CENTER OF SPECIAL CARE, INC. AND SUBSIDIARIES

CONSOLIDATED FINANCIAL STATEMENTS

MARCH 31, 2014 AND 2013

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.
New Britain, Connecticut

Report on the Financial Statements

We have audited the accompanying consolidated financial statements of Center of Special Care, Inc. and Subsidiaries (the Center), which comprise the consolidated statements of financial position as of March 31, 2014 and 2013, and the related consolidated statements of activities and changes in net assets and cash flows for the years then ended, and the related notes to the consolidated financial statements.

Management's Responsibility for the Financial Statements

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

Auditors' Responsibility

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

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

Blum, Shapiro & Company, P.C.
An independent member of Baker Tilly International

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

Opinion

In our opinion, the consolidated financial statements referred to above present fairly, in all material respects, the financial position of Center of Special Care, Inc. and Subsidiaries as of March 31, 2014 and 2013, and the changes in their net assets and their cash flows for the years then ended in accordance with accounting principles generally accepted in the United States of America.

Other Reporting Required by *Government Auditing Standards*

In accordance with *Government Auditing Standards*, we have also issued a report dated July 15, 2014 on our consideration of Center of Special Care, Inc. and Subsidiaries' internal control over financial reporting and our tests of their compliance with certain provisions of laws, regulations, contracts, grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering Center of Special Care, Inc. and Subsidiaries' internal control over financial reporting and compliance.

Blum, Shapiro & Company, P.C.

West Hartford, Connecticut
July 15, 2014

CENTER OF SPECIAL CARE, INC. AND SUBSIDIARIES
CONSOLIDATED STATEMENTS OF FINANCIAL POSITION
MARCH 31, 2014 AND 2013

ASSETS

	2014	2013
Current Assets		
Cash and cash equivalents	$ 16,719,864	$ 17,557,299
Accounts receivable, less allowance for doubtful accounts of $1,650,178 in 2014 and $2,606,404 in 2013	12,999,536	14,332,309
Pledges receivable, less allowance of $8,387 in 2014 and $35,862 in 2013	329,797	496,589
Prepaid sinking fund	1,479,292	1,458,737
Prepaid expenses and other assets	2,011,318	1,983,028
Inventories of supplies	508,169	571,146
Total current assets	34,047,976	36,399,108
Other Assets		
Investments	46,346,205	43,739,004
Pledges receivable, less allowance and discount of $15,334 in 2014 and $38,438 in 2013, less current portion	250,228	291,672
Debt Service Reserve Fund	7,164,981	7,109,200
Debt obligations issuance expense, net of amortization	2,428,449	2,532,871
Insurance funds	1,890,957	1,944,601
Other assets	5,767,540	4,889,488
Total other assets	63,848,360	60,506,836
Property, Plant and Equipment, Net	48,932,201	42,896,930
Total Assets	$ 146,828,537	$ 139,802,874

LIABILITIES AND NET ASSETS

	2014	2013
Current Liabilities		
Current portion of long-term debt	$ 930,000	$ 890,000
Accounts payable	4,191,937	2,861,554
Salaries, wages, payroll taxes and amounts withheld from employee compensation	6,920,947	7,511,220
Accrued insurance costs	3,896,021	3,683,810
Accrued interest and other liabilities	4,177,403	5,000,713
Accrued pension cost	3,958,074	-
Total current liabilities	24,074,382	19,947,297
Long-Term Liabilities		
Long-term debt, less current portion	52,361,696	53,291,696
Accrued pension cost	-	3,352,678
Other long-term liabilities	5,767,540	4,889,487
Total long-term liabilities	58,129,236	61,533,861
Net Assets		
Unrestricted net assets	62,839,106	51,660,885
Temporarily restricted net assets	1,346,502	6,204,762
Permanently restricted net assets	439,311	456,069
Total net assets	64,624,919	58,321,716
Total Liabilities and Net Assets	$ 146,828,537	$ 139,802,874

