CENTER OF SPECIAL CARE, INC. AND SUBSIDIARIES

CONSOLIDATED FINANCIAL STATEMENTS

MARCH 31, 2012 AND 2011

CENTER OF SPECIAL CARE, INC. AND SUBSIDIARIES

CONTENTS

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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, 2012 and 2011, 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, 2012 and 2011, 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 June 20, 2012 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.

June 20, 2012

CENTER OF SPECIAL CARE, INC. AND SUBSIDIARIES
CONSOLIDATED STATEMENTS OF FINANCIAL POSITION
MARCH 31, 2012 AND 2011

ASSETS

	2012	2011
Current Assets		
Cash and cash equivalents	$ 14,970,013	$ 9,407,413
Accounts receivable, less allowance for doubtful accounts of $3,306,927 in 2012 and $2,940,241 in 2011	18,918,298	23,380,145
Pledges receivable, less allowance of $25,948 in 2012 and $38,476 in 2011	567,903	581,679
Prepaid sinking fund	1,616,410	1,575,349
Prepaid expenses and other assets	1,686,820	1,678,373
Inventories of supplies	560,091	515,073
Total current assets	38,319,535	37,138,032
Other Assets		
Investments	42,338,808	40,161,522
Pledges receivable, less allowance and discount of $102,643 in 2012 and $72,700 in 2011, less current portion	840,306	641,973
Debt Service Reserve Fund	3,107,879	3,108,035
Debt obligations issuance expense, net of amortization	3,001,798	3,120,632
Insurance funds	1,791,552	1,965,885
Other assets	4,033,796	3,802,517
Total other assets	55,114,139	52,800,564
Property, Plant and Equipment, Net	43,381,540	45,021,178
Assets Held for Sale, Net	7,812,932	8,065,919
Total Assets	$ 144,628,146	$ 143,025,693

LIABILITIES AND NET ASSETS

	2012	2011
Current Liabilities		
Current portion of long-term debt	$ 1,400,000	$ 1,350,000
Accounts payable	2,620,217	3,247,797
Salaries, wages, payroll taxes and amounts withheld from employee compensation	8,265,734	6,777,893
Accrued insurance costs	4,193,772	3,491,516
Accrued interest and other liabilities	3,718,011	4,167,420
Total current liabilities	20,197,734	19,034,626
Long-Term Liabilities		
Long-term debt, less current portion	62,741,696	64,141,696
Accrued pension cost	4,500,400	1,795,662
Other long-term liabilities	4,033,796	3,802,517
Total long-term liabilities	71,275,892	69,739,875
Net Assets		
Unrestricted net assets	47,095,792	50,131,960
Temporarily restricted net assets	5,602,907	3,663,411
Permanently restricted net assets	455,821	455,821
Total net assets	53,154,520	54,251,192
Total Liabilities and Net Assets	$ 144,628,146	$ 143,025,693

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, 2012 AND 2011

	2012	2011
Revenues		
Net revenues from services to patients	$ 89,870,248	$ 90,777,689
Other operating revenues	3,499,116	3,562,537
Net assets released from restrictions	480,465	295,414
Total revenues	93,849,829	94,635,640
Operating Expenses		
Salaries, wages and employee benefits	69,295,737	65,952,885
Supplies and other	19,518,703	20,404,656
Interest	2,268,788	2,358,019
Depreciation and amortization	3,446,480	3,315,771
Bad debts	479,311	852,952
Total operating expenses	95,009,019	92,884,283
Income (loss) from operations	(1,159,190)	1,751,357
Nonoperating Gains		
Other income, primarily investment income	1,112,916	714,530
Gain on debt refinancing	-	27,752
Excess (deficiency) of revenues over expenses	(46,274)	2,493,639
Other Changes in Unrestricted Net Assets		
Change in net unrealized gains on investments	814,270	3,524,292
Net assets released for capital additions	114,819	209,264
Change in minimum pension liability	(3,204,738)	(292,309)
Increase (decrease) in unrestricted net assets	(2,321,923)	5,934,886
Temporarily Restricted Net Assets		
Contributions	2,251,168	1,597,773
Net realized gains on investments	139,603	131,090
Change in net unrealized gains (losses) on investments	(48,175)	62,269
Net assets released from restrictions used for purchase of capital	(125,619)	(210,324)
Net assets released from restrictions used for operations	(287,232)	(103,016)
Increase in temporarily restricted net assets	1,929,745	1,477,792
Change in Total Net Assets from Continuing Operations	(392,178)	7,412,678
Loss from Discontinued Operations	(704,494)	(338,154)
Net Assets - Beginning of Year	54,251,192	47,176,668
Net Assets - End of Year	$ 53,154,520	$ 54,251,192

