

**CENTER OF SPECIAL CARE, INC.
AND SUBSIDIARIES**

CONSOLIDATED FINANCIAL STATEMENTS

MARCH 31, 2010 AND 2009

CENTER OF SPECIAL CARE, INC. AND SUBSIDIARIES

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Independent Auditors' Report

To the Board of Directors
Center of Special Care, Inc.

We have audited the accompanying consolidated statements of financial position of Center of Special Care, Inc. and Subsidiaries (the Center) as of March 31, 2010 and 2009, and the related consolidated statements of activities and changes in net assets and cash flows for the years then ended. These consolidated financial statements are the responsibility of the Center's management. Our responsibility is to express an opinion on these consolidated financial statements based on our audits.

We conducted our audits in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States of America. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the consolidated financial statements are free of material misstatement. An audit includes consideration of internal control over financial reporting as a basis for designing audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Center's internal control over financial reporting. Accordingly, we express no such opinion. An audit also includes examining, on a test basis, evidence supporting the amounts and disclosures in the consolidated financial statements, assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

In our opinion, the consolidated financial statements referred to above present fairly, in all material respects, the financial position of Center of Special Care, Inc. and Subsidiaries at March 31, 2010 and 2009, and the results of their activities and changes in net assets and their cash flows for the years then ended in conformity with accounting principles generally accepted in the United States of America.

In accordance with *Government Auditing Standards*, we have also issued a report dated July 14, 2010 on our consideration of Center of Special Care, Inc. and Subsidiaries' internal control over financial reporting and our tests of its 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* and should be considered in assessing the results of our audit.

Blum, Shapiro & Company, P.C.

July 14, 2010

Blum, Shapiro & Company, P.C.

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CENTER OF SPECIAL CARE, INC. AND SUBSIDIARIES
CONSOLIDATED STATEMENTS OF FINANCIAL POSITION
MARCH 31, 2010 AND 2009

ASSETS

	2010	2009
Current Assets		
Cash and cash equivalents	\$ 9,137,758	\$ 7,754,077
Accounts receivable, less allowance for doubtful accounts of \$2,223,267 in 2010 and 2,218,929 in 2009	21,904,352	20,662,530
Pledges receivable, less of allowance of \$15,190 in 2010	288,595	-
Prepaid sinking fund	1,484,675	1,540,880
Prepaid expenses and other assets	1,281,540	1,241,471
Inventories of supplies	601,212	588,053
Total current assets	<u>34,698,132</u>	<u>31,787,011</u>
Other Assets		
Investments	35,854,770	25,454,533
Pledges receivable, less of allowance and discount of \$48,645, less current portion	220,448	-
Funds held in escrow by agreement with State of Connecticut Health and Educational Facilities Authority and trustee:		
Debt Service Reserve Fund	4,091,824	4,112,679
CHEFA obligations issuance expense, net of amortization	3,177,586	3,294,196
CHEFA construction bond proceeds	-	1,407,392
Insurance funds	1,007,542	1,810,854
Other assets	3,083,950	2,329,866
Total other assets	<u>47,436,120</u>	<u>38,409,520</u>
Property, Plant and Equipment, Net	50,331,261	48,776,750
Total Assets	<u>\$ 132,465,513</u>	<u>\$ 118,973,281</u>

LIABILITIES AND NET ASSETS

	2010	2009
Current Liabilities		
Current portion of long-term debt	\$ 1,130,000	\$ 1,010,000
Accounts payable	4,446,833	3,644,774
Salaries, wages, payroll taxes and amounts withheld from employee compensation	8,660,068	8,338,915
Accrued insurance costs	3,137,964	3,192,854
Accrued interest and other liabilities	3,424,981	3,701,076
Total current liabilities	<u>20,799,846</u>	<u>19,887,619</u>
Long-Term Liabilities		
Long-term debt, less current portion	59,401,696	60,531,696
Accrued pension cost	2,003,553	2,662,939
Other long-term liabilities	3,083,950	2,329,866
Total long-term liabilities	<u>64,488,999</u>	<u>65,524,501</u>
Net Assets		
Unrestricted net assets	44,535,228	32,452,836
Temporarily restricted net assets	2,185,619	621,170
Permanently restricted net assets	455,821	487,155
Total net assets	<u>47,176,668</u>	<u>33,561,161</u>
Total Liabilities and Net Assets	<u>\$ 132,465,513</u>	<u>\$ 118,973,281</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, 2010 AND 2009

	2010	2009
Revenues		
Net revenues from services to patients	\$ 115,732,027	\$ 115,435,932
Other operating revenues	3,929,149	3,798,762
Net assets released from restrictions	219,888	195,483
Total revenues	119,881,064	119,430,177
Operating Expenses		
Salaries, wages and employee benefits	82,428,667	82,610,249
Supplies and other	27,612,824	25,367,039
Interest	2,932,638	2,961,478
Depreciation and amortization	3,683,315	3,407,078
Bad debts	843,959	508,719
Total operating expenses	117,501,403	114,854,563
Income from operations	2,379,661	4,575,614
Nonoperating Gains		
Other income, primarily investment income	840,083	1,190,871
Excess of revenues over expenses	3,219,744	5,766,485
Other Changes in Unrestricted Net Assets		
Change in net unrealized gains (losses) on investments	8,439,830	(10,679,328)
Net assets released for capital additions	278,332	193,017
Change in minimum pension liability	159,586	(2,831,127)
Reclassification of net assets	(15,100)	226,666
Increase (decrease) in unrestricted net assets	12,082,392	(7,324,287)
Temporarily Restricted Net Assets		
Contributions	1,646,705	464,823
Net realized gains on investments	99,603	153,318
Change in net unrealized gains (losses) on investments	167,714	(302,802)
Net assets released from restrictions used for purchase of capital	(278,332)	(193,017)
Net assets released from restrictions used for operations	(117,785)	(94,801)
Reclassification of net assets	46,544	-
Increase in temporarily restricted net assets	1,564,449	27,521
Permanently Restricted Net Assets		
Contributions	110	3,583
Reclassification of net assets	(31,444)	(226,666)
Decrease in permanently restricted net assets	(31,334)	(223,083)
Change in Total Net Assets	13,615,507	(7,519,849)
Net Assets - Beginning of Year	33,561,161	41,081,010
Net Assets - End of Year	\$ 47,176,668	\$ 33,561,161