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, 2014 AND 2013

	2014	2013
Revenues		
Net revenues from services to patients	$ 89,324,653	$ 88,321,584
Other operating revenues	3,396,845	3,080,701
Bad debts	(44,413)	(232,290)
Net assets released from restrictions	309,898	383,939
Total revenues	92,986,983	91,553,934
Operating Expenses		
Salaries, wages and employee benefits	68,975,210	66,989,611
Supplies and other	19,104,002	18,844,308
Interest	2,212,451	2,240,750
Depreciation and amortization	3,630,935	3,434,616
Total operating expenses	93,922,598	91,509,285
Income (loss) from operations	(935,615)	44,649
Nonoperating Gains		
Other income, primarily investment income	3,704,968	1,518,044
Excess of revenues over expenses	2,769,353	1,562,693
Other Changes in Unrestricted Net Assets		
Change in net unrealized gains on investments	155,373	2,380,461
Net assets released for capital additions	7,439,653	244,719
Change in minimum pension liability, net	1,596,052	147,722
Increase in unrestricted net assets	11,960,431	4,335,595
Temporarily Restricted Net Assets		
Contributions	2,545,304	792,462
Net realized gains on investments	220,344	105,917
Change in net unrealized gains on investments	79,017	156,873
Net assets released from restrictions used for purchase of capital	(7,439,653)	(244,719)
Net assets released from restrictions used for operations	(238,786)	(206,339)
Transfer of assets to another entity	(30,133)	-
Increase (decrease) in temporarily restricted net assets	(4,863,907)	604,194
Permanently Restricted Net Assets		
Contributions	3,287	248
Transfer of assets to another entity	(20,045)	-
Increase (decrease) in permanently restricted net assets	(16,758)	248
Change in Total Net Assets from Continuing Operations	7,079,766	4,940,037
Loss from Discontinued Operations	(776,563)	(553,655)
Gain on Sale	-	780,814
Change in Net Assets	6,303,203	5,167,196
Net Assets - Beginning of Year	58,321,716	53,154,520
Net Assets - End of Year	$ 64,624,919	$ 58,321,716

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, 2014 AND 2013

	2014	2013
Cash Flows from Operating Activities		
Change in total net assets	$ 6,303,203	$ 5,167,196
Adjustments to reconcile change in total net assets to net cash provided by operating activities:		
Depreciation and amortization	3,630,935	4,126,083
Bad debt expense	14,481	391,822
Gain on disposal of property, plant and equipment	(7,500)	(714)
Net unrealized gains on investments	(234,390)	(2,537,334)
Change in minimum pension liability	605,396	(147,722)
Restricted contributions	(2,548,591)	(792,710)
(Increase) decrease in operating assets:		
Accounts receivable	1,318,292	4,194,167
Pledges receivable, net	208,236	619,948
Prepaid sinking fund and debt service reserves	(76,336)	(3,843,648)
Prepaid expenses and other assets	(28,290)	(296,208)
Insurance funds	53,644	(153,049)
Inventories of supplies	62,977	(14,503)
Other assets	(878,052)	(855,692)
Increase (decrease) in operating liabilities:		
Accounts payable	(471,461)	241,337
Salaries, wages, payroll taxes and amounts withheld from employee compensation	(590,273)	(756,689)
Accrued insurance costs	212,211	(509,962)
Pension contribution	-	(1,000,000)
Other long-term liabilities	878,053	855,691
Accrued interest and other liabilities	(823,310)	1,284,877
Net cash provided by operating activities	7,629,225	5,972,890
Cash Flows from Investing Activities		
Purchases of investments	(21,147,125)	(27,511,112)
Sales of investments	18,774,314	28,648,250
Purchases of property, plant and equipment	(9,546,784)	(2,844,869)
Proceeds from sale of property, plant and equipment	(7,500)	7,489,417
Increase in accounts payable related to construction	1,801,844	-
Net cash provided by (used in) investing activities	(10,125,251)	5,781,686
Cash Flows from Financing Activities		
Payments on long-term debt	(890,000)	(9,960,000)
Restricted contributions	2,548,591	792,710
Net cash provided by (used in) financing activities	1,658,591	(9,167,290)
Net Increase (Decrease) in Cash and Cash Equivalents	(837,435)	2,587,286
Cash and Cash Equivalents - Beginning of Year	17,557,299	14,970,013
Cash and Cash Equivalents - End of Year	$ 16,719,864	$ 17,557,299
Cash Paid During the Year for Interest	$ 2,220,294	$ 2,268,073

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. On October 1, 2012, Brittany Farms was sold (see discontinued operations). HSC Community Services, Inc., has established subsidiary corporations known as CSI Residential, Inc. (CSI Residential) and Manes & Motions Therapeutic Riding Center, Inc. (Manes & 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. (the Foundation) 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.

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

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

Debt 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 $104,422 and $114,030 for the years ended March 31, 2014 and 2013, respectively. The expected yearly amortization of bond issuance expense will be $104,422 for the next five years.

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

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

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

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 the Foundation.

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 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. 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, 2011 through 2014 are subject to examination by the Internal Revenue Service and the State of Connecticut.

