

**THE CONNECTICUT HOSPICE, INC.**

**FINANCIAL STATEMENTS**

**SEPTEMBER 30, 2012 AND 2011**

**THE CONNECTICUT HOSPICE, INC.**

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## Independent Auditors' Report

To the Board of Directors  
The Connecticut Hospice, Inc.

We have audited the accompanying statements of financial position of The Connecticut Hospice, Inc. (the Hospital) as of September 30, 2012 and 2011, and the related statements of activities and change in unrestricted net assets, changes in net assets and cash flows for the years then ended. These financial statements are the responsibility of the Hospital's management. Our responsibility is to express an opinion on these financial statements based on our audits.

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

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of The Connecticut Hospice, Inc., as of September 30, 2012 and 2011, and the changes in its net assets and its cash flows for the years then ended, in conformity with accounting principles generally accepted in the United States of America.

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

West Hartford, Connecticut  
March 4, 2013

**THE CONNECTICUT HOSPICE, INC.**  
**STATEMENTS OF FINANCIAL POSITION**  
**SEPTEMBER 30, 2012 AND 2011**

	<b>2012</b>	<b>2011</b>
<b>ASSETS</b>		
<b>Current Assets</b>		
Cash and cash equivalents	\$ 221,853	\$ 173,906
Short-term investments	148,050	48,989
Patient accounts receivable, less allowance for doubtful accounts of \$250,000 in 2012 and \$300,000 in 2011	2,728,443	2,344,003
Inventories	198,440	196,548
Other current assets	211,333	213,061
Total current assets	3,508,119	2,976,507
<b>Property and Equipment, Net</b>	704,915	829,599
<b>Other Assets</b>		
Assets held under split-interest agreements	-	26,371
Long-term investments	5,076,660	5,413,592
Due from The John D. Thompson Hospice Institute, net	12,251,258	11,714,038
Total other assets	17,327,918	17,154,001
<b>Total Assets</b>	\$ 21,540,952	\$ 20,960,107
<b>LIABILITIES AND NET ASSETS</b>		
<b>Liabilities</b>		
Accounts payable	\$ 4,062,452	\$ 3,877,902
Accrued liabilities	2,915,377	2,658,071
Due to related party	604,474	592,799
Due to third party	228,849	274,090
Line of credit	1,395,036	2,477,346
Liability under split-interest agreements	-	9,500
Total liabilities	9,206,188	9,889,708
<b>Net Assets</b>		
Unrestricted	10,112,537	8,797,385
Temporarily restricted	1,653,835	644,622
Permanently restricted	568,392	1,628,392
Total net assets	12,334,764	11,070,399
<b>Total Liabilities and Net Assets</b>	\$ 21,540,952	\$ 20,960,107

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, 2012 AND 2011**

	<b>2012</b>	<b>2011</b>
<b>Unrestricted Revenues, Gains and Other Support</b>		
Net patient service revenue	\$ 28,159,550	\$ 28,505,044
Net assets released from restrictions	925,054	1,070,268
Other revenue	123,632	92,374
Total unrestricted revenues, gains and other support	29,208,236	29,667,686
<b>Expenses</b>		
Employee compensation	14,005,585	14,600,079
Purchased services and supplies	7,626,278	7,493,990
Management services	4,000,000	4,000,000
Fringe benefits	3,286,756	3,630,279
Plant and utilities	445,582	478,916
Nonmedical general	247,290	272,372
Rent	284,160	284,160
Dietary	227,507	254,030
Provision for bad debts	254,301	251,836
Depreciation	184,892	198,759
Interest	84,116	79,072
Total expenses	30,646,467	31,543,493
<b>Loss from Operations</b>	(1,438,231)	(1,875,807)
<b>Other Income</b>		
Unrestricted contributions	2,268,716	4,624,329
Investment income	484,667	34,582
Total other income	2,753,383	4,658,911
<b>Change in Unrestricted Net Assets</b>	1,315,152	2,783,104
<b>Unrestricted Net Assets - Beginning of Year</b>	8,797,385	6,014,281
<b>Unrestricted Net Assets - End of Year</b>	\$ 10,112,537	\$ 8,797,385