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, 2010 AND 2009

	<u>2010</u>	<u>2009</u>
Cash Flows from Operating Activities		
Change in total net assets	\$ 13,615,507	\$ (7,519,849)
Adjustments to reconcile change in total net assets to net cash provided by operating activities:		
Depreciation and amortization	3,683,315	3,407,078
Bad debt expense	843,959	508,719
Loss on disposal of property, plant and equipment	1,048	4,802
Net unrealized (gains) losses on investments	(8,539,433)	10,982,130
Change in minimum pension liability	(159,586)	2,831,127
Restricted contributions	(1,646,815)	(468,406)
(Increase) decrease in operating assets:		
Accounts receivable	(2,085,781)	(3,291,325)
Pledges receivable, net	(509,043)	-
Prepaid sinking fund and debt service reserves	77,060	92,313
Prepaid expenses and other assets	(40,069)	(114,537)
Insurance funds	803,312	(166,446)
Inventories of supplies	(13,159)	(49,929)
Other assets	(754,084)	(376,539)
Increase (decrease) in operating liabilities:		
Accounts payable	802,059	(17,072)
Salaries, wages, payroll taxes and amounts withheld from employee compensation	321,153	(847,297)
Accrued insurance costs	(54,890)	82,228
Pension contribution	(500,000)	(500,000)
Other long-term liabilities	754,084	376,539
Accrued interest and other liabilities	(276,095)	534,318
Net cash provided by operating activities	<u>6,322,542</u>	<u>5,467,854</u>
Cash Flows from Investing Activities		
Purchases of investments, net	(1,860,804)	(5,356,580)
Purchases of property, plant and equipment	(5,127,464)	(5,102,653)
Proceeds from sale of property, plant and equipment	5,200	5,200
Change in construction bond funds	1,407,392	3,124,630
Net cash used in investing activities	<u>(5,575,676)</u>	<u>(7,329,403)</u>
Cash Flows from Financing Activities		
Payments on long-term debt	(1,010,000)	(1,020,000)
Restricted contributions	1,646,815	468,406
Net cash provided by (used in) financing activities	<u>636,815</u>	<u>(551,594)</u>
Net Increase (Decrease) in Cash and Cash Equivalents	1,383,681	(2,413,143)
Cash and Cash Equivalents - Beginning of Year	<u>7,754,077</u>	<u>10,167,220</u>
Cash and Cash Equivalents - End of Year	<u>\$ 9,137,758</u>	<u>\$ 7,754,077</u>
Cash Paid During the Year for Interest	\$ 3,041,949	\$ 2,965,382

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. 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, accrued insurance 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.

Investments - Investments in equity and debt securities with readily determinable market values are recorded at market value in the accompanying consolidated statements of financial position. Market value is determined based on quoted market prices. 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 \$116,609 for each of the years ended March 31, 2010 and 2009. The expected yearly amortization of bond issuance expense will be \$116,609 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 which 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 a discount rate of 7.36%. 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.

Investment in Foundation - The investment in Foundation represents the Center's 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 which 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 which cover substantially all eligible employees. HSC Community Services, Inc., froze the Brittany Farms money purchase pension plan effective December 31, 2001.

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.

Subsequent Events - In preparing these financial statements, management has evaluated subsequent events through July 14, 2010, which represents the date the financial statements were available to be issued.

Reclassifications - Certain 2009 amounts have been reclassified to conform to the 2010 presentation.

NOTE 2 - REVENUE CONCENTRATIONS

During 2010 and 2009, approximately 69% and 66%, respectively, of net patient revenue was received under the Medicaid program; 13% and 17%, respectively, under the Medicare program; and 18% and 17%, respectively, 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 and Brittany Farms.

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

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

NOTE 2 - REVENUE CONCENTRATIONS (Continued)

The following table summarizes net revenues from services to patients for the years ended March 31, 2010 and 2009:

	<u>2010</u>	<u>2009</u>
Gross revenues from patients:		
Routine services	\$ 122,485,431	\$ 125,082,369
Special services	54,781,194	50,261,949
	<u>177,266,625</u>	<u>175,344,318</u>
Allowances (primarily Medicare and Medicaid)	<u>61,534,598</u>	<u>59,908,386</u>
Net Revenues from Services to Patients	<u>\$ 115,732,027</u>	<u>\$ 115,435,932</u>

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.

Significant concentrations of net patient receivables are comprised of 58% Medicaid and 21% Medicare at March 31, 2010 and 55% Medicaid and 23% Medicare at March 31, 2009.

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.

HSC Community Services, Inc., revenues are generated primarily through per diem room and board rates plus small amounts from ancillary services. The per diem rates are regulated and limited by state and federal laws and regulations.

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.

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

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

In reviewing the details of its permanently restricted endowment funds, the Center determined that some amounts were restricted by the donors for general use by the Hospital and the principal was not permanently restricted. These amounts are shown as a reclassification of net assets on the accompanying consolidated statements of activities and changes in net assets.

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

NOTE 3 - ENDOWMENT NET ASSETS (Continued)

Changes in endowment net assets for the year ended March 31, 2010 are as follows:

	<u>Permanently Restricted</u>
Endowment net assets - beginning of year	\$ 487,155
Contributions	110
Reclassification of net assets	<u>(31,444)</u>
Endowment Net Assets - End of Year	\$ <u>455,821</u>

Changes in endowment net assets for the year ended March 31, 2009 are as follows:

	<u>Permanently Restricted</u>
Endowment net assets - beginning of year	\$ 710,238
Contributions	3,583
Reclassification of net assets	<u>(226,666)</u>
Endowment Net Assets - End of Year	\$ <u>487,155</u>

See Note 6 for more information regarding the programs that the permanently restricted net assets support.

