

THE CONNECTICUT HOSPICE, INC.

FINANCIAL STATEMENTS

SEPTEMBER 30, 2013 AND 2012

BlumShapiro

Accounting | Tax | Business Consulting

THE CONNECTICUT HOSPICE, INC.

CONTENTS

Independent Auditors' Report	1-2
Statements of Financial Position - September 30, 2013 and 2012	3
Statements of Activities and Change in Unrestricted Net Assets for the Years Ended September 30, 2013 and 2012	4
Statements of Changes in Net Assets for the Years Ended September 30, 2013 and 2012	5
Statements of Cash Flows for the Years Ended September 30, 2013 and 2012	6
Notes to Financial Statements	7-20

BlumShapiro

Accounting | Tax | Business Consulting

Independent Auditors' Report

To the Board of Directors
The Connecticut Hospice, Inc.

We have audited the accompanying financial statements of The Connecticut Hospice, Inc. (the Hospital), which comprise the statements of financial position as of September 30, 2013 and 2012, and the related statements of activities and change in unrestricted net assets, changes in net assets and cash flows for the years then ended, and the related notes to the financial statements.

Management's Responsibility for the Financial Statements

Management is responsible for the preparation and fair presentation of these 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 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 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 from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditors' judgment, including the assessment of the risks of material misstatement of the 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 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 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 financial statements referred to above present fairly, in all material respects, the financial position of The Connecticut Hospice, Inc., as of September 30, 2013 and 2012, and the changes in its net assets and its cash flows for the years then ended in accordance with accounting principles generally accepted in the United States of America.

Blum, Shapiro & Company, P.C.

West Hartford, Connecticut

April 15, 2014

THE CONNECTICUT HOSPICE, INC.
STATEMENTS OF FINANCIAL POSITION
SEPTEMBER 30, 2013 AND 2012

	2013	2012
ASSETS		
Current Assets		
Cash and cash equivalents	\$ 449,195	\$ 221,853
Short-term investments	296,376	148,050
Patient accounts receivable, less allowance for doubtful accounts of \$250,000 in 2013 and 2012	2,379,145	2,728,443
Inventories	208,043	198,440
Other current assets	289,296	211,333
Total current assets	3,622,055	3,508,119
Property and Equipment, Net	835,648	704,915
Other Assets		
Long-term investments	4,873,884	5,076,660
Due from The John D. Thompson Hospice Institute, net	12,199,122	12,251,258
Total other assets	17,073,006	17,327,918
Total Assets	\$ 21,530,709	\$ 21,540,952
LIABILITIES AND NET ASSETS		
Liabilities		
Accounts payable	\$ 4,821,008	\$ 4,062,452
Accrued liabilities	2,930,901	2,915,377
Due to related party	416,980	604,474
Due to third party	154,515	228,849
Line of credit	2,169,151	1,395,036
Liability under capital leases	82,131	-
Total liabilities	10,574,686	9,206,188
Net Assets		
Unrestricted	9,039,435	10,112,537
Temporarily restricted	1,148,196	1,653,835
Permanently restricted	768,392	568,392
Total net assets	10,956,023	12,334,764
Total Liabilities and Net Assets	\$ 21,530,709	\$ 21,540,952

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, 2013 AND 2012

	<u>2013</u>	<u>2012</u>
Unrestricted Revenues, Gains and Other Support		
Net patient service revenue	\$ 28,733,139	\$ 28,159,550
Net assets released from restrictions	1,056,703	925,054
Provision for bad debts	(257,910)	(254,301)
Other revenue	89,774	123,632
Total unrestricted revenues, gains and other support	<u>29,621,706</u>	<u>28,953,935</u>
Expenses		
Employee compensation	14,428,447	14,005,585
Purchased services and supplies	9,735,521	7,626,278
Management services	4,500,000	4,000,000
Fringe benefits	3,138,658	3,286,756
Plant and utilities	10,038	445,582
Nonmedical general	264,469	247,290
Rent	284,160	284,160
Dietary	211,178	227,507
Depreciation	151,714	184,892
Interest	61,218	84,116
Total expenses	<u>32,785,403</u>	<u>30,392,166</u>
Loss from Operations	<u>(3,163,697)</u>	<u>(1,438,231)</u>
Other Income		
Unrestricted contributions	1,938,055	2,268,716
Net realized investment income	34,022	120,985
Net unrealized gain on investments	118,518	363,682
Total other income	<u>2,090,595</u>	<u>2,753,383</u>
Change in Unrestricted Net Assets	(1,073,102)	1,315,152
Unrestricted Net Assets - Beginning of Year	<u>10,112,537</u>	<u>8,797,385</u>
Unrestricted Net Assets - End of Year	<u>\$ 9,039,435</u>	<u>\$ 10,112,537</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, 2013 AND 2012

