	646,994	-	16,215	151,061	814,270
Net assets released for capital additions	-	13,470	13,470	101,349	-	-	-	114,819
Change in minimum pension liability	-	-	-	(3,204,738)	-	-	-	(3,204,738)
Transfer to affiliates	-	396,930	396,930	(1,314,668)	-	917,738	-	-
Increase (decrease) in unrestricted net assets	<u>-</u>	<u>75,767</u>	<u>75,767</u>	<u>(2,486,135)</u>	<u>101</u>	<u>88,344</u>	<u>-</u>	<u>(2,321,923)</u>
Temporarily restricted net assets:								
Contributions	-	66,974	66,974	-	-	2,308,937	(124,743)	2,251,168
Net realized gains on investments	-	-	-	15,074	-	98,880	25,649	139,603
Net unrealized gains (losses) on investments	-	-	-	-	-	102,886	(151,061)	(48,175)
Change in equity interest in Foundation	-	(26,070)	(26,070)	2,012,102	-	-	(1,986,032)	-
Net assets released from restrictions used for purchase of capital	-	-	-	-	-	(125,619)	-	(125,619)
Net assets released from restrictions used for operations	-	(3,305)	(3,305)	(117,243)	-	(359,917)	193,233	(287,232)
Increase in temporarily restricted net assets	<u>-</u>	<u>37,599</u>	<u>37,599</u>	<u>1,909,933</u>	<u>-</u>	<u>2,025,167</u>	<u>(2,042,954)</u>	<u>1,929,745</u>
Change in total net assets from continuing operations	-	113,366	113,366	(576,202)	101	2,113,511	(2,042,954)	(392,178)
Loss on discontinued operations	(722,943)	-	(722,943)	-	-	-	18,449	(704,494)
Net assets - beginning of year	<u>1,386,953</u>	<u>412,903</u>	<u>1,799,856</u>	<u>50,233,245</u>	<u>258,786</u>	<u>8,788,182</u>	<u>(6,828,877)</u>	<u>54,251,192</u>
Net Assets - End of Year	<u>\$ 664,010</u>	<u>\$ 526,269</u>	<u>\$ 1,190,279</u>	<u>\$ 49,657,043</u>	<u>\$ 258,887</u>	<u>\$ 10,901,693</u>	<u>\$ (8,853,382)</u>	<u>\$ 53,154,520</u>