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

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

The revenues and expense of the discontinued operations for the years ended March 31, 2014 and 2013, is as follows:

	2014	2013
Revenues:		
Net revenues from services to patients	$ -	$ 13,364,533
Other operating revenues	3,892	41,613
Bad debts	(151,392)	(180,000)
Total revenues	(147,500)	13,226,146
Operating expenses:		
Salaries, wages and employees benefits	499,174	9,053,883
Supplies and other	136,127	4,378,119
Interest	-	17,229
Depreciation and amortization	-	336,571
Total operating expenses	635,301	13,965,802
Operating loss	(782,801)	(559,656)
Nonoperating gains:		
Other income, primarily investment income	591	3,404
Deficiency of revenues over expenses	(782,210)	(556,252)
Other changes in unrestricted net assets:		
Net assets released for capital additions	-	2,597
Loss from discontinued operations	(782,210)	(553,655)
Temporarily restricted net assets:		
Change in equity interest in Foundation	(24,486)	(21,731)
Permanently restricted net assets:		
Change in equity interest in Foundation	(20,045)	-
Change in total net assets from discontinued operations	(826,741)	(575,386)
Gain on sale	-	780,814
Net assets - beginning of year	869,438	664,010
Net Assets - End of Year	$ 42,697	$ 869,438

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Reclassifications - Certain 2013 amounts have been reclassified to conform to the 2014 presentation.

Subsequent Events - In preparing these consolidated financial statements, management has evaluated subsequent events through July 15, 2014, which represents the date the consolidated financial statements were available to be issued.

NOTE 2 - REVENUE CONCENTRATIONS

During 2014 and 2013, approximately 70% and 71%, respectively, of net patient revenue was received under the Medicaid program; 12% and 13%, respectively, under the Medicare program; and 18% and 16%, respectively, from other third parties. Laws and regulations governing the Medicaid and Medicare programs are complex and subject to interpretation. Management believes that the Hospital is 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, 2014 and 2013:

	2014	2013
Gross revenues from patients:		
Routine services	$ 95,175,700	$ 96,897,400
Special services	45,204,736	44,588,180
	140,380,436	141,485,580
Allowances (primarily Medicare and Medicaid)	51,055,783	53,163,996
Net Revenues from Services to Patients	$ 89,324,653	$ 88,321,584

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 Hospital'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 was one contribution to endowment net assets of $3,287 for the year ended March 31, 2014. There was one contribution to endowment net assets of $248 for the year ended March 31, 2013. See Note 6 for more information regarding the programs that the permanently restricted net assets support.

NOTE 3 - ENDOWMENT NET ASSETS (Continued)

With the sale of Brittany Farms, the Center does not provide Alzheimer's patient care or Alzheimer's research. The Center petitioned the State of Connecticut Court of Probate to allow the Center to deviate from administrative terms of restricted funds and transfer to another entity so they can accomplish the charitable intent of the two funds. The State of Connecticut did not object to the Petition of Deviation and the Center transferred the two funds to the Alzheimer's Resource Center of Connecticut, Inc., who will accomplish the charitable intent of the two funds. Temporarily and permanently restricted net assets transferred amounted to $30,133 and 20,045, respectively.

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, 2014 and 2013, respectively:

	2014	2013
Receivable in less than one year	$ 338,184	$ 532,451
Receivable in one to five years	265,562	330,112
Total pledges receivable	603,746	862,563
Less allowance for uncollectible promises	11,165	41,339
Less discounts to net present value	12,556	32,963
Net Pledges Receivable	$ 580,025	$ 788,261

The discount rate used in calculating the present value of pledges receivable for each of the years ended March 31, 2014 and 2013, was 3.00%.

NOTE 5 - INVESTMENTS

The composition of investments at March 31, 2014 and 2013, is set forth below. Investments are stated at market value.

	2014			
	Cost	Market Value	Unrealized Gain	Unrealized Loss
Bond funds	$ 740,859	$ 747,735	$ 13,484	$ (6,608)
Mutual funds:				
Domestic equity	21,219,734	23,176,883	2,057,378	(100,229)
Fixed income	21,540,158	21,554,701	242,169	(227,626)
International equity	791,873	866,886	75,144	(131)
	$ 44,292,624	$ 46,346,205	$ 2,388,175	$ (334,594)

NOTE 5 - INVESTMENTS (Continued)

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

Investment income (including realized gains and losses, interest and dividends, net of investment fees) earned on investments amounted to $3,922,768 and $1,623,657 during the years ended March 31, 2014 and 2013, respectively. This is included in nonoperating gains in the consolidated statements of activities and changes in net assets.

At March 31, 2014, investments with market value below cost for 12 months or more included certain investments with a market value of $3,984,910 and an unrealized loss of $152,604. At March 31, 2014, investments with market value below cost for less than 12 months included bond funds with a market value of $6,926,859 and an unrealized loss of $181,990.

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

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 2014 or 2013.