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, 2012 AND 2011

	2012	2011
Cash Flows from Operating Activities		
Change in total net assets	$ (1,096,672)	$ 7,074,524
Adjustments to reconcile change in total net assets to net cash provided by operating activities:		
Depreciation and amortization	4,103,331	3,963,342
Loss on refinancing	-	729,771
Bad debt expense	1,027,671	1,166,008
Gain on disposal of property, plant and equipment	(4,318)	(1,950)
Net unrealized gains on investments	(766,095)	(3,586,561)
Change in minimum pension liability	3,204,738	292,309
Restricted contributions	(2,251,168)	(1,597,773)
(Increase) decrease in operating assets:		
Accounts receivable	3,434,176	(2,641,801)
Pledges receivable, net	(184,557)	(714,609)
Prepaid sinking fund and debt service reserves	(40,905)	893,115
Prepaid expenses and other assets	(8,447)	(396,833)
Prepaid pension		-
Insurance funds	174,333	(958,343)
Inventories of supplies	(48,466)	21,621
Other assets	(231,279)	(718,567)
Increase (decrease) in operating liabilities:		
Accounts payable	(627,580)	(1,199,036)
Salaries, wages, payroll taxes and amounts withheld from employee compensation	1,487,841	(1,882,175)
Accrued insurance costs	702,256	353,552
Pension contribution	(500,000)	(500,000)
Other long-term liabilities	231,279	718,567
Accrued interest and other liabilities	(449,409)	742,439
Net cash provided by operating activities	8,156,729	1,757,600
Cash Flows from Investing Activities		
Purchases of investments, net	(1,411,191)	(720,191)
Purchases of property, plant and equipment	(2,103,216)	(6,541,156)
Proceeds from sale of property, plant and equipment	19,110	5,500
Net cash used in investing activities	(3,495,297)	(7,255,847)
Cash Flows from Financing Activities		
Proceeds from of issuance of long-term debt	-	20,185,000
Payments on long-term debt	(1,350,000)	(15,225,000)
Payments of financing costs	-	(789,871)
Restricted contributions	2,251,168	1,597,773
Net cash provided by financing activities	901,168	5,767,902
Net Increase in Cash and Cash Equivalents	5,562,600	269,655
Cash and Cash Equivalents - Beginning of Year	9,407,413	9,137,758
Cash and Cash Equivalents - End of Year	$ 14,970,013	$ 9,407,413
Cash Paid During the Year for Interest	$ 2,291,033	$ 2,550,793

The accompanying notes are an integral part of the 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. The Center has signed an agreement to sell Brittany Farms (see discontinued operations below). HSC Community Services, Inc., has established subsidiary corporations known as CSI Residential, Inc. (CSI Residential) and Manes & Motions Therapeutic Riding Center, Inc. (Manes and Motions). CSI Residential develops housing for persons with chronic physical and medical conditions. Manes & Motions was established to promote the well-being of persons with disabilities through the benefits of therapeutic horseback riding.

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

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

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

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

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

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

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 $118,835 and $117,054 for the years ended March 31, 2012 and 2011, respectively. The expected yearly amortization of bond issuance expense will be $118,835 for the next five years.

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

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

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

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

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

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

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

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

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

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

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

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

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

Income Taxes - The Center and its subsidiaries are not-for-profit corporations as described in Section 501(c)(3) of the Internal Revenue Code (the Code) and are exempt from federal income taxes pursuant to Section 501(a) of the Code. Tax returns for the years ended March 31, 2009 through 2012 are subject to examination by the Internal Revenue Service and the State of Connecticut.

Discontinued Operations - The Center has reached an agreement to sell Brittany Farms. This transaction meets the GAAP criteria for recording as discontinued operations in the financial statements. As a result, the assets being sold are reflected in the consolidated financial statements as assets held for sale and the activities, including results of operations, of Brittany Farms are reflected as loss from discontinued operations.

The transaction is expected to be completed in August 2012 and is a sale of the fixed assets and supplies inventory. The Center will retain substantially all current assets and will be responsible for substantially all current liabilities. The Center will escrow $1,075,000 in the form of a letter of credit for a three-year period to satisfy any potential indemnification claims. The proceeds from the sale will be used to repay $9,000,000 in Series E long-term debt. In addition upon completion of the sale, the Center has agreed to post $4,000,000 as restricted cash to reduce future Series C long-term debt payments.

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

The revenues and expense of the discontinued operations for the years ended March 31, 2012 and 2011, is as follows:

	2012	2011
Revenues:		
Net revenues from services to patients	$ 27,579,286	$ 27,585,763
Other operating revenues	105,156	60,620
Total revenues	27,684,442	27,646,383
Operating expenses:		
Salaries, wages and employees benefits	18,846,086	18,512,284
Supplies and other	8,339,278	7,621,820
Interest	12,244	138,148
Depreciation and amortization	657,077	647,571
Bad debts	548,360	313,056
Total operating expenses	28,403,045	27,232,879
Income (loss) from discontinued operations	(718,603)	413,504
Nonoperating gains (losses):		
Other income, primarily investment income	3,309	5,923
Change in equity interest in foundation	-	(1,118)
Loss on debt refinancing	-	(757,523)
Deficiency of revenues over expenses	(715,294)	(339,214)
Other changes in unrestricted net assets:		
Net assets released for capital additions	10,800	1,060
Decrease in unrestricted net assets	(704,494)	(338,154)
Temporarily restricted net assets:		
Change in equity interest in Foundation	(18,449)	29,178
Change in total net assets from discontinued operations	(722,943)	(308,976)
Net assets - beginning of year	1,386,953	1,695,929
Net Assets - End of year	$ 664,010	$ 1,386,953

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Reclassifications - Certain 2011 amounts have been reclassified to conform to the 2012 presentation.

Subsequent Events - In preparing these consolidated financial statements, management has evaluated subsequent events through June 20, 2012, which represents the date the consolidated financial statements were available to be issued.