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

NOTE 4 - PLEDGES RECEIVABLE

The Center's pledges receivable consist of unconditional promises to give and are expected to be collected as follows:

Receivable in less than one year	\$ 303,785
Receivable in one to five years	258,293
Receivable thereafter	<u>10,800</u>
Total pledges receivable	572,878
Less allowance for uncollectible promises	28,645
Less discounts to net present value	<u>35,190</u>
 Net Pledges Receivable	 <u>\$ 509,043</u>

The discount rate used in calculating the present value of pledges receivable for the year ended March 31, 2010 was 7.36%.

NOTE 5 - INVESTMENTS

The composition of investments at March 31, 2010 and 2009, are set forth below. Investments are stated at market value.

	<u>2010</u>		
	<u>Cost</u>	<u>Market Value</u>	<u>Net Unrealized Gain (Loss)</u>
International bond	\$ 5,000	\$ 5,000	\$ -
Marketable equity securities	57,008	111,078	54,070
Mutual funds	<u>40,544,555</u>	<u>35,738,692</u>	<u>(4,805,863)</u>
	<u>\$ 40,606,563</u>	<u>\$ 35,854,770</u>	<u>\$ (4,751,793)</u>

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

NOTE 5 - INVESTMENTS (Continued)

	2009		
	Cost	Market Value	Net Unrealized Gain (Loss)
International bond	\$ 5,000	\$ 5,000	\$ -
Marketable equity securities	57,008	34,921	(22,087)
Mutual funds	38,657,623	25,414,612	(13,243,011)
	\$ 38,719,631	\$ 25,454,533	\$ (13,265,098)

Investment income (including realized gains and losses, interest and dividends, net of investment fees) earned on investments amounted to \$939,686 and \$1,344,189 for the years ended March 31, 2010 and 2009, respectively. This is included in operating gains (losses) in the consolidated statements of activities and changes in net assets.

At March 31, 2010, investments with market value below cost for 12 months or more included certain mutual funds with a market value of \$21,887,010 and an unrealized loss of \$5,067,895. There were no investments with market value below cost for less than 12 months at March 31, 2010.

At March 31, 2009, investments with market value below cost for 12 months or more included certain mutual funds and marketable equity securities with a market value of \$24,243,723 and \$34,921, respectively, and an unrealized loss of \$12,917,004 and \$22,087, respectively. Investments with market value below cost for less than 12 months at March 31, 2009 included certain mutual funds with a market value of \$1,170,889 and an unrealized loss of \$326,007.

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 2010 or 2009.

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, 2010 and 2009, are available for the following purposes:

	<u>2010</u>	<u>2009</u>
Outpatient Capital Campaign	\$ 1,301,590	\$ -
Sports and fitness programs	368,479	270,745
Research	92,648	122,071
Adaptive equipment	48,959	12,392
H.R. Gossling Lecture Fund	32,816	23,150
Levin adaptive equipment	32,044	-
Patient Recreation Center	31,425	-
Other	29,881	19,668
Brittany Farms	27,414	24,660
Timura Scholarship Fund	25,744	-
Horticultural	25,712	20,850
Joy of Art	24,607	14,467
ALS clinic/Neuromuscular fund	23,506	9,630
Gustin Lecture	22,573	18,566
Resource center	21,060	20,043
Respiratory therapist education	17,599	11,488
Aquatic rehabilitation	13,969	11,887
Pulmonary	13,516	14,295
Dental Clinic	12,617	7,551
Pediatric	8,036	9,365
Lobby renovations	6,082	4,864
Satellite	5,342	5,478
	<u>\$ 2,185,619</u>	<u>\$ 621,170</u>

Permanently restricted net assets of \$455,821 and \$487,155 at March 31, 2010 and 2009, 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.

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

NOTE 7 - PROPERTY, PLANT AND EQUIPMENT

Property, plant and equipment consists of the following at March 31, 2010 and 2009:

	<u>2010</u>	<u>2009</u>
Buildings	\$ 64,188,476	\$ 61,593,555
Fixed and moveable equipment	31,082,653	29,435,865
Land and land improvements	3,791,715	3,756,030
	<u>99,062,844</u>	<u>94,785,450</u>
Less accumulated depreciation	50,798,740	47,671,673
	<u>48,264,104</u>	<u>47,113,777</u>
Construction in progress	2,067,157	1,662,973
	<u>2,067,157</u>	<u>1,662,973</u>
Net Property, Plant and Equipment	<u>\$ 50,331,261</u>	<u>\$ 48,776,750</u>

Depreciation expense was \$3,566,706 and \$3,290,469 for the years ended March 31, 2010 and 2009, 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, 2010 and 2009. 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 \$1,053,424 and \$1,183,977 for the years ended March 31, 2010 and 2009, 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, 2010 and 2009, with a 4% discount rate in 2010 and 2009. Management considers these reserves to be adequate as of March 31, 2010 and 2009. However, no assurance can be given that the ultimate settlement of losses may not vary materially from the liability recorded.

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 \$748,155 and \$1,483,562 at March 31, 2010 and 2009, 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. In addition, a letter of credit of \$580,000 with a commercial bank was established to supplement the funding requirements of the self-insured program in order to have enough liquidity to be able to pay claims. As of March 31, 2010 and 2009, the Hospital had not drawn on the letter of credit.

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

NOTE 8 - SELF-INSURED PROGRAMS (Continued)

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 is \$250,000. The Center has purchased excess insurance from a commercial carrier that would cover claims settled above \$250,000. The self-insurance workers' compensation liability was determined to be \$736,947 and \$831,032 at March 31, 2010 and 2009, respectively, and is included in accrued insurance costs on the consolidated statements of financial position.

A letter of credit with a bank of \$858,000 and \$685,000 at March 31, 2010 and 2009, respectively, 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, 2010 and 2009, 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 \$125,000. The self-insurance liability was determined to be \$1,347,593 and \$1,177,845 for the years ended March 31, 2010 and 2009, 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 and Series D CHEFA revenue bonds (Series D) in the amount of \$15,000,000. 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 and D 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.