NOTE 6 - TEMPORARILY AND PERMANENTLY RESTRICTED NET ASSETS

Temporarily restricted net assets at March 31, 2014 and 2013, are available for the following purposes:

	2014	2013
Sports and fitness programs	$ 363,020	$ 354,281
Manes & Motions Capital Campaign	211,203	262,909
ALS Clinic/Neuromuscular Fund	109,384	98,088
Other	58,998	36,845
Timura Management Information Systems Scholarship Fund	57,000	53,708
Aquatic rehab	56,212	40,877
Paul Sutula Nursing Scholarship Fund	54,122	50,996
Gold Star Timura Healthcare Professions Scholarship Fund	52,142	-
Autism	44,266	30,399
Adaptive equipment	42,240	20,421
Pediatric	40,052	29,661
Pulmonary	37,610	45,411
Respiratory therapist education	29,303	25,866
Horticultural	28,633	27,547
H.R. Gossling Lecture Fund	27,865	29,646
Gustin Lecture	26,427	26,276
Manes & Motions Rider Assistance Programs	24,351	27,937
Research	19,651	16,728
Gait & Balance Training Fund	15,377	14,488
Patient Recreation Center	14,252	20,669
Joy of Art	12,817	12,224
Resource center	8,607	13,714
Lobby renovations	7,098	6,688
Satellite	3,048	2,872
Dental clinic	2,824	2,661
Outpatient Capital Campaign	-	4,924,686
Brittany Farms	-	29,164
	$ 1,346,502	$ 6,204,762

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 $439,311 and $456,069 at March 31, 2014 and 2013, respectively, are to be held in perpetuity, the income from which is used for unrestricted and temporarily restricted Center activities and is expendable to support healthcare services.

NOTE 7 - PROPERTY, PLANT AND EQUIPMENT

Property, plant and equipment consists of the following at March 31, 2014 and 2013:

	2014	2013
Buildings	$ 58,471,340	$ 58,767,790
Fixed and moveable equipment	34,917,637	32,896,574
Land and land improvements	3,212,268	3,012,495
	96,601,245	94,676,859
Less accumulated depreciation	56,249,346	53,246,327
	40,351,899	41,430,532
Construction in progress	8,580,302	1,466,398
Net Property, Plant and Equipment	$ 48,932,201	$ 42,896,930

Depreciation expense was $3,526,513 and $3,330,194 for the years ended March 31, 2014 and 2013, 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, 2014 and 2013. 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 $1,531,097 and $1,343,986 for the years ended March 31, 2014 and 2013, respectively, and is included in accrued insurance costs on the consolidated statements of financial position. This amount was calculated at a confidence level of 75% of the expected level for the years ended March 31, 2014 and 2013, with a 4% discount rate in 2014 and 2013. Management considers these reserves to be adequate as of March 31, 2014 and 2013. 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 $1,750,957 and $1,804,601 at March 31, 2014 and 2013, 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.

NOTE 8 - SELF-INSURED PROGRAMS (Continued)

Workers' Compensation - The Center is self-insured for the deductible portion of workers' compensation claims. The deductible amount per claim was $500,000 and $400,000 at March 31, 2014 and 2013, respectively. The Center has purchased excess insurance from a commercial carrier that would cover claims settled above $500,000. The self-insurance workers' compensation liability was determined to be $4,062,687 and $2,775,700 at March 31, 2014 and 2013, respectively. The current portion of $1,122,988 and $1,020,843 at March 31, 2014 and 2013, respectively, is included in accrued insurance costs on the consolidated statements of financial position. The long-term portion of $2,939,699 and $1,754,857 at March 31, 2014 and 2013, respectively, is included in other long-term liabilities on the consolidated statements of financial position. Receivables related to insurance on workers' compensation claims totaled $3,175,250 and $2,411,067 at March 31, 2014 and 2013, respectively. The current portion of $235,551 and $656,210 at March 31, 2014 and 2013, respectively, is included in prepaid expenses and other assets on the consolidated statements of financial position. The long-term portion of $2,939,699 and $1,754,857 at March 31, 2014 and 2013, respectively, is included in other assets on the consolidated statements of financial position.

A letter of credit with a bank of $858,000 at March 31, 2014 and 2013, 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, 2014 and 2013, 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 $1,241,936 and $1,318,981 for the years ended March 31, 2014 and 2013, 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.

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

NOTE 9 - LONG-TERM DEBT OBLIGATIONS (Continued)

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. 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, 2014 was 0.06%. 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 $10,706,082.