NOTE 2 - REVENUE CONCENTRATIONS

During 2012 and 2011, approximately 70% and 69%, respectively, of net patient revenue was received under the Medicaid program; 14% and 15%, respectively, under the Medicare program; and 16% from other third parties. Laws and regulations governing the Medicaid and Medicare programs are complex and subject to interpretation. Management believes that the Hospital and Brittany Farms are in compliance with all applicable laws and regulations and is not aware of any pending or threatened investigations involving allegations of potential wrongdoing. While no such regulatory inquiries have been made, compliance with such laws and regulations can be subject to future government review and interpretation as well as significant regulatory action including fines, penalties and exclusion from the Medicaid and Medicare programs. Changes in the Medicaid and Medicare programs and the reduction of funding levels could have an adverse impact on the Hospital.

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

The following table summarizes net revenues from services to patients for the years ended March 31, 2012 and 2011:

	2012	2011
Gross revenues from patients:		
Routine services	$ 90,072,988	$ 89,815,288
Special services	57,984,650	55,025,861
	148,057,638	144,841,149
Allowances (primarily Medicare and Medicaid)	58,187,390	54,063,460
Net Revenues from Services to Patients	$ 89,870,248	$ 90,777,689

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.

NOTE 2 - REVENUE CONCENTRATIONS (Continued)

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

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

NOTE 3 - ENDOWMENT NET ASSETS

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

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

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

There were no changes in endowment net assets for the years ended March 31, 2012 and 2011. See Note 6 for more information regarding the programs that the permanently restricted net assets support.

NOTE 4 - PLEDGES RECEIVABLE

The Center's pledges receivable consist of unconditional promises to give and are expected to be collected as follows for the years ended March 31, 2012 and 2011, respectively:

	2012	2011
Receivable in less than one year	$ 593,850	$ 620,155
Receivable in one to five years	942,950	714,673
Total pledges receivable	1,536,800	1,334,828
Less allowance for uncollectible promises	75,806	66,828
Less discounts to net present value	52,785	44,348
Net Pledges Receivable	$ 1,408,209	$ 1,223,652

The discount rate used in calculating the present value of pledges receivable for the years ended March 31, 2012, was 3.00% and 3.83%, respectively.

NOTE 5 - INVESTMENTS

The composition of investments at March 31, 2012 and 2011, are set forth below. Investments are stated at market value.

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

NOTE 5 - INVESTMENTS (Continued)

	2011			
	Cost	**Market Value**	**Unrealized Gain**	**Unrealized (Loss)**
Bond funds	$ 813,752	$ 802,485	$ 4,467	$ (15,734)
Marketable equity securities	57,008	113,061	56,053	-
Mutual funds:				
Domestic equity	16,957,884	16,689,753	284,058	(552,189)
Fixed income	17,134,484	17,437,430	368,472	(65,526)
International equity	6,414,328	5,118,793	17,602	(1,313,137)
	$ 41,377,456	$ 40,161,522	$ 730,652	$ (1,946,586)

Investment income (including realized gains and losses, interest and dividends, net of investment fees) earned on investments amounted to $1,266,847 and $851,434 during the years ended March 31, 2012 and 2011, respectively. This is included in nonoperating gains in the consolidated statements of activities and changes in net assets.

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

At March 31, 2011, investments with market value below cost for 12 months or more included certain mutual funds with a market value of $20,804,320 and an unrealized loss of $1,930,852. At March 31, 2011, investments with market value below cost for less than 12 months included bond funds with a market value of $569,833 and an unrealized loss of $15,734.

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 2012 or 2011.

NOTE 6 - TEMPORARILY AND PERMANENTLY RESTRICTED NET ASSETS

Temporarily restricted net assets at March 31, 2012 and 2011, are available for the following purposes:

	2012	2011
Outpatient Capital Campaign	$ 4,615,669	$ 2,661,995
Sports and fitness programs	352,003	376,890
ALS Clinic/Neuromuscular Fund	56,200	44,637
Timura Scholarship Fund	54,206	53,567
Paula Sutula Nursing Scholarship Fund	51,537	-
Manes & Motion Capital Campaign	50,324	350
Brittany Farms	48,556	56,596
Pulmonary	38,530	27,390
H.R. Gossling Lecture Fund	35,172	34,758
Other	33,519	32,259
Gait and Balance Training System Fund	31,275	-
Horticultural	26,732	26,730
Aquatic rehabilitation	25,958	20,227
Manes & Motion Rider Assistance Programs	23,985	10,290
Respiratory therapist education	22,886	21,882
Patient Recreation Center	20,013	23,261
Pediatric	19,231	13,284
Joy of Art	18,009	23,412
Resource center	16,854	17,240
Gustin Lecture	16,257	19,019
Adaptive equipment	13,410	50,874
Research	11,918	127,190
Dental clinic	7,821	9,022
Lobby renovations	6,440	6,364
Satellite	6,402	6,174
	$ 5,602,907	$ 3,663,411

During fiscal 2010, the Hospital for Special Care Foundation, Inc., began a capital campaign to raise money for the expansion of its outpatient facility. The campaign is expected to raise $5,950,000. Funds raised as of March 31, 2012 are $4,615,669.

During fiscal 2012, Manes & Motions began a capital campaign to raise money to build an indoor arena, with a covered walkway to the stable, to allow the program to operate year round and in inclement weather. The campaign is expected to raise $500,000. Funds raised as of March 31, 2012 are $50,324.