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, 2012 AND 2011**

	<u>2012</u>	<u>2011</u>
<b>Unrestricted Net Assets</b>		
Change in unrestricted net assets	\$ 1,315,152	\$ 2,783,104
<b>Temporarily Restricted Net Assets</b>		
Investment income	124,837	14,073
Contributions	529,430	758,615
Change in donor designation	1,280,000	-
Net assets released from restrictions	<u>(925,054)</u>	<u>(1,070,268)</u>
Increase (decrease) in temporarily restricted net assets	<u>1,009,213</u>	<u>(297,580)</u>
<b>Permanently Restricted Net Assets</b>		
Contributions	220,000	220,000
Change in donor designation	<u>(1,280,000)</u>	<u>-</u>
Increase (decrease) in permanently restricted net assets	<u>(1,060,000)</u>	<u>220,000</u>
<b>Increase in Net Assets</b>	1,264,365	2,705,524
<b>Net Assets - Beginning of Year</b>	<u>11,070,399</u>	<u>8,364,875</u>
<b>Net Assets - End of Year</b>	<u>\$ 12,334,764</u>	<u>\$ 11,070,399</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, 2012 AND 2011**

	<u>2012</u>	<u>2011</u>
<b>Cash Flows from Operating Activities</b>		
Increase in net assets	\$ 1,264,365	\$ 2,705,524
Adjustments to reconcile increase in net assets to net cash provided by operating activities:		
Depreciation	184,892	198,759
Bad debt expense	254,301	251,836
Liability under split-interest agreements	(9,500)	-
Net realized and unrealized (gains) losses on investments	(391,022)	69,660
Contributions restricted for long-term investment	(220,000)	(220,000)
(Increase) decrease in operating assets:		
Patient accounts receivable	(638,741)	(965,399)
Due to/from third party	(45,241)	965,906
Inventories and other current assets	(164)	(14,591)
Due from The John D. Thompson Hospice Institute, net	(537,220)	(855,182)
Increase in operating liabilities:		
Accounts payable and accrued liabilities	441,856	457,087
Net cash provided by operating activities	<u>303,526</u>	<u>2,593,600</u>
<b>Cash Flows from Investing Activities</b>		
Purchases of property and equipment, net	(60,208)	(115,205)
Assets held under split-interest agreements	26,371	-
Purchase of investments	(218,481)	(3,823,554)
Sale of investments	847,374	541,841
Net cash provided by (used in) investing activities	<u>595,056</u>	<u>(3,396,918)</u>
<b>Cash Flows from Financing Activities</b>		
Repayment to related party	-	(234,244)
Proceeds from contributions restricted for long-term investment	220,000	220,000
Payments on line of credit	(1,150,000)	-
Proceeds from line of credit	79,365	49,816
Net cash provided by (used in) financing activities	<u>(850,635)</u>	<u>35,572</u>
<b>Net Increase (Decrease) in Cash and Cash Equivalents</b>	47,947	(767,746)
<b>Cash and Cash Equivalents - Beginning of Year</b>	<u>173,906</u>	<u>941,652</u>
<b>Cash and Cash Equivalents - End of Year</b>	<u>\$ 221,853</u>	<u>\$ 173,906</u>
<b>Cash Paid During the Year for Interest</b>	\$ 84,116	\$ 79,072

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, 2012 and 2011, 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 \$568,392 and \$1,628,392 as of September 30, 2012 and 2011, 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, 2009 through 2012 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.

**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, 2012 and 2011, 87% and 85%, respectively, of patient accounts receivable were due from federal and state governmental payors and 13% and 15%, respectively, were due from nongovernmental payors. Nongovernmental payors are primarily managed-care companies. As of September 30, 2012, 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 \$269,000 and \$139,000 for the years ended September 30, 2012 and 2011, respectively, and the total amount of free and reduced patient care approximated \$2,385,000 and \$2,271,000 for the years ended September 30, 2012 and 2011, 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 \$2,043,000 and \$1,908,000 for the years ended September 30, 2012 and 2011, 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 March 4, 2013, 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 \$333,333 per month for each of the years ended September 30, 2012 and 2011.