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

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

NOTE 9 - LONG-TERM DEBT OBLIGATIONS (Continued)

The terms of the Series D debt were variable interest debt with varying maturities through 2037. On November 1, 2007, the Hospital converted their Series D CHEFA interest rate mode revenue bonds in the amount of \$15,000,000 to a long-term rate bond with maturities occurring yearly on July 1 from 2008-2037 in the total amount of \$15,000,000 with a 4.15% fixed interest rate through December 31, 2009. On January 17, 2010, the Series D debt was repurchased by another holder at an interest rate of the higher of 4.15% or one-month LIBOR plus 2.00%. The Hospital is obligated to repurchase the Series D debt on August 31, 2010.

On July 14, 2010, the Hospital refinanced the Series D debt through the issuance of Series E CHEFA revenue bonds. These bonds in the amount of \$20,185,000 are variable interest rate bonds and mature beginning in 2011. As such, the Series D bonds are included in long-term debt in the March 31, 2010 combined statement of financial position, in accordance with GAAP.

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 D bonds.

The Obligated Group is also required to maintain debt service reserve funds for the Series C and D bonds. The debt service reserve fund is equal in amount to the largest total debt service to be paid within a year. The bonds are subject to redemption prior to maturity beginning on July 1, 2008 and annually on July 1 thereafter by operation of a sinking fund.

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

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 letters of credit in place (see Note 8). As of March 31, 2010 and 2009, 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 September 28, 2010.

During fiscal years 2010 and 2009, interest expense was \$2,932,638 and \$2,961,478, 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.

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

NOTE 9 - LONG-TERM DEBT OBLIGATIONS (Continued)

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

<u>Year Ending March 31</u>	<u>Bonds</u>	<u>HUD Mortgage</u>	<u>Total</u>
2011	\$ 1,130,000	\$ -	\$ 1,130,000
2012	1,130,000	-	1,130,000
2013	1,170,000	-	1,170,000
2014	1,225,000	-	1,225,000
2015	1,280,000	-	1,280,000
Aggregate thereafter	<u>53,670,000</u>	<u>926,696</u>	<u>54,596,696</u>
	59,605,000	926,696	60,531,696
Less current portion	<u>1,130,000</u>	<u>-</u>	<u>1,130,000</u>
Total Long-Term Debt	<u>\$ 58,475,000</u>	<u>\$ 926,696</u>	<u>\$ 59,401,696</u>

NOTE 10 - PENSION PLAN

General - The Hospital has a defined benefit plan covering substantially all of its employees. The benefits are based upon years of service, and employees are fully vested in the company match and 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.

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 plan curtailment resulted in a \$4,884,694 decrease in the projected benefit obligation as of March 31, 2005, which is reflected in the following calculations.

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

NOTE 10 - PENSION PLAN (Continued)

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, 2010 and 2009:

	Pension Benefits	
	<u>2010</u>	<u>2009</u>
Change in benefit obligation:		
Projected benefit obligation at beginning of year	\$ (13,509,832)	\$ (15,076,751)
Interest cost	(977,570)	(945,101)
Impact of assumption changes	(2,569,013)	2,002,117
Experience gain	11,479	28,575
Benefits paid	491,320	481,328
Projected benefit obligation at end of year	<u>(16,553,616)</u>	<u>(13,509,832)</u>
Change in plan assets:		
Fair value of plan assets at beginning of year	10,846,893	14,744,939
Actual return on plan assets	3,694,690	(3,916,718)
Employer contributions	500,000	500,000
Benefits paid	(491,320)	(481,328)
Fair value of plan assets at end of year	<u>14,550,263</u>	<u>10,846,893</u>
Unfunded Status	<u>\$ (2,003,353)</u>	<u>\$ (2,662,939)</u>

The accumulated benefit obligation at the end of 2010 and 2009 was \$16,553,616 and \$13,509,832, respectively. The measurement dates are as of March 31, 2010 and 2009.

Net periodic pension costs for 2010 and 2009 included the following components:

	Pension Benefits	
	<u>2010</u>	<u>2009</u>
Components of net periodic benefit cost:		
Interest cost	\$ 977,570	\$ 945,101
Expected return on plan assets	(848,749)	(1,180,984)
Amortization of net loss	<u>203,201</u>	<u>-</u>
Net Periodic Pension Cost (Income)	<u>\$ 332,022</u>	<u>\$ (235,883)</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, 2010 and 2009, are as follows:

	<u>2010</u>	<u>2009</u>
Discount rate	6.14%	7.36%
Long-term rate of return	8%	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, 2010 and 2009, by asset category is as follows:

	<u>2010</u>	<u>2009</u>
Equity mutual funds	46%	50%
Fixed income mutual funds	50%	47%
Money market funds	4%	3%

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, 2010 and 50% equities and 50% fixed income funds at March 31, 2009. 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, 2011.

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:

2011	\$	520,400
2012		543,800
2013		586,600
2014		624,400
2015		674,000
2016-2020		4,824,000

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 one 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 annually contributes varying percentages of base salary based on age and years of service for eligible employees and also matches bi-weekly employee contributions at varying percentages based on age and years of service (maximum match is 40%). The matching payments were curtailed during part of fiscal year 2010. The Hospital's expense amounted to \$425,767 and \$1,723,869 for the years ended March 31, 2010 and 2009, 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 \$456,225 and \$441,518 in 2010 and 2009, respectively. Assets and liabilities relating to this plan were \$3,083,950 and \$2,329,866 at 2010 and 2009, respectively, and are included in other assets and other long-term liabilities.

Brittany Farms has a defined contribution pension plan which covers substantially all eligible employees. Contributions to the plan are accrued in amounts equal to 6% of eligible employee salaries. Effective February 2009, the members of the union were no longer participating in Brittany Farms' defined contribution pension plan. Brittany Farms' expense amounted to \$388,521 and \$1,091,636 for the years ended March 31, 2010 and 2009, respectively.