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

The Obligated Group is also required to maintain debt service reserve funds for the Series C bonds. The Debt Service Reserve Fund is equal in amount to the largest total debt service to be paid within a year. During 2013, this amount was increased as the Center has agreed to post $4,000,000 as restricted cash to reduce future Series C long-term debt payments. In 2014, the Center was approved to use this $4,000,000 to purchase its own Series C bonds back. The fair value of these bonds is included in the debt service reserve fund on the consolidated statements of financial position until they can be redeemed. The bonds are subject to redemption prior to maturity beginning on July 1, 2008 for Series C and July 1, 2011 for Series E, and annually on July 1 thereafter by operation of a sinking fund.

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

During fiscal year 2013, the proceeds from the sale of Brittany Farms were used to repay $9,000,000 in Series E long-term debt. Deferred financing costs of $364,504 related to the Series E long-term debt were also written off, and are included in loss from discontinued operations on the consolidated statements of activities and changes in net assets.

In addition, the Hospital has a $3,000,000 line of credit with a bank. As of March 31, 2014 and 2013, the full amount of the remaining line was available. Interest on the line accrues at the bank's prevailing prime rate, and amounts drawn are repayable on demand. The line of credit has a revolving credit termination date of October 1, 2015.

The availability of the line is reduced by the self-insurance letter of credit in place (see Note 8). In addition, the Hospital escrowed $1,075,000 in the form of a letter of credit against the line for a three-year period to satisfy any potential indemnification claims resulting from the sale of Brittany Farms. The letter of credit has a termination date of October 1, 2015.

NOTE 9 - LONG-TERM DEBT OBLIGATIONS (Continued)

During fiscal years 2014 and 2013, interest expense was $2,212,451 and $2,240,750, 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
2014	$ 930,000	$ -	$ -	$ 930,000
2015	965,000	-	-	965,000
2016	1,005,000	-	-	1,005,000
2017	1,060,000	-	-	1,060,000
2018	1,115,000	-	-	1,115,000
Aggregate thereafter	36,740,000	10,550,000	926,696	48,216,696
	41,815,000	10,550,000	926,696	53,291,696
Less current portion	930,000	-	-	930,000
Total Long-Term Debt	$ 40,885,000	$ 10,550,000	$ 926,696	$ 52,361,696

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

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, 2014 and 2013:

	Pension Benefits	
	2014	2013
Change in benefit obligation:		
Projected benefit obligation at beginning of year	$ (22,852,234)	$ (21,574,891)
Interest cost	(907,090)	(984,105)
Impact of assumption changes	922,354	(1,156,129)
Experience gain (loss)	(15,230)	246,583
Benefits paid	902,332	616,308
Settlement amount	7,010,644	-
Projected benefit obligation at end of year	(14,939,224)	(22,852,234)
Change in plan assets:		
Fair value of plan assets at beginning of year	19,499,556	17,074,491
Actual return on plan assets	294,629	2,041,373
Employer contributions	-	1,000,000
Benefits paid	(902,332)	(616,308)
Settlement purchase	(7,910,703)	-
Fair value of plan assets at end of year	10,981,150	19,499,556
Unfunded Status	$ (3,958,074)	$ (3,352,678)

Net periodic pension costs for 2014 and 2013 included the following components:

	Pension Benefits	
	2014	2013
Components of net periodic benefit cost:		
Interest cost	$ 907,090	$ 984,105
Expected return on plan assets	(1,023,095)	(1,029,817)
Amortization of net loss	359,791	438,350
Net Periodic Pension Cost	$ 243,786	$ 392,638

NOTE 10 - PENSION PLAN (Continued)

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

Assumptions used to determine benefit obligations and net periodic benefit cost at March 31, 2014 and 2013, are as follows:

	2014	2013
Discount rate	4.54%	4.32%
Long-term rate of return	6%	6%

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, 2014 and 2013, by asset category is as follows:

	2014	2013
Equity mutual funds	-	63%
Fixed income mutual funds	100%	37%

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 100% fixed income funds and 47% equities and 53% fixed income funds at March 31, 2014 and 2013, respectively. 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. During fiscal year 2014, the Investment Subcommittee moved all of the plan's investments into fixed income funds.

NOTE 10 - PENSION PLAN (Continued)

The Board has approved the termination of the pension plan. The termination of the plan will take place in two stages. The first stage of the termination took place during fiscal year 2014 by purchasing annuities with pension plan assets for the benefit of the current retirees. The second stage, to take place during fiscal year 2015, will be the purchase of the benefits of plan beneficiaries not currently retired. The purchase of benefits will be done in part with the remaining plan assets and in part with funds provided by the Hospital. The first stage resulted in the Hospital recognizing a loss of $2,201,448 in salaries, wages and employee benefits on the consolidated statements of activities and changes in net assets. The loss was offset by a gain of $1,596,052 in change in minimum pension liability on the consolidated statements of activities and changes in net assets. As part of the second stage, the Hospital expects to make a contribution to the pension plan in an amount up to $4,000,000 for the year ending March 31, 2015.