	<u>2013</u>	<u>2012</u>
Unrestricted Net Assets		
Change in unrestricted net assets	\$ (1,073,102)	\$ 1,315,152
Temporarily Restricted Net Assets		
Net realized investment income	4,707	80,088
Net unrealized gain on investments	16,397	44,749
Contributions	529,960	529,430
Change in donor designation	-	1,280,000
Net assets released from restrictions	(1,056,703)	(925,054)
Increase (decrease) in temporarily restricted net assets	<u>(505,639)</u>	<u>1,009,213</u>
Permanently Restricted Net Assets		
Contributions	200,000	220,000
Change in donor designation	-	(1,280,000)
Increase (decrease) in permanently restricted net assets	<u>200,000</u>	<u>(1,060,000)</u>
Increase (Decrease) in Net Assets	(1,378,741)	1,264,365
Net Assets - Beginning of Year	<u>12,334,764</u>	<u>11,070,399</u>
Net Assets - End of Year	<u>\$ 10,956,023</u>	<u>\$ 12,334,764</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, 2013 AND 2012

	<u>2013</u>	<u>2012</u>
Cash Flows from Operating Activities		
Increase (decrease) in net assets	\$ (1,378,741)	\$ 1,264,365
Adjustments to reconcile increase (decrease) in net assets to net cash provided by (used in) operating activities:		
Depreciation	151,714	184,892
Bad debt expense	257,910	254,301
Liability under split-interest agreements	-	(9,500)
Net realized and unrealized gains on investments	(2,546)	(391,022)
Contributions restricted for long-term investment	(220,000)	(220,000)
(Increase) decrease in operating assets:		
Patient accounts receivable	91,388	(638,741)
Due to/from third party	(74,334)	(45,241)
Inventories and other current assets	(87,566)	(164)
Due from The John D. Thompson Hospice Institute, net	52,136	(537,220)
Increase in operating liabilities:		
Accounts payable and accrued liabilities	774,080	441,856
Net cash provided by (used in) operating activities	<u>(435,959)</u>	<u>303,526</u>
Cash Flows from Investing Activities		
Purchases of property and equipment, net	(180,757)	(60,208)
Assets held under split-interest agreements	-	26,371
Purchase of investments	(1,131,202)	(218,481)
Sale of investments	1,188,198	847,374
Net cash provided by (used in) investing activities	<u>(123,761)</u>	<u>595,056</u>
Cash Flows from Financing Activities		
Repayment to related party	(187,494)	-
Proceeds from contributions restricted for long-term investment	220,000	220,000
Payments on capital lease obligations	(19,559)	-
Payments on line of credit	(405,000)	(1,150,000)
Proceeds from line of credit	1,179,115	79,365
Net cash provided by (used in) financing activities	<u>787,062</u>	<u>(850,635)</u>
Net Increase in Cash and Cash Equivalents	227,342	47,947
Cash and Cash Equivalents - Beginning of Year	<u>221,853</u>	<u>173,906</u>
Cash and Cash Equivalents - End of Year	<u>\$ 449,195</u>	<u>\$ 221,853</u>
Cash Paid During the Year for Interest	\$ 61,218	\$ 84,116

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, 2013 and 2012, are available to support operations and capital expenditures.

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 \$768,392 and \$568,392 as of September 30, 2013 and 2012, 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, 2010 through 2013 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.

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 4 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. Investment income includes the Hospital's gains and losses on investments bought and sold as well as held during the year.