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

The Center maintains policies related to its permanently restricted net assets. The policy indicates that all earnings are spent in the year earned. Permanently restricted net assets of $455,821 at March 31, 2012 and 2011, are to be held in perpetuity, the income from which is used for unrestricted and temporarily restricted Center activities and is expendable to support healthcare services.

NOTE 7 - PROPERTY, PLANT AND EQUIPMENT

Property, plant and equipment consists of the following at March 31, 2012 and 2011:

	2012	2011
Buildings	$ 58,695,851	$ 58,569,118
Fixed and moveable equipment	31,622,452	30,316,107
Land and land improvements	2,949,363	2,906,878
	93,267,666	91,792,103
Less accumulated depreciation	50,030,571	46,774,986
	43,237,095	45,017,117
Construction in progress	144,445	4,061
Net Property, Plant and Equipment	$ 43,381,540	$ 45,021,178

Depreciation expense was $3,341,004 and $3,214,739 for the years ended March 31, 2012 and 2011, respectively.

Assets held for sale for the years ended March 31, 2012 and 2011, were $7,812,932 and $8,065,919, 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, 2012 and 2011. 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 $1,257,408 and $1,303,869 for the years ended March 31, 2012 and 2011, respectively, and is included in accrued insurance costs on the consolidated statements of financial position. This amount was calculated at a confidence level of

NOTE 8 - SELF-INSURED PROGRAMS (Continued)

75% of the expected level for the years ended March 31, 2012 and 2011, with a 4% discount rate in 2012 and 2011. Management considers these reserves to be adequate as of March 31, 2012 and 2011. 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 $1,714,829 and $1,638,769 at March 31, 2012 and 2011, respectively, and is based on actuarial funding recommendations and active claims. These assets are included in insurance funds on the consolidated statements of financial position.

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

Workers' Compensation - The Center is self-insured for the deductible portion of workers' compensation claims. The deductible amount per claim is $350,000. The Center has purchased excess insurance from a commercial carrier that would cover claims settled above $350,000. The self-insurance workers' compensation liability was determined to be $1,311,382 and $658,524 at March 31, 2012 and 2011, 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 at March 31, 2012 and 2011, 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, 2012 and 2011, the Center had not drawn on the letter of credit.

Health Insurance - The Center is self-insured for its health insurance and carries a stop-loss policy for individual claims in excess of $250,000. The self-insurance liability was determined to be $1,624,982 and $1,529,123 for the years ended March 31, 2012 and 2011, respectively, and is included in accrued insurance costs on the consolidated statements of financial position.

NOTE 9 - LONG-TERM DEBT OBLIGATIONS

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

NOTE 9 - LONG-TERM DEBT OBLIGATIONS (Continued)

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

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

On July 14, 2010, the Hospital issued Series E CHEFA revenue bonds (Series E) in the amount of $20,185,000. The Hospital received funds to repay its Series D CHEFA revenue bonds, to fund the required Debt Service Reserve Fund, to pay for cost of bond issuance, and to finance and refinance construction and renovations related to its existing facilities. The terms of the Series E debt are variable interest debt with maturities occurring yearly on July 1 from 2011-2037. Interest shall be paid in consecutive monthly installments at the Weekly Rate, which is the rate of interest borne by bonds during any Weekly Rate period, which shall be determined by the Remarketing Agent on each Rate Determination Date for a Weekly Rate Bond as provided in the Indenture. The interest rate at March 31, 2012 was 0.24%. The Series E debt is secured by a pledge of the gross receipts of the Obligated Group, which is now defined as the Hospital, HSC Community Services, Inc., and the Hospital for Special Care Foundation, Inc., and a mortgage on the capital assets of the Obligated Group, subject to permitted encumbrances. The Series E debt is secured by a letter of credit issued by the Federal Home Loan Bank of Boston in the amount of $20,483,627.

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

The Obligated Group is also required to maintain debt service reserve funds for the Series C bonds. The Debt Service Reserve Fund is equal in amount to the largest total debt service to be paid within a year. The bonds are subject to redemption prior to maturity beginning on July 1, 2008 for Series C and July 1, 2011 for Series E, respectively, and annually on July 1 thereafter by operation of a sinking fund.

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

In addition, the Hospital has a $3,000,000 line of credit with a bank. The availability of the line is reduced by the self-insurance letter of credit in place (see Note 8). As of March 31, 2012 and 2011, the full amount of the remaining line was available. Interest on the line accrues at the bank's prevailing prime rate, and amounts drawn are repayable on demand. The line of credit has a revolving credit termination date of October 31, 2012.

NOTE 9 - LONG-TERM DEBT OBLIGATIONS (Continued)

During fiscal years 2012 and 2011, interest expense was $2,268,788 and $2,358,019, respectively.

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

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

Year Ending March 31	Series C	Series E	HUD Mortgage	Total
2013	$ 855,000	$ 545,000	$ -	$ 1,400,000
2014	890,000	560,000	-	1,450,000
2015	930,000	575,000	-	1,505,000
2016	965,000	590,000	-	1,555,000
2017	1,005,000	600,000	-	1,605,000
Aggregate thereafter	38,915,000	16,785,000	926,696	56,626,696
	43,560,000	19,655,000	926,696	64,141,696
Less current portion	855,000	545,000	-	1,400,000
Total Long-Term Debt	$ 42,705,000	$ 19,110,000	$ 926,696	$ 62,741,696

NOTE 10 - PENSION PLAN

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

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.