**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, 2012 and 2011.

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:

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

**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.

There have been no changes in the methodologies used at September 30, 2012 and 2011.

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

**NOTE 4 - INVESTMENTS (Continued)**

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, 2012 and 2011:

<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	<u>\$ 5,224,710</u>	<u>\$ 831,761</u>	<u>\$ 4,392,949</u>

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

There were no transfers between levels of investments during the years ended September 30, 2012 and 2011.

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

**NOTE 4 - INVESTMENTS (Continued)**

Investment income for the years ended September 30, 2012 and 2011, consists of the following:

	<u>2012</u>	<u>2011</u>
Realized and unrealized gains (losses)	\$ 391,022	\$ (69,660)
Interest and dividends	<u>218,482</u>	<u>118,315</u>
Net Investment Income	<u>\$ 609,504</u>	<u>\$ 48,655</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 \$310,000 and \$327,000 for the years ended September 30, 2012 and 2011, respectively.

**NOTE 6 - PROPERTY AND EQUIPMENT**

The components of property and equipment as of September 30, 2012 and 2011, are as follows:

	<u>2012</u>	<u>2011</u>
Furniture and equipment	\$ 3,454,105	\$ 3,393,897
Property held for future use	<u>323,000</u>	<u>323,000</u>
	3,777,105	3,716,897
Less accumulated depreciation	<u>3,072,190</u>	<u>2,887,298</u>
Net Property and Equipment	<u>\$ 704,915</u>	<u>\$ 829,599</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 \$321,000 and \$254,000 in 2012 and 2011, respectively.

Future minimum lease payments are as follows:

**Year Ending September 30**

2013	\$	453,123
2014		435,494
2015		284,160
2015		<u>213,120</u>
Total Future Minimum Lease Payments	\$	<u><u>1,385,897</u></u>

**NOTE 8 - DUE TO RELATED PARTY**

During 2009, a board member advanced \$800,000 to the Hospital. This amount is recorded as due to related party on the statements of financial position. This note bears interest at 2.0% per year, and there currently is no formal repayment plan. During 2012 and 2011, the Hospital made principal payments totaling \$-0- and \$216,246, respectively. Outstanding principal and interest on the note as of September 30, 2012 and 2011, was \$604,474 and \$592,799, respectively.

**NOTE 9 - LINE OF CREDIT**

The Hospital has a line of credit in the amount of \$2,530,000. The line has a one-year term, provisions for annual extensions and includes a due on demand feature. The Hospital has drawn down \$1,395,036 as of September 30, 2012. Interest, at a rate of 2% over LIBOR (2.714% at September 30, 2012), is payable monthly. The Hospital's investments are pledged as security on the line of credit.

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

**NOTE 10 - TEMPORARILY RESTRICTED NET ASSETS**

Temporarily restricted net assets at September 30, 2012 and 2011, are comprised of the following:

	<b>2012</b>	<b>2011</b>
Operations	\$ 373,835	\$ 644,622
Capital Expenditures	1,280,000	-
	\$ 1,653,835	\$ 644,622

During the years ended September 30, 2012 and 2011, temporarily restricted net assets were released from restrictions to support the Hospital's activities as follows:

	<b>2012</b>	<b>2011</b>
Operations	\$ 925,054	\$ 1,070,268

**NOTE 11 - 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 11 - ENDOWMENT (Continued)**

**Endowment Net Assets** - 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 11 - ENDOWMENT (Continued)**

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

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

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

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

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

**NOTE 11 - ENDOWMENT (Continued)**

Amounts classified as permanently restricted net assets and temporarily restricted net assets (endowment only) are as follows as of September 30, 2012 and 2011:

	<b>2012</b>	<b>2011</b>
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>568,392</u>	\$ <u>1,628,392</u>
 Total Endowment Funds Classified as Permanently Restricted Net Assets	\$ <u><u>568,392</u></u>	\$ <u><u>1,628,392</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, 2012 and 2011.

**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 12 - 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.