Brittany Farms also has a money purchase pension plan that was frozen by HSC Community Services, Inc., effective December 31, 2001. The assets of the money purchase pension plan are sufficient to pay benefits already accrued.

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

NOTE 11 - FUNCTIONAL EXPENSES

Functional expenses for the Center are as follows:

	2010	2009
Health care services	\$ 101,051,207	\$ 93,032,196
General and administrative	16,450,196	21,822,367
	\$ 117,501,403	\$ 114,854,563

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, 2010 are as follows:

Year Ending March 31

2011	\$ 811,073
2012	750,003
2013	569,372
2014	563,974
2015	352,828
Thereafter	61,623
	\$ 3,108,873

Rent expense recorded by the Center for the years ended March 31, 2010 and 2009, was \$671,428 and \$655,688, respectively.

The Center has formal commitments totaling approximately \$4,650,000 as of March 31, 2010 related to construction costs for the Hospital's expansion of their Neurobehavioral Unit. These commitments are expected to be paid using future financing.

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

NOTE 14 - FAIR VALUE OF FINANCIAL INSTRUMENTS

GAAP defines fair value as “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.” It also establishes a fair value hierarchy consisting of three “levels” that prioritize the inputs to the valuation techniques used to measure fair value.

- Level 1 - Quoted prices for *identical* instruments in active markets.
- Level 2 - Quoted prices for *similar* instruments in active markets; quoted prices for identical or similar instruments in markets that are not active; and model-derived valuations in which all significant inputs and significant value drivers are observable in active markets.
- Level 3 - Valuations derived from valuation techniques in which one or more significant inputs or significant value drivers are *unobservable*.

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.

The carrying amounts and estimated fair values of the Center’s long-term debt at March 31, 2010 are as follows (in thousands):

<u>Description</u>	<u>Carrying Amount at 3/31/10</u> (in thousands)	<u>Fair Value at 3/31/10</u> (in thousands)
Financial liabilities:		
Series C revenue bonds	\$ 45,170	\$ 41,363
Series D revenue bonds	14,435	14,435
HUD mortgage	927	927

The carrying amounts and estimated fair values of the Center’s long-term debt at March 31, 2009 are as follows (in thousands):

<u>Description</u>	<u>Carrying Amount at 03/31/09</u> (in thousands)	<u>Fair Value at 03/31/09</u> (in thousands)
Financial liabilities:		
Series C revenue bonds	\$ 45,390	\$ 35,975
Series D revenue bonds	14,685	14,685
HUD mortgage	927	927

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Independent Auditors' Report on Supplementary Information

To the Board of Directors
Center of Special Care, Inc.

Our audits were conducted for the purpose of forming an opinion on the consolidated financial statements taken as a whole. The consolidating information is presented for purposes of additional analysis of the consolidated financial statements rather than to present the financial position and results of operations of the individual entities. The consolidating information has been subjected to the auditing procedures applied in our audits of the consolidated financial statements and, in our opinion, is fairly stated in all material respects in relation to the consolidated financial statements taken as a whole.

Blum, Shapiro & Company, P.C.

July 14, 2010

CENTER OF SPECIAL CARE, INC. AND SUBSIDIARIES
CONSOLIDATING STATEMENT OF FINANCIAL POSITION
MARCH 31, 2010

	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
ASSETS								
Current assets:								
Cash and cash equivalents	\$ 2,124,748	\$ 126,552	\$ 2,251,300	\$ 5,200,289	\$ 258,488	\$ 1,427,681	\$ -	\$ 9,137,758
Accounts receivable, less allowance of \$2,223,267	3,714,267	14,470	3,728,737	18,175,615	-	-	-	21,904,352
Pledges receivable, net of allowance of \$15,190	-	-	-	-	-	288,595	-	288,595
Prepaid sinking fund	214,466	-	214,466	1,270,209	-	-	-	1,484,675
Prepaid expenses and other assets	345,326	3,144	348,470	932,968	-	102	-	1,281,540
Inventories of supplies	40,903	-	40,903	560,309	-	-	-	601,212
Due from affiliates	4,669	6,949	11,618	208,886	-	-	(220,504)	-
Total current assets	<u>6,444,379</u>	<u>151,115</u>	<u>6,595,494</u>	<u>26,348,276</u>	<u>258,488</u>	<u>1,716,378</u>	<u>(220,504)</u>	<u>34,698,132</u>
Other assets:								
Investments	-	-	-	30,974,284	-	4,880,486	-	35,854,770
Pledges receivable, net of allowance and discount of \$48,645	-	-	-	-	-	220,448	-	220,448
Investments in Foundation	61,329	403,266	464,595	4,570,245	-	-	(5,034,840)	-
Funds held in escrow by agreement with State of Connecticut Health and Educational Facilities Authority and trustee:								
Debt Service Reserve Fund	688,503	-	688,503	3,403,321	-	-	-	4,091,824
CHEFA obligations issuance expense	518,581	-	518,581	2,659,005	-	-	-	3,177,586
Insurance funds	40,000	-	40,000	967,542	-	-	-	1,007,542
Other assets	-	-	-	3,083,950	-	-	-	3,083,950
Total other assets	<u>1,308,413</u>	<u>403,266</u>	<u>1,711,679</u>	<u>45,658,347</u>	<u>-</u>	<u>5,100,934</u>	<u>(5,034,840)</u>	<u>47,436,120</u>
Property, plant and equipment, net	8,303,085	803,395	9,106,480	41,224,781	-	-	-	50,331,261
Total Assets	<u>\$ 16,055,877</u>	<u>\$ 1,357,776</u>	<u>\$ 17,413,653</u>	<u>\$ 113,231,404</u>	<u>\$ 258,488</u>	<u>\$ 6,817,312</u>	<u>\$ (5,255,344)</u>	<u>\$ 132,465,513</u>

(Continued on next page)