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, 2012 and 2011:

	Pension Benefits	
	2012	**2011**
Change in benefit obligation:		
Projected benefit obligation at beginning of year	$ (18,075,635)	$ (16,553,616)
Interest cost	(1,022,945)	(1,005,348)
Impact of assumption changes	(3,071,096)	(979,446)
Experience gain (loss)	37,470	(58,869)
Benefits paid	557,315	521,644
Projected benefit obligation at end of year	(21,574,891)	(18,075,635)
Change in plan assets:		
Fair value of plan assets at beginning of year	16,279,973	14,550,263
Actual return on plan assets	851,833	1,751,354
Employer contributions	500,000	500,000
Benefits paid	(557,315)	(521,644)
Fair value of plan assets at end of year	17,074,491	16,279,973
Unfunded Status	$ (4,500,400)	$ (1,795,662)

Net periodic pension costs for 2012 and 2011 included the following components:

	Pension Benefits	
	2012	**2011**
Components of net periodic benefit cost:		
Interest cost	$ 1,022,945	$ 1,005,348
Expected return on plan assets	(1,297,010)	(1,155,460)
Amortization of net loss	143,485	137,182
Net Periodic Pension Income	$ (130,580)	$ (12,930)

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, 2012 and 2011, are as follows:

	2012	**2011**
Discount rate	4.67%	5.75%
Long-term rate of return	8%	8%

NOTE 10 - PENSION PLAN (Continued)

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, 2012 and 2011, by asset category is as follows:

	2012	2011
Equity mutual funds	49%	49%
Fixed income mutual funds	51%	51%

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

The Hospital's investment strategy is based on a portfolio comprised of assets held in mutual funds with an asset mix target based on an allocation of 47% equities and 53% fixed income funds at March 31, 2012 and 2011. 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 $1,000,000 for the year ending March 31, 2013.

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

2013	$ 612,400
2014	638,200
2015	684,100
2016	779,100
2017	901,000
2018-2022	5,772,300

NOTE 10 - PENSION PLAN (Continued)

Other Information - The Hospital also has a defined contribution 403(b) tax-free annuity savings plan covering all full-time and permanent part-time employees with at least 1 year of service and 1,000 hours worked. Employees are allowed to contribute up to the maximum contribution allowable each year under Internal Revenue Service regulations. The Hospital matches bi-weekly employee contributions at varying percentages based on age and years of service (maximum match is 40%). The Hospital's expense amounted to $473,022 and $457,604 for the years ended March 31, 2012 and 2011, 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 $165,721 and $597,582 in 2012 and 2011, respectively. Assets and liabilities relating to this plan were $4,033,796 and $3,802,517 at March 31, 2012 and 2011, respectively, and are included in other assets and other long-term liabilities.

Brittany Farms has a defined contribution pension plan that covers substantially all eligible nonunion employees. Contributions to the plan are accrued in amounts equal to 6% of eligible employee salaries.

Brittany Farms also has a money purchase pension plan that was frozen by HSC Community Services, Inc., effective December 31, 2001. The money purchase pension plan was terminated effective July 31, 2010, and all participant money had left the plan as of October 31, 2010.

NOTE 11 - FUNCTIONAL EXPENSES

Functional expenses for the Center are as follows:

	2012	2011
Health care services	$ 81,707,756	$ 79,880,483
General and administrative	13,301,263	13,003,800
	$ 95,009,019	$ 92,884,283

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, 2012 are as follows:

Year Ending March 31	
2013	$ 858,086
2014	852,939
2015	643,662
2016	346,755
2017	212,202
	$ 2,913,644

Rent expense recorded by the Center for the years ended March 31, 2012 and 2011, was $1,677,837 and $1,596,183, respectively.

The Center entered into a contract to purchase new software on March 29, 2012. The contract is estimated to be completed in fiscal year 2014 and is estimated to cost $1.1 million. As of March 31, 2012 no expenses have been incurred.

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*.

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

NOTE 14 - FAIR VALUE OF FINANCIAL INSTRUMENTS (Continued)

The following is a summary of the source of fair value measurements for assets that are measured at fair value as of March 31, 2012 and 2011:

Description	Fair Value March 31, 2012	Fair Value Measurements Using Level 1	Level 2	Level 3
Investments	$ 42,338,808	$ 42,027,840	$ 310,968	$ -
Insurance funds	1,791,552	636,061	1,155,491	-
Pledges receivable	1,408,209	-	-	1,408,209
Total	$ 45,538,569	$ 42,663,901	$ 1,466,459	$ 1,408,209

Description	Fair Value March 31, 2011	Fair Value Measurements Using Level 1	Level 2	Level 3
Investments	$ 40,161,522	$ 40,065,158	$ 96,364	$ -
Insurance funds	1,965,885	1,171,972	793,913	-
Pledges receivable, net	1,223,652	-	-	1,223,652
Total	$ 43,351,059	$ 41,237,130	$ 890,277	$ 1,223,652

Assets Measured at Fair Value on a Recurring Basis Using Significant Unobservable Inputs (Level 3) - The following is a summary of the changes in the balances of assets measured at fair value on a recurring basis using significant unobservable inputs for the years ended March 31, 2012 and 2011:

	Pledges Receivable 2012	Pledges Receivable 2011
Balance - beginning	$ 1,223,652	$ 509,043
New pledges receivable	1,385,294	1,307,693
Collections	(1,149,394)	(536,612)
Direct write-offs	(33,927)	(9,132)
Change in allowance and discount	(17,416)	(47,340)
Balance - ending	$ 1,408,209	$ 1,223,652