Operating Measure - The Hospital has defined an operating measure in the statements of activities and change in unrestricted net assets whereby all support, revenue and expenses are considered operating except for contributions, investment income, and gains and losses from the Hospital's endowment and other investments.

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.

THE CONNECTICUT HOSPICE, INC.
NOTES TO FINANCIAL STATEMENTS

NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

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.

As of September 30, 2013 and 2012, 86% and 87%, respectively, of patient accounts receivable were due from federal and state governmental payors and 14% and 13%, respectively, were due from nongovernmental payors. Nongovernmental payors are primarily managed-care companies. As of September 30, 2013, the Hospital had approximately eight 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 is considered to be charity care. Additionally, a significant amount of care is provided to patients covered by Medicare, Medicaid or other third parties, for which payment is substantially less than the cost of providing the care.

The Hospital estimates the amount of charity care approximated \$184,000 and \$269,000 for the years ended September 30, 2013 and 2012, respectively, and the total amount of free and unreimbursed patient care approximated \$2,674,000 and \$2,385,000 for the years ended September 30, 2013 and 2012, 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 consolidated financial statements under GAAP, the estimated value of contributed services was \$2,058,000 and \$2,043,000 for the years ended September 30, 2013 and 2012, respectively.

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

NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Subsequent Events - In preparing these financial statements, management has evaluated subsequent events through April 15, 2014, 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.

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. There are no terms for the repayment of these advances.

The Hospital leases the facility used for clinical and administrative activities from the Institute under an operating lease that 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 purchased certain administrative, management, dietary, housekeeping and system technology services from the Institute for a fee of \$375,000 and \$333,333 per month for the years ended September 30, 2013 and 2012, respectively.

THE CONNECTICUT HOSPICE, INC.
NOTES TO FINANCIAL STATEMENTS

NOTE 4 - INVESTMENTS

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 Hospital has the ability to access.

Level 2 - Inputs to the valuation methodology include:

- Quoted prices for similar assets or liabilities in active markets;
- Quoted process 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 Hospital has no Level 3 investments at September 30, 2013 and 2012.

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.

The following is a description of the valuation methodologies used for assets measured at fair value:

Common Stocks - Common stocks are valued at the closing price reported in the active market in which the individual securities are traded.

Mutual Funds - Mutual funds are valued at the quoted net asset value of shares held by the Hospital at year end.

Structured Products - Structured products are valued based estimated values obtained from third parties or issuers based on underlying securities of the structured product that are traded on inactive markets.

Corporate and Municipal Bonds - Corporate and municipal bonds are valued based on yields currently available on comparable securities of issuers with similar durations and credit ratings.

U.S. Government and Agency Securities - U.S. Government and agency securities are valued at the closing price reported in the active market in which the individual securities are traded.

THE CONNECTICUT HOSPICE, INC.
NOTES TO FINANCIAL STATEMENTS

NOTE 4 - INVESTMENTS (Continued)

There have been no changes in the methodologies used at September 30, 2013 and 2012.

The methods described above may produce a fair value calculation that may not be indicative of net realizable value or reflective of future fair values. Furthermore, while the Hospital believes its valuation methods are appropriate and consistent with other market participants, the use of different methodologies or assumptions to determine the fair value of certain financial instruments could result in a different fair value measurement at the reporting date.

The following tables set forth by level, within the fair value hierarchy, the Hospital's assets at fair value as of September 30, 2013 and 2012:

<u>Description</u>	<u>September 30, 2013</u>	<u>Fair Value Measurements Using</u>	
		<u>Level 1</u>	<u>Level 2</u>
Equities:			
Common stock	\$ 124,460	\$ 124,460	\$ -
Structured products	104,509	-	104,509
Mutual funds:			
Equities	201,629	201,629	-
Fixed income	816,262	816,262	-
Other	774,988	774,988	-
Fixed income:			
Corporate bonds and notes	1,630,709	-	1,630,709
Municipal securities	1,274,428	-	1,274,428
Structured products	243,275	-	243,275
Total Assets	\$ 5,170,260	\$ 1,917,339	\$ 3,252,921

<u>Description</u>	<u>September 30, 2012</u>	<u>Fair Value Measurements Using</u>	
		<u>Level 1</u>	<u>Level 2</u>
Corporate bonds	\$ 2,632,571	\$ -	\$ 2,632,571
Municipal securities	1,760,378	-	1,760,378
Mutual funds:			
Alternative strategies	50,814	50,814	-
Fixed income	522,316	522,316	-
Other	258,631	258,631	-
Total Assets	\$ 5,224,710	\$ 831,761	\$ 4,392,949

There were no transfers between levels of investments during the years ended September 30, 2013 and 2012.