CENTER OF SPECIAL CARE, INC. AND SUBSIDIARIES
CONSOLIDATING STATEMENT OF FINANCIAL POSITION (CONTINUED)
MARCH 31, 2010

	Brittany Farms	Other HSC Community Services, Inc. Subsidiaries	HSC Community Services, Inc. Consolidated	Hospital for Special Care Inc.	Center of Special Care, Inc.	Hospital for Special Care Foundation, Inc.	Elimination	Consolidated
LIABILITIES AND NET ASSETS								
Current liabilities:								
Current portion of long-term debt	\$ 238,000	\$ -	\$ 238,000	\$ 892,000	\$ -	\$ -	\$ -	\$ 1,130,000
Accounts payable	802,808	40,979	843,787	3,601,546	-	1,500	-	4,446,833
Salaries, wages, payroll taxes and amounts withheld from employee compensation	1,272,756	-	1,272,756	7,387,312	-	-	-	8,660,068
Accrued insurance costs	621,062	-	621,062	2,516,902	-	-	-	3,137,964
Due to affiliates	175,684	35,512	211,196	-	-	9,308	(220,504)	-
Accrued interest and other liabilities	1,383,138	26,150	1,409,288	1,957,953	-	57,740	-	3,424,981
Total current liabilities	4,493,448	102,641	4,596,089	16,355,713	-	68,548	(220,504)	20,799,846
Long-term liabilities:								
Long-term debt, less current portion	9,866,500	926,696	10,793,196	48,608,500	-	-	-	59,401,696
Accrued pension cost	-	-	-	2,003,353	-	-	-	2,003,353
Other long-term liabilities	-	-	-	3,083,950	-	-	-	3,083,950
Total long-term liabilities	9,866,500	926,696	10,793,196	53,695,803	-	-	-	64,488,999
Net assets:								
Unrestricted net assets	1,648,470	(62,079)	1,586,391	40,976,425	258,488	1,940,590	(226,666)	44,535,228
Temporarily restricted net assets	27,414	390,518	417,932	1,767,687	-	4,352,353	(4,352,353)	2,185,619
Permanently restricted net assets	20,045	-	20,045	435,776	-	455,821	(455,821)	455,821
Total net assets	1,695,929	328,439	2,024,368	43,179,888	258,488	6,748,764	(5,034,840)	47,176,668
Total Liabilities and Net Assets	\$ 16,055,877	\$ 1,357,776	\$ 17,413,653	\$ 113,231,404	\$ 258,488	\$ 6,817,312	\$ (5,255,344)	\$ 132,465,513

CENTER OF SPECIAL CARE, INC. AND SUBSIDIARIES
CONSOLIDATING STATEMENT OF FINANCIAL POSITION
MARCH 31, 2009

	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
ASSETS								
Current assets:								
Cash and cash equivalents	\$ 2,486,035	\$ 180,484	\$ 2,666,519	\$ 4,537,998	\$ 258,054	\$ 291,506	\$ -	\$ 7,754,077
Accounts receivable, less allowance of \$2,218,929	3,624,508	37,619	3,662,127	16,999,819	-	584	-	20,662,530
Prepaid sinking fund	264,034	-	264,034	1,276,846	-	-	-	1,540,880
Prepaid expenses and other assets	353,178	7,599	360,777	880,592	-	102	-	1,241,471
Inventories of supplies	37,471	-	37,471	550,582	-	-	-	588,053
Due from affiliates	18,505	2,778	21,283	10,957	-	-	(32,240)	-
Total current assets	<u>6,783,731</u>	<u>228,480</u>	<u>7,012,211</u>	<u>24,256,794</u>	<u>258,054</u>	<u>292,192</u>	<u>(32,240)</u>	<u>31,787,011</u>
Other assets:								
Investments	62,568	294,207	356,775	22,023,613	-	3,430,920	-	25,454,533
Investments in Foundation	-	-	-	2,117,760	-	-	(2,474,535)	-
Funds held in escrow by agreement with State of Connecticut Health and Educational Facilities Authority and trustee:								
Debt Service Reserve Fund	701,544	-	701,544	3,411,135	-	-	-	4,112,679
CHEFA obligations discount and issuance expense	537,612	-	537,612	2,756,584	-	-	-	3,294,196
CHEFA construction bond proceeds	-	-	-	1,407,392	-	-	-	1,407,392
Insurance funds	40,000	-	40,000	1,770,854	-	-	-	1,810,854
Other assets	-	-	-	2,329,866	-	-	-	2,329,866
Total other assets	<u>1,341,724</u>	<u>294,207</u>	<u>1,635,931</u>	<u>35,817,204</u>	<u>-</u>	<u>3,430,920</u>	<u>(2,474,535)</u>	<u>38,409,520</u>
Property, plant and equipment, net	8,608,834	841,886	9,450,720	39,326,030	-	-	-	48,776,750
Total Assets	<u>\$ 16,734,289</u>	<u>\$ 1,364,573</u>	<u>\$ 18,098,862</u>	<u>\$ 99,400,028</u>	<u>\$ 258,054</u>	<u>\$ 3,723,112</u>	<u>\$ (2,506,775)</u>	<u>\$ 118,973,281</u>

(Continued on next page)