NOTE 14 - FAIR VALUE OF FINANCIAL INSTRUMENTS (Continued)

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

Description		Carrying Amount at March 31, 2012		Fair Value at March 31, 2012
Financial liabilities:				
Series C revenue bonds	$	43,560,000	$	44,500,000
Series E revenue bonds		19,655,000		19,655,000
HUD mortgage		926,696		926,696

The carrying amounts and estimated fair values of the Center's long-term debt at March 31, 2011 are as follows:

Description		Carrying Amount at March 31, 2011		Fair Value at March 31, 2011
Financial liabilities:				
Series C revenue bonds	$	44,380,000	$	39,800,000
Series D revenue bonds		20,185,000		20,185,000
HUD mortgage		926,696		926,696

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Independent Auditors' Report on Supplementary Information

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

We have audited the consolidated financial statements of Center of Special Care, Inc. and Subsidiaries (the Center) as of and for the years ended March 31, 2012 and 2011, and our report thereon dated June 20, 2012, which expressed an unqualified opinion on those consolidated financial statements, appears on page 1. Our audits were conducted for the purpose of forming an opinion on the consolidated financial statements as a whole. The consolidating information is presented for the purposes of additional analysis and is not a required part of the consolidated financial statements. Such information is the responsibility of management and was derived from and relates directly to the underlying accounting and other records used to prepare the consolidated financial statements. The information has been subjected to the auditing procedures applied in the audits of the consolidated financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the consolidated financial statements or to the consolidated financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the information is fairly stated in all material respects in relation to the consolidated financial statements as a whole.

Blum, Shapiro & Company, P.C.

June 20, 2012

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

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

(Continued on next page)

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

	Brittany Farms	Other HSC Community Services, Inc. Subsidiaries	HSC Community Services, Inc. Consolidated	Hospital for Special Care	Center of Special Care, Inc.	Hospital for Special Care Foundation, Inc.	Elimination	Consolidated
LIABILITIES AND NET ASSETS								
Current liabilities:								
Current portion of long-term debt	$ 267,050	$ -	$ 267,050	$ 1,132,950	$ -	$ -	$ -	$ 1,400,000
Accounts payable	800,989	39,797	840,786	1,779,431	-	-	-	2,620,217
Salaries, wages, payroll taxes and amounts withheld from employee compensation	915,422	-	915,422	7,350,312	-	-	-	8,265,734
Accrued insurance costs	681,830	-	681,830	3,511,942	-	-	-	4,193,772
Due to affiliates	353,885	5,649	359,534	1,324	-	67,695	(428,553)	-
Accrued interest and other liabilities	1,546,483	42,963	1,589,446	2,049,325	-	79,240	-	3,718,011
Total current liabilities	4,565,659	88,409	4,654,068	15,825,284	-	146,935	(428,553)	20,197,734
Long-term liabilities:								
Long-term debt, less current portion	9,339,750	926,696	10,266,446	52,475,250	-	-	-	62,741,696
Accrued pension cost	-	-	-	4,500,400	-	-	-	4,500,400
Other long-term liabilities	-	-	-	4,033,796	-	-	-	4,033,796
Total long-term liabilities	9,339,750	926,696	10,266,446	61,009,446	-	-	-	71,275,892
Net assets:								
Unrestricted net assets	595,409	87,630	683,039	44,105,555	258,887	2,274,315	(226,004)	47,095,792
Temporarily restricted net assets	48,556	438,639	487,195	5,115,712	-	8,171,557	(8,171,557)	5,602,907
Permanently restricted net assets	20,045	-	20,045	435,776	-	455,821	(455,821)	455,821
Total net assets	664,010	526,269	1,190,279	49,657,043	258,887	10,901,693	(8,853,382)	53,154,520
Total Liabilities and Net Assets	$ 14,569,419	$ 1,541,374	$ 16,110,793	$ 126,491,773	$ 258,887	$ 11,048,628	$ (9,281,935)	$ 144,628,146

CENTER OF SPECIAL CARE, INC. AND SUBSIDIARIES
CONSOLIDATING STATEMENT OF FINANCIAL POSITION
MARCH 31, 2011

	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	$ 1,852,159	$ 175,139	$ 2,027,298	$ 5,025,574	$ 258,786	$ 2,095,755	$ -	$ 9,407,413
Accounts receivable, less allowance of $2,940,241	4,163,370	14,372	4,177,742	19,202,403	-	-	-	23,380,145
Pledges receivable, net of allowance of $38,476	-	-	-	-	-	581,679	-	581,679
Prepaid sinking fund	190,492	-	190,492	1,384,857	-	-	-	1,575,349
Prepaid expenses and other assets	544,508	4,305	548,813	1,129,560	-	-	-	1,678,373
Inventories of supplies	-	-	-	515,073	-	-	-	515,073
Due from affiliates	2,356	16,503	18,859	628,875	-	-	(647,734)	-
Total current assets	6,752,885	210,319	6,963,204	27,886,342	258,786	2,677,434	(647,734)	37,138,032
Other assets:								
Investments	-	-	-	34,614,676	-	5,546,846	-	40,161,522
Pledges receivable, net of allowance and discount of $72,700 less current portion	-	-	-	-	-	641,973	-	641,973
Investments in Foundation	89,389	411,062	500,451	6,328,426	-	-	(6,828,877)	-
Debt Service Reserve Fund	-	-	-	3,108,035	-	-	-	3,108,035
Debt obligations issuance expense, net of amortization	418,019	-	418,019	2,702,613	-	-	-	3,120,632
Insurance funds	7,207	-	7,207	1,958,678	-	-	-	1,965,885
Other assets	-	-	-	3,802,517	-	-	-	3,802,517
Total other assets	514,615	411,062	925,677	52,514,945	-	6,188,819	(6,828,877)	52,800,564
Property, plant and equipment, net	-	778,605	778,605	44,242,573	-	-	-	45,021,178
Assets held for sale	8,065,919	-	8,065,919	-	-	-	-	8,065,919
Total Assets	$ 15,333,419	$ 1,399,986	$ 16,733,405	$ 124,643,860	$ 258,786	$ 8,866,253	$ (7,476,611)	$ 143,025,693