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 biweekly employee contributions at varying percentages based on age and years of service (maximum match is 40%). The Hospital's expense amounted to $494,359 and $476,852 for the years ended March 31, 2014 and 2013, 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 $233,868 and $317,762 in 2014 and 2013, respectively. Assets and liabilities relating to this plan were $2,827,841 and $3,134,631 at March 31, 2014 and 2013, respectively, and are included in other assets and other long-term liabilities.

Brittany Farms has a defined contribution pension plan that covers substantially all eligible nonunion employees. Upon sale of Brittany Farms on October 1, 2012, the plan was frozen and participants became fully vested. The Board has approved the termination of the plan, which will take place during fiscal year 2015.

NOTE 11 - FUNCTIONAL EXPENSES

Functional expenses for the Center are as follows:

	2014	2013
Health care services	$ 81,712,660	$ 79,613,078
General and administrative	12,209,938	11,896,207
	$ 93,922,598	$ 91,509,285

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

Operating Leases - The Center leases certain office space and equipment under operating leases. The future minimum annual payments under these agreements as of March 31, 2014 are as follows:

Year Ending March 31		
2015	$	626,652
2016		441,248
2017		332,154
2018		88,608
2019		27,832
Thereafter		105,545
	$	1,622,039

Rent expense recorded by the Center for the years ended March 31, 2014 and 2013, was $1,420,359 and $1,320,189, respectively.

Capital Commitments - The Center entered into a contract to purchase new software for electronic medical records. The contract is estimated to be completed in fiscal year 2015 and is estimated to cost $3.6 million. As of March 31, 2014, approximately $1.4 million in costs has been incurred and is included in construction in progress. Related to this contract are licenses and support fees of approximately $530,000 that will be incurred over a seven-year period.

The Center entered into a contract related to outpatient expansion. The contract is estimated to be completed in fiscal year 2015 and is estimated to cost $7.4 million. As of March 31, 2014, approximately $5.9 million in costs has been incurred and is included in construction in progress.

Manes & Motions entered into a contract to build an indoor arena. The contract is estimated to be completed in fiscal year 2015 and is estimated to cost $463,000. As of March 31, 2014, approximately $283,000 in costs has been incurred and is included in construction in progress.

NOTE 14 - FAIR VALUE OF FINANCIAL INSTRUMENTS

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

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

Level 2 - Inputs to the valuation methodology include:

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

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

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

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

Mutual Funds - Mutual funds are valued at the quoted net asset value of shares held by the Center at March 31, 2014.

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

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

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

NOTE 14 - FAIR VALUE OF FINANCIAL INSTRUMENTS (Continued)

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.

The following is a summary of the source of fair value measurements for assets that are measured at fair value as of March 31, 2014 and 2013:

Description	Fair Value March 31, 2014	Fair Value Measurements Using Level 1	Level 2	Level 3
Investments:				
Bond funds	$ 747,735	$ 321,708	$ 426,027	$ -
Mutual funds:				
Domestic equity	23,176,883	23,176,883	-	-
Fixed income	21,554,701	21,554,701	-	-
International equity	866,886	866,886	-	-
Insurance funds	1,890,957	-	-	1,890,957
Pledges receivable	580,025	-	-	580,025
Total	$ 48,817,187	$ 45,920,178	$ 426,027	$ 2,470,982

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

NOTE 14 - FAIR VALUE OF FINANCIAL INSTRUMENTS (Continued)

Assets Measured at Fair Value on a Recurring Basis Using Significant Unobservable Inputs (Level 3) - The following is a summary of the changes in the balances of assets measured at fair value on a recurring basis using significant unobservable inputs for the years ended March 31, 2014 and 2013:

	Insurance Funds 2014	Insurance Funds 2013
Balance - beginning	$ 1,944,601	$ 1,791,552
Contributions	-	2,774,443
Fees	(12,403)	(12,392)
Income	25,759	102,164
Withdrawals	(67,000)	(2,711,166)
Balance - Ending	$ 1,890,957	$ 1,944,601

	Pledges Receivable 2014	Pledges Receivable 2013
Balance - beginning	$ 788,261	$ 1,408,209
New pledges receivable	478,048	159,459
Collections	(730,784)	(811,273)
Direct write-offs	(6,081)	(22,422)
Change in allowance and discount	50,581	54,288
Balance - Ending	$ 580,025	$ 788,261

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, 2014 are as follows:

Description	Carrying Amount at March 31, 2014	Fair Value at March 31, 2014
Financial liabilities:		
Series C revenue bonds	$ 41,815,000	$ 43,368,056
Series E revenue bonds	10,550,000	10,550,000
HUD mortgage	926,696	926,696