CENTER OF SPECIAL CARE, INC. AND SUBSIDIARIES
CONSOLIDATING STATEMENT OF FINANCIAL POSITION (CONTINUED)
MARCH 31, 2009

	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
LIABILITIES AND NET ASSETS								
Current liabilities:								
Current portion of long-term debt	\$ 175,000	\$ -	\$ 175,000	\$ 835,000	\$ -	\$ -	\$ -	\$ 1,010,000
Accounts payable	921,189	60,991	982,180	2,662,594	-	-	-	3,644,774
Salaries, wages, payroll taxes and amounts withheld from employee compensation	1,284,078	-	1,284,078	7,054,837	-	-	-	8,338,915
Accrued insurance costs	486,494	-	486,494	2,706,360	-	-	-	3,192,854
Due to affiliates	-	11,196	11,196	18,007	-	3,037	(32,240)	-
Accrued interest and other liabilities	1,622,189	61,085	1,683,274	2,017,802	-	-	-	3,701,076
Total current liabilities	<u>4,488,950</u>	<u>133,272</u>	<u>4,622,222</u>	<u>15,294,600</u>	<u>-</u>	<u>3,037</u>	<u>(32,240)</u>	<u>19,887,619</u>
Long-term liabilities:								
Long-term debt, less current portion	10,104,500	926,696	11,031,196	49,500,500	-	-	-	60,531,696
Accrued pension cost	-	-	-	2,662,939	-	-	-	2,662,939
Other long-term liabilities	-	-	-	2,329,866	-	-	-	2,329,866
Total long-term liabilities	<u>10,104,500</u>	<u>926,696</u>	<u>11,031,196</u>	<u>54,493,305</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>65,524,501</u>
Net assets:								
Unrestricted net assets	2,096,133	18,072	2,114,205	28,835,037	258,054	1,472,206	(226,666)	32,452,836
Temporarily restricted net assets	24,661	286,533	311,194	309,976	-	1,760,714	(1,760,714)	621,170
Permanently restricted net assets	20,045	-	20,045	467,110	-	487,155	(487,155)	487,155
Total net assets	<u>2,140,839</u>	<u>304,605</u>	<u>2,445,444</u>	<u>29,612,123</u>	<u>258,054</u>	<u>3,720,075</u>	<u>(2,474,535)</u>	<u>33,561,161</u>
Total Liabilities and Net Assets	<u>\$ 16,734,289</u>	<u>\$ 1,364,573</u>	<u>\$ 18,098,862</u>	<u>\$ 99,400,028</u>	<u>\$ 258,054</u>	<u>\$ 3,723,112</u>	<u>\$ (2,506,775)</u>	<u>\$ 118,973,281</u>

CENTER OF SPECIAL CARE, INC. AND SUBSIDIARIES
CONSOLIDATING STATEMENT OF ACTIVITIES AND CHANGES IN NET ASSETS
FOR THE YEAR ENDED MARCH 31, 2010

	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	\$ 26,626,752	\$ 257,447	\$ 26,884,199	\$ 88,847,828	\$ -	\$ -	\$ 81,105	\$ 115,732,027
Other operating revenues	58,392	505,069	563,461	3,171,983	-	219,888	-	3,929,149
Net assets released from restrictions	-	-	-	-	-	332,488	-	219,888
Total revenues	<u>26,685,144</u>	<u>762,516</u>	<u>27,447,660</u>	<u>92,019,811</u>	-	<u>332,488</u>	<u>81,105</u>	<u>119,881,064</u>
Operating expenses:								
Salaries, wages and employees benefits	18,709,757	470,407	19,180,164	62,660,267	-	588,236	-	82,428,667
Supplies and other	7,191,818	434,824	7,626,642	19,510,339	-	593,628	(117,785)	27,612,824
Interest	429,177	-	429,177	2,503,461	-	-	-	2,932,638
Depreciation and amortization	636,723	55,602	692,325	2,990,990	-	-	-	3,683,315
Bad debts	188,665	242	188,907	626,696	-	28,356	-	843,959
Total operating expenses	<u>27,156,140</u>	<u>961,075</u>	<u>28,117,215</u>	<u>88,291,753</u>	-	<u>1,210,220</u>	<u>(117,785)</u>	<u>117,501,403</u>
Income (loss) from operations	(470,996)	(198,559)	(669,555)	3,728,058	-	(877,732)	198,890	2,379,661
Nonoperating gains:								
Other income, primarily investment income	8,992	620	9,612	820,299	434	25,476	(15,738)	840,083
Change in equity interest in Foundation	(3,993)	-	(3,993)	510,793	-	-	(506,800)	-
Excess (deficiency) of revenues over expenses	<u>(465,997)</u>	<u>(197,939)</u>	<u>(663,936)</u>	<u>5,059,150</u>	<u>434</u>	<u>(852,256)</u>	<u>(323,648)</u>	<u>3,219,744</u>
Other changes in unrestricted net assets:								
Change in equity interest in Foundation	-	6,096	6,096	515,310	-	-	(521,406)	-
Change in net unrealized losses on investments	18,334	-	18,334	7,262,073	-	332,703	845,054	8,439,830
Transfer from Foundation released for capital additions	-	-	-	259,998	-	-	-	278,332
Increase in minimum pension liability	-	-	-	159,586	-	-	-	159,586
Equity transfer among affiliates	-	111,692	111,692	(1,114,729)	-	1,003,037	-	-
Reclassification of net assets	-	-	-	-	-	(15,100)	-	(15,100)
Increase (decrease) in unrestricted net assets	<u>(447,663)</u>	<u>(80,151)</u>	<u>(527,814)</u>	<u>12,141,388</u>	<u>434</u>	<u>468,384</u>	-	<u>12,082,392</u>
Temporarily restricted net assets:								
Contributions	-	1,022	1,022	-	-	1,946,682	(300,999)	1,646,705
Net realized gains on investments	-	-	-	-	-	83,865	15,738	99,603
Change in net unrealized losses on investments	-	-	-	-	-	1,012,768	(845,054)	167,714
Change in equity interest in Foundation	2,753	102,963	105,716	1,457,711	-	-	(1,563,427)	-
Net assets released from restrictions used for purchase of capital	-	-	-	-	-	(278,332)	-	(278,332)
Net assets released from restrictions used for operations	-	-	-	-	-	(219,888)	102,103	(117,785)
Reclassification of net assets	-	-	-	-	-	46,544	-	46,544
Increase (decrease) in temporarily restricted net assets	<u>2,753</u>	<u>103,985</u>	<u>106,738</u>	<u>1,457,711</u>	-	<u>2,391,639</u>	<u>(2,591,639)</u>	<u>1,564,449</u>
Permanently restricted net assets:								
Contributions	-	-	-	-	-	110	-	110
Change in equity interest in Foundation	-	-	-	(31,334)	-	-	31,334	-
Reclassification of net assets	-	-	-	(31,334)	-	(31,334)	-	(31,444)
Increase (decrease) in permanently restricted net assets	-	-	-	<u>(31,334)</u>	-	<u>(31,334)</u>	-	<u>(31,334)</u>
Change in total net assets	(444,910)	23,834	(421,076)	13,567,765	434	3,028,689	(2,560,305)	13,615,507
Net assets - beginning of year	2,140,839	304,605	2,445,444	29,612,123	258,054	3,720,075	(2,474,535)	33,561,161
Net Assets - End of Year	<u>\$ 1,695,929</u>	<u>\$ 328,439</u>	<u>\$ 2,024,368</u>	<u>\$ 43,179,888</u>	<u>\$ 258,488</u>	<u>\$ 6,748,764</u>	<u>\$ (5,034,840)</u>	<u>\$ 47,176,668</u>