(Continued on next page)

CENTER OF SPECIAL CARE, INC. AND SUBSIDIARIES
CONSOLIDATING STATEMENT OF FINANCIAL POSITION (CONTINUED)
MARCH 31, 2011

	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	$ 259,700	$ -	$ 259,700	$ 1,090,300	$ -	$ -	$ -	$ 1,350,000
Accounts payable	890,371	19,034	909,405	2,338,392	-	-	-	3,247,797
Salaries, wages, payroll taxes and amounts withheld from employee compensation	791,819	-	791,819	5,986,074	-	-	-	6,777,893
Accrued insurance costs	605,519	-	605,519	2,885,997	-	-	-	3,491,516
Due to affiliates	625,110	7,093	632,203	-	-	15,531	(647,734)	-
Accrued interest and other liabilities	1,167,147	34,260	1,201,407	2,903,473	-	62,540	-	4,167,420
Total current liabilities	4,339,666	60,387	4,400,053	15,204,236	-	78,071	(647,734)	19,034,626
Long-term liabilities:								
Long-term debt, less current portion	9,606,800	926,696	10,533,496	53,608,200	-	-	-	64,141,696
Accrued pension cost	-	-	-	1,795,662	-	-	-	1,795,662
Other long-term liabilities	-	-	-	3,802,517	-	-	-	3,802,517
Total long-term liabilities	9,606,800	926,696	10,533,496	59,206,379	-	-	-	69,739,875
Net assets:								
Unrestricted net assets	1,310,316	11,863	1,322,179	46,591,690	258,786	2,185,971	(226,666)	50,131,960
Temporarily restricted net assets	56,592	401,040	457,632	3,205,779	-	6,146,390	(6,146,390)	3,663,411
Permanently restricted net assets	20,045	-	20,045	435,776	-	455,821	(455,821)	455,821
Total net assets	1,386,953	412,903	1,799,856	50,233,245	258,786	8,788,182	(6,828,877)	54,251,192
Total Liabilities and Net Assets	$ 15,333,419	$ 1,399,986	$ 16,733,405	$ 124,643,860	$ 258,786	$ 8,866,253	$ (7,476,611)	$ 143,025,693

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

	Brittany Farms	Other HSC Community Services, Inc. Subsidiaries	HSC Community Services, Inc. Consolidated	Hospital for Special Care	Center of Special Care, Inc.	Hospital for Special Care Foundation, Inc.	Elimination	Consolidated
Revenues:								
Net revenues from services to patients	$ -	$ 192,329	$ 192,329	$ 89,881,431	$ -	$ -	$ (203,512)	$ 89,870,248
Other operating revenues	-	556,436	556,436	3,141,204	-	36,650	(235,174)	3,499,116
Net assets released from restrictions	-	3,305	3,305	117,243	-	485,536	(125,619)	480,465
Total revenues	-	752,070	752,070	93,139,878	-	522,186	(564,305)	93,849,829
Operating expenses:								
Salaries, wages and employees benefits	-	517,812	517,812	68,372,316	-	609,121	(203,512)	69,295,737
Supplies and other	-	501,035	501,035	18,530,440	-	779,523	(292,295)	19,518,703
Interest	-	-	-	2,268,788	-	-	-	2,268,788
Depreciation and amortization	-	69,006	69,006	3,377,474	-	-	-	3,446,480
Bad debts	-	464	464	463,771	-	15,076	-	479,311
Total operating expenses	-	1,088,317	1,088,317	93,012,789	-	1,403,720	(495,807)	95,009,019
Income (loss) from operations	-	(336,247)	(336,247)	127,089	-	(881,534)	(68,498)	(1,159,190)
Nonoperating gains (losses):								
Other income, primarily investment income	-	379	379	1,102,160	101	35,925	(25,649)	1,112,916
Change in equity interest in Foundation	-	-	-	5,900	-	-	(5,900)	-
Loss on debt refinancing	-	-	-	-	-	-	-	-
Excess (deficiency) of revenues over expenses	-	(335,868)	(335,868)	1,235,149	101	(845,609)	(100,047)	(46,274)
Other changes in unrestricted net assets:								
Change in equity interest in Foundation	-	1,235	1,235	49,779	-	-	(51,014)	-
Change in net unrealized gains on investments	-	-	-	646,994	-	16,215	151,061	814,270
Net assets released for capital additions	-	13,470	13,470	101,349	-	-	-	114,819
Change in minimum pension liability	-	-	-	(3,204,738)	-	-	-	(3,204,738)
Equity transfer among affiliates	-	396,930	396,930	(1,314,668)	-	917,738	-	-
Increase (decrease) in unrestricted net assets	-	75,767	75,767	(2,486,135)	101	88,344	-	(2,321,923)
Temporarily restricted net assets:								
Contributions	-	66,974	66,974	-	-	2,308,937	(124,743)	2,251,168
Net realized gains on investments	-	-	-	15,074	-	98,880	25,649	139,603
Change in net unrealized gains (losses) on investments	-	-	-	-	-	102,886	(151,061)	(48,175)
Change in equity interest in Foundation	-	(26,070)	(26,070)	2,012,102	-	-	(1,986,032)	-
Net assets released from restrictions used for purchase of capital	-	-	-	-	-	(125,619)	-	(125,619)
Net assets released from restrictions used for operations	-	(3,305)	(3,305)	(117,243)	-	(359,917)	193,233	(287,232)
Increase in temporarily restricted net assets	-	37,599	37,599	1,909,933	-	2,025,167	(2,042,954)	1,929,745
Change in total net assets from continuing operations	-	113,366	113,366	(576,202)	101	2,113,511	(2,042,954)	(392,178)
Loss on discontinued operations	(722,943)	-	(722,943)	-	-	-	18,449	(704,494)
Net assets - beginning of year	1,386,953	412,903	1,799,856	50,233,245	258,786	8,788,182	(6,828,877)	54,251,192
Net Assets - End of Year	$ 664,010	$ 526,269	$ 1,190,279	$ 49,657,043	$ 258,887	$ 10,901,693	$ (8,853,382)	$ 53,154,520