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

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

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Independent Auditors' Report on Supplementary Information

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

We have audited the consolidated financial statements of Center of Special Care, Inc. and Subsidiaries (the Center) as of and for the years ended March 31, 2014 and 2013, and our report thereon dated July 15, 2014, which expressed an unmodified opinion on those consolidated financial statements, appears on pages 1 and 2. Our audits were conducted for the purpose of forming an opinion on the consolidated financial statements as a whole. The consolidating information on the following pages is presented for the purposes of additional analysis and is not a required part of the consolidated financial statements. Such information is the responsibility of management and was derived from and relates directly to the underlying accounting and other records used to prepare the consolidated financial statements. The information has been subjected to the auditing procedures applied in the audits of the consolidated financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the consolidated financial statements or to the consolidated financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the information is fairly stated in all material respects in relation to the consolidated financial statements as a whole.

Blum, Shapiro & Company, P.C.

West Hartford, Connecticut
July 15, 2014

CENTER OF SPECIAL CARE, INC. AND SUBSIDIARIES
CONSOLIDATING STATEMENT OF FINANCIAL POSITION
MARCH 31, 2014

ASSETS	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
Current assets:								
Cash and cash equivalents	$ 374,449	$ 428,106	$ 802,555	$ 14,355,449	$ -	$ 1,561,860	$ -	$ 16,719,864
Accounts receivable, less allowance of $1,650,178	-	44,383	44,383	12,955,153	-	-	-	12,999,536
Pledges receivable, net of allowance and discount of $8,387	-	11,951	11,951	-	-	317,846	-	329,797
Prepaid sinking fund	-	-	-	1,479,292	-	-	-	1,479,292
Prepaid expenses and other assets	22,357	8,170	30,527	1,976,600	-	4,191	-	2,011,318
Inventories of supplies	-	-	-	508,169	-	-	-	508,169
Due from affiliates	-	12,412	12,412	1,543,778	-	-	(1,556,190)	-
Total current assets	396,806	505,022	901,828	32,818,441	-	1,883,897	(1,556,190)	34,047,976
Other assets:								
Investments	-	-	-	39,498,691	286,134	6,561,380	-	46,346,205
Pledges receivable, net of allowance and discount of $15,334, less current portion	-	-	-	-	-	250,228	-	250,228
Investments in Foundation	-	423,111	423,111	4,456,796	-	-	(4,879,907)	-
Debt Service Reserve Fund	-	-	-	7,164,981	-	-	-	7,164,981
Debt obligations issuance expense, net of amortization	-	-	-	2,428,449	-	-	-	2,428,449
Insurance funds	40,000	-	40,000	1,850,957	-	-	-	1,890,957
Other assets	-	-	-	5,767,540	-	-	-	5,767,540
Total other assets	40,000	423,111	463,111	61,167,414	286,134	6,811,608	(4,879,907)	63,848,360
Property, plant and equipment, net	-	993,107	993,107	47,939,094	-	-	-	48,932,201
Total Assets	$ 436,806	$ 1,921,240	$ 2,358,046	$ 141,924,949	$ 286,134	$ 8,695,505	$ (6,436,097)	$ 146,828,537

(Continued on next page)

CENTER OF SPECIAL CARE, INC. AND SUBSIDIARIES
CONSOLIDATING STATEMENT OF FINANCIAL POSITION (CONTINUED)
MARCH 31, 2014

	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	$ -	$ -	$ -	$ 930,000	$ -	$ -	$ -	$ 930,000
Accounts payable	11,894	25,208	37,102	4,154,835	-	-	-	4,191,937
Salaries, wages, payroll taxes and amounts withheld from employee compensation	-	-	-	6,920,947	-	-	-	6,920,947
Accrued insurance costs	298,853	-	298,853	3,597,168	-	-	-	3,896,021
Due to affiliates	83,362	4,859	88,221	-	-	1,467,969	(1,556,190)	-
Accrued interest and other liabilities	-	60,912	60,912	4,072,443	-	44,048	-	4,177,403
Accrued pension cost	-	-	-	3,958,074	-	-	-	3,958,074
Total current liabilities	394,109	90,979	485,088	23,633,467	-	1,512,017	(1,556,190)	24,074,382
Long-term liabilities:								
Long-term debt, less current portion	-	926,696	926,696	51,435,000	-	-	-	52,361,696
Other long-term liabilities	-	-	-	5,767,540	-	-	-	5,767,540
Total long-term liabilities	-	926,696	926,696	57,202,540	-	-	-	58,129,236
Net assets:								
Unrestricted net assets	42,697	296,443	339,140	59,910,251	286,134	2,530,249	(226,668)	62,839,106
Temporarily restricted net assets	-	607,122	607,122	739,380	-	4,213,928	(4,213,928)	1,346,502
Permanently restricted net assets	-	-	-	439,311	-	439,311	(439,311)	439,311
Total net assets	42,697	903,565	946,262	61,088,942	286,134	7,183,488	(4,879,907)	64,624,919
Total Liabilities and Net Assets	$ 436,806	$ 1,921,240	$ 2,358,046	$ 141,924,949	$ 286,134	$ 8,695,505	$ (6,436,097)	$ 146,828,537