CENTER OF SPECIAL CARE, INC. AND SUBSIDIARIES
CONSOLIDATING STATEMENT OF ACTIVITIES AND CHANGES IN NET ASSETS
FOR THE YEAR ENDED MARCH 31, 2009

	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	\$ 27,156,304	\$ 316,223	\$ 27,472,527	\$ 87,963,405	\$ -	\$ 105,054	\$ -	\$ 115,435,932
Other operating revenues	80,718	483,662	564,380	3,204,995	-	195,483	(75,667)	3,798,762
Net assets released from restrictions	-	-	-	-	-	-	-	195,483
Total revenues	<u>27,237,022</u>	<u>799,885</u>	<u>28,036,907</u>	<u>91,168,400</u>	<u>-</u>	<u>300,537</u>	<u>(75,667)</u>	<u>119,430,177</u>
Operating expenses:								
Salaries, wages and employees benefits	19,429,666	525,271	19,954,937	62,172,825	-	482,487	-	82,610,249
Supplies and other	6,757,448	528,352	7,285,780	17,705,000	-	471,060	(94,801)	25,367,039
Interest	428,645	-	428,645	2,532,833	-	-	-	2,961,478
Depreciation and amortization	631,829	69,766	701,595	2,705,483	-	-	-	3,407,078
Bad debts	144,302	(2,534)	141,768	359,860	-	7,091	-	508,719
Total operating expenses	<u>27,391,890</u>	<u>1,120,835</u>	<u>28,512,725</u>	<u>85,476,001</u>	<u>-</u>	<u>960,638</u>	<u>(94,801)</u>	<u>114,854,563</u>
Income (loss) from operations	(154,868)	(320,950)	(475,818)	5,692,399	-	(660,101)	19,134	4,575,614
Nonoperating gains:								
Other income, primarily investment income	35,011	1,874	36,885	1,155,588	3,416	12,139	(17,157)	1,190,871
Change in equity interest in Foundation	(30,734)	-	(30,734)	89,034	-	-	(58,300)	-
Excess (deficiency) of revenues over expenses	<u>(150,591)</u>	<u>(319,076)</u>	<u>(469,667)</u>	<u>6,937,021</u>	<u>3,416</u>	<u>(647,962)</u>	<u>(56,323)</u>	<u>5,766,485</u>
Other changes in unrestricted net assets:								
Change in equity interest in Foundation	-	(5,899)	(5,899)	(1,156,886)	-	-	1,162,785	-
Change in net unrealized loss on investments	-	-	-	(9,072,567)	-	(273,633)	(1,333,128)	(10,679,328)
Transfer from Foundation released for capital additions	64,136	3,647	67,783	125,234	-	-	-	193,017
Increase in minimum pension liability	-	-	-	(2,831,127)	-	-	-	(2,831,127)
Equity transfer to affiliates	(1,000,000)	237,291	(762,709)	(3,274)	-	765,983	-	-
Reclassification of net assets	-	-	-	-	-	226,666	-	226,666
Increase (decrease) in unrestricted net assets	<u>(1,086,455)</u>	<u>(84,037)</u>	<u>(1,170,492)</u>	<u>(6,001,599)</u>	<u>3,416</u>	<u>71,054</u>	<u>(226,666)</u>	<u>(7,324,287)</u>
Temporarily restricted net assets:								
Contributions	-	-	-	-	-	584,639	(119,816)	464,823
Net realized gains on investments	-	-	-	-	-	136,157	17,161	153,318
Net unrealized losses on investments	-	-	-	-	-	(1,635,930)	1,333,128	(302,802)
Change in equity interest in Foundation	(43,473)	95,695	52,222	(24,701)	-	-	(27,521)	-
Net assets released from restrictions used for purchase of capital	-	-	-	-	-	(193,017)	-	(193,017)
Net assets released from restrictions used for operations	-	-	-	-	-	(195,483)	100,682	(94,801)
Increase (decrease) in temporarily restricted net assets	<u>(43,473)</u>	<u>95,695</u>	<u>52,222</u>	<u>(24,701)</u>	<u>-</u>	<u>(1,303,634)</u>	<u>1,303,634</u>	<u>27,521</u>
Permanently restricted net assets:								
Contributions	-	-	-	-	-	3,583	223,083	3,583
Change in equity interest in Foundation	-	-	-	(223,083)	-	(226,666)	-	(449,749)
Reclassification of net assets	-	-	-	(223,083)	-	(223,083)	223,083	(226,666)
Increase in permanently restricted net assets	-	-	-	-	-	-	-	-
Change in total net assets	<u>(1,129,928)</u>	<u>11,658</u>	<u>(1,118,270)</u>	<u>(6,249,383)</u>	<u>3,416</u>	<u>(1,455,663)</u>	<u>1,300,051</u>	<u>(7,519,849)</u>
Net assets - beginning of year	<u>3,270,767</u>	<u>292,947</u>	<u>3,563,714</u>	<u>35,861,506</u>	<u>254,638</u>	<u>5,175,738</u>	<u>(3,774,586)</u>	<u>41,081,010</u>
Net Assets - End of Year	<u>\$ 2,140,839</u>	<u>\$ 304,605</u>	<u>\$ 2,445,444</u>	<u>\$ 29,612,123</u>	<u>\$ 258,054</u>	<u>\$ 3,720,075</u>	<u>\$ (2,474,535)</u>	<u>\$ 33,561,161</u>