CENTER OF SPECIAL CARE, INC. AND SUBSIDIARIES
CONSOLIDATING STATEMENT OF ACTIVITIES AND CHANGES IN NET ASSETS
FOR THE YEAR ENDED MARCH 31, 2011

	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	$ -	$ 215,605	$ 215,605	$ 90,726,196	$ -	$ -	$ (164,112)	$ 90,777,689
Other operating revenues	-	524,681	524,681	3,068,832	-	95,757	(126,733)	3,562,537
Net assets released from restrictions	-	4,010	4,010	-	-	498,728	(207,324)	295,414
Total revenues	-	744,296	744,296	93,795,028	-	594,485	(498,169)	94,635,640
Operating expenses:								
Salaries, wages and employees benefits	-	476,481	476,481	64,996,466	-	644,050	(164,112)	65,952,885
Supplies and other	-	502,003	502,003	19,364,708	-	844,275	(306,330)	20,404,656
Interest	-	-	-	2,358,019	-	-	-	2,358,019
Depreciation and amortization	-	59,239	59,239	3,256,532	-	-	-	3,315,771
Bad debts	-	2,035	2,035	808,601	-	42,316	-	852,952
Total operating expenses	-	1,039,758	1,039,758	90,784,326	-	1,530,641	(470,442)	92,884,283
Income (loss) from operations	-	(295,462)	(295,462)	3,010,702	-	(936,156)	(27,727)	1,751,357
Nonoperating gains:								
Other income, primarily investment income	-	312	312	693,740	298	39,784	(19,604)	714,530
Change in equity interest in Foundation	-	-	-	144,012	-	-	(144,012)	-
Gain on debt refinancing	-	-	-	27,752	-	-	-	27,752
Excess (deficiency) of revenues over expenses	-	(295,150)	(295,150)	3,876,206	298	(896,372)	(191,343)	2,493,639
Other changes in unrestricted net assets:								
Change in equity interest in Foundation	-	2,914	2,914	176,082	-	-	(178,996)	-
Change in net unrealized loss on investments	-	-	-	3,057,776	-	96,177	370,339	3,524,292
Net assets released for capital additions	-	4,115	4,115	205,149	-	-	-	209,264
Change in minimum pension liability	-	-	-	(292,309)	-	-	-	(292,309)
Equity transfer to affiliates	-	362,063	362,063	(1,407,639)	-	1,045,576	-	-
Increase in unrestricted net assets	-	73,942	73,942	5,615,265	298	245,381	-	5,934,886
Temporarily restricted net assets:								
Contributions	-	12,650	12,650	-	-	1,749,789	(164,666)	1,597,773
Net realized gains on investments	-	-	-	-	-	111,486	19,604	131,090
Net unrealized gains on investments	-	-	-	-	-	431,490	(369,221)	62,269
Change in equity interest in Foundation	-	4,882	4,882	1,438,092	-	-	(1,442,974)	-
Net assets released from restrictions used for purchase of capital	-	(3,000)	(3,000)	-	-	(207,324)	-	(210,324)
Net assets released from restrictions used for operations	-	(4,010)	(4,010)	-	-	(291,404)	192,398	(103,016)
Increase in temporarily restricted net assets	-	10,522	10,522	1,438,092	-	1,794,037	(1,764,859)	1,477,792
Change in total net assets	-	84,464	84,464	7,053,357	298	2,039,418	(1,764,859)	7,412,678
Loss on discontinued operations	(308,976)	-	(308,976)	-	-	-	(29,178)	(338,154)
Net assets - beginning of year	1,695,929	328,439	2,024,368	43,179,888	258,488	6,748,764	(5,034,840)	47,176,668
Net Assets - End of Year	$ 1,386,953	$ 412,903	$ 1,799,856	$ 50,233,245	$ 258,786	$ 8,788,182	$ (6,828,877)	$ 54,251,192