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

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

(Continued on next page)

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

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

CENTER OF SPECIAL CARE, INC. AND SUBSIDIARIES
CONSOLIDATING STATEMENT OF ACTIVITIES AND CHANGES IN NET ASSETS
FOR THE YEAR ENDED MARCH 31, 2014

	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	$ -	$ 161,958	$ 161,958	$ 89,284,308	$ -	$ -	$ (121,613)	$ 89,324,653
Other operating revenues	-	478,514	478,514	3,045,830	-	39,633	(167,132)	3,396,845
Bad debts	-	(216)	(216)	(44,197)	-	-	-	(44,413)
Net assets released from restrictions	-	6,388	6,388	-	-	303,510	-	309,898
Total revenues	-	646,644	646,644	92,285,941	-	343,143	(288,745)	92,986,983
Operating expenses:								
Salaries, wages and employees benefits	-	473,659	473,659	68,296,375	-	326,789	(121,613)	68,975,210
Supplies and other	-	292,458	292,458	18,600,226	-	444,024	(232,706)	19,104,002
Interest	-	-	-	2,212,451	-	-	-	2,212,451
Depreciation and amortization	-	41,716	41,716	3,589,219	-	-	-	3,630,935
Total operating expenses	-	807,833	807,833	92,698,271	-	770,813	(354,319)	93,922,598
Income (loss) from operations	-	(161,189)	(161,189)	(412,330)	-	(427,670)	65,574	(935,615)
Nonoperating gains:								
Other income, primarily investment income	-	3,083	3,083	3,406,019	16,030	83,659	196,177	3,704,968
Excess (deficiency) of revenues over expenses	-	(158,106)	(158,106)	2,993,689	16,030	(344,011)	261,751	2,769,353
Other changes in unrestricted net assets:								
Change in equity interest in Foundation	-	28,160	28,160	304,144	-	-	(332,304)	-
Change in net unrealized gains on investments	-	-	-	23,914	11,045	49,871	70,543	155,373
Net assets released for capital additions	-	289,318	289,318	7,150,335	-	-		7,439,653
Change in minimum pension liability	-	-	-	1,596,052	-	-	-	1,596,052
Transfer among affiliates	-	(138,078)	(138,078)	(359,722)	-	497,800	-	-
Increase in unrestricted net assets	-	21,294	21,294	11,708,412	27,075	203,660	(10)	11,960,431
Temporarily restricted net assets:								
Contributions	-	239,812	239,812	1,484,270	-	957,600	(136,378)	2,545,304
Net realized gains on investments	-	602	602	-	-	415,919	(196,177)	220,344
Change in net unrealized gains on investments	-	-	-	-	-	149,560	(70,543)	79,017
Change in equity interest in Foundation	-	10,061	10,061	(4,862,586)	-	-	4,852,525	-
Net assets released from restrictions used for purchase of capital	-	(289,318)	(289,318)	(1,410,227)	-	(5,740,108)	-	(7,439,653)
Net assets released from restrictions used for operations	-	(6,388)	(6,388)	-	-	(303,510)	71,112	(238,786)
Transfer of assets to another entity	-	-	-	-	-	(30,133)	-	(30,133)
Decrease in temporarily restricted net assets	-	(45,231)	(45,231)	(4,788,543)	-	(4,550,672)	4,520,539	(4,863,907)
Permanently restricted net assets:								
Contributions	-	-	-	-	-	3,287	-	3,287
Transfer of assets to another entity	-	-	-	-	-	(20,045)	-	(20,045)
Change in equity interest in Foundation	-	-	-	3,287	-	-	(3,287)	-
Increase (decrease) in permanently restricted net assets	-	-	-	3,287	-	(16,758)	(3,287)	(16,758)
Change in total net assets from continuing operations	-	(23,937)	(23,937)	6,923,156	27,075	(4,363,770)	4,517,242	7,079,766
Loss from discontinued operations	(826,741)	-	(826,741)	-	-	-	50,178	(776,563)
Net assets - beginning of year	869,438	927,502	1,796,940	54,165,786	259,059	11,547,258	(9,447,327)	58,321,716
Net Assets - End of