THE CONNECTICUT HOSPICE, INC.
NOTES TO FINANCIAL STATEMENTS

NOTE 4 - INVESTMENTS (Continued)

Investment income for the years ended September 30, 2013 and 2012, consists of the following:

	<u>2013</u>	<u>2012</u>
Realized and unrealized gains	\$ 2,546	\$ 391,022
Interest and dividends	<u>171,098</u>	<u>218,482</u>
Net Investment Income	<u>\$ 173,644</u>	<u>\$ 609,504</u>

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 \$322,000 and \$310,000 for the years ended September 30, 2013 and 2012, respectively.

NOTE 6 - PROPERTY AND EQUIPMENT

The components of property and equipment as of September 30, 2013 and 2012, are as follows:

	<u>2013</u>	<u>2012</u>
Furniture and equipment	\$ 3,735,310	\$ 3,454,105
Property held for future use	<u>323,000</u>	<u>323,000</u>
	4,058,310	3,777,105
Less accumulated depreciation	<u>3,222,662</u>	<u>3,072,190</u>
Net Property and Equipment	<u>\$ 835,648</u>	<u>\$ 704,915</u>

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

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 \$335,000 and \$321,000 in 2013 and 2012, respectively.

Future minimum lease payments are as follows:

Year Ending September 30

2014	\$	325,764
2015		235,545
2016		<u>78,720</u>
 Total Future Minimum Lease Payments	 \$	 <u><u>640,029</u></u>

NOTE 8 - CAPITAL LEASES

The Hospital has leases for certain equipment that are classified as capital leases. The Hospital records the present value of the future minimum lease payments related to these leases as a liability on the statements of financial position with a corresponding asset within its property and equipment balance on the statements of financial position. Capital assets are depreciated over their useful lives on a straight-line basis, while the obligation is reduced upon each payment by the amount of the payment that represents the principal balance. The Hospital is obligated under capital leases for equipment with a net book value totaling \$91,521 and \$-0- as of September 30, 2013 and 2012, respectively.

Future obligations on the equipment capital lease together with the present value of the net minimum lease payments as of September 30, 2013 are as follows:

Year Ending December 31

2014	\$	22,001
2015		22,001
2016		22,001
2017		<u>20,167</u>
		86,170
Less amount representing interest		<u>4,039</u>
 Present Value of Minimum Capital Lease Payments	 \$	 <u><u>82,131</u></u>

The Hospital had noncash financing transactions relating to capital leases on new equipment of \$101,690 in 2013. Interest paid for 2013 was \$2,442.

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

NOTE 9 - 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 2013 and 2012, the Hospital made principal payments totaling \$187,494 and \$-0-, respectively. Outstanding principal and interest on the note as of September 30, 2013 and 2012, was \$416,980 and \$604,474, respectively.

NOTE 10 - 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 \$2,169,151 as of September 30, 2013. Interest, at a rate of 2% over LIBOR (2.679% at September 30, 2013), is payable monthly. The Hospital's investments are pledged as security on the line of credit. The Hospital also has letter of credit in the amount of \$210,000. The letter has a one-year term, provisions for annual extensions and includes a due on demand feature. There were no draws on the letter as of September 30, 2013. The Hospital's investments are pledged as security on the letter of credit.

NOTE 11 - TEMPORARILY RESTRICTED NET ASSETS

Temporarily restricted net assets at September 30, 2013 and 2012, are comprised of the following:

	2013	2012
Operations	\$ 32,192	\$ 373,835
Capital expenditures	1,116,004	1,280,000
	\$ 1,148,196	\$ 1,653,835

During the years ended September 30, 2013 and 2012, temporarily restricted net assets were released from restrictions to support the Hospital's activities as follows:

	2013	2012
Operations	\$ 892,707	\$ 925,054
Capital expenditures	163,996	-
	\$ 1,056,703	\$ 925,054

THE CONNECTICUT HOSPICE, INC.
NOTES TO FINANCIAL STATEMENTS

NOTE 12 - 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 12 - ENDOWMENT (Continued)

Endowment Net Assets - Endowment net asset composition by type of fund is as follows as of September 30, 2013:

	<u>Unrestricted</u>	<u>Temporarily Restricted</u>	<u>Permanently Restricted</u>	<u>Total</u>
Donor-restricted endowment funds	\$ -	\$ -	\$ 768,392	\$ 768,392
Total Funds	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 768,392</u>	<u>\$ 768,392</u>

Changes in endowment net assets for the year ended September 30, 2013 are as follows:

	<u>Unrestricted</u>	<u>Temporarily Restricted</u>	<u>Permanently Restricted</u>	<u>Total</u>
Endowment net assets - beginning of year	\$ -	\$ -	\$ 568,392	\$ 568,392
Investment return:				
Investment income	-	20,794	-	20,794
Investment gains	-	309	-	309
Total investment return	<u>-</u>	<u>21,103</u>	<u>-</u>	<u>21,103</u>
Contributions	<u>-</u>	<u>-</u>	<u>200,000</u>	<u>200,000</u>
Appropriation of endowment assets for expenditure	<u>-</u>	<u>(21,103)</u>	<u>-</u>	<u>(21,103)</u>
Endowment Net Assets - End of Year	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 768,392</u>	<u>\$ 768,392</u>

THE CONNECTICUT HOSPICE, INC.
NOTES TO FINANCIAL STATEMENTS

NOTE 12 - ENDOWMENT (Continued)

Endowment net asset composition by type of fund is as follows as of September 30, 2012:

	<u>Unrestricted</u>	<u>Temporarily Restricted</u>	<u>Permanently Restricted</u>	<u>Total</u>
Donor-restricted endowment funds	\$ -	\$ -	\$ 568,392	\$ 568,392
Total Funds	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 568,392</u>	<u>\$ 568,392</u>

Changes in endowment net assets for the year ended September 30, 2012 are as follows:

	<u>Unrestricted</u>	<u>Temporarily Restricted</u>	<u>Permanently Restricted</u>	<u>Total</u>
Endowment net assets - beginning of year	\$ -	\$ -	\$ 1,628,392	\$ 1,628,392
Investment return:				
Investment income	-	44,749	-	44,749
Investment gains	-	80,088	-	80,088
Total investment return	<u>-</u>	<u>124,837</u>	<u>-</u>	<u>124,837</u>
Contributions	<u>-</u>	<u>-</u>	<u>220,000</u>	<u>220,000</u>
Redesignation	<u>-</u>	<u>-</u>	<u>(1,280,000)</u>	<u>(1,280,000)</u>
Appropriation of endowment assets for expenditure	<u>-</u>	<u>(124,837)</u>	<u>-</u>	<u>(124,837)</u>
Endowment Net Assets - End of Year	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 568,392</u>	<u>\$ 568,392</u>

During the year ended September 30, 2012, a redesignation was made from permanently restricted endowment funds to temporarily restricted funds, due to a change in donor designation.

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

NOTE 12 - ENDOWMENT (Continued)

Amounts classified as permanently restricted net assets and temporarily restricted net assets (endowment only) are as follows as of September 30, 2013 and 2012:

	2013	2012
Permanently restricted net assets:		
The portion of perpetual endowment funds that is required to be retained permanently either by explicit donor stipulation or by CTPMIFA	\$ <u>768,392</u>	\$ <u>568,392</u>
Total Endowment Funds Classified as Permanently Restricted Net Assets	\$ <u><u>768,392</u></u>	\$ <u><u>568,392</u></u>

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, 2013 and 2012.

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 the income earned on its endowment each year, subject to prudent spending consideration to offset operating expenses. All funds appropriated for distribution are done with approval from the Board of Directors.

THE CONNECTICUT HOSPICE, INC.
NOTES TO FINANCIAL STATEMENTS

NOTE 13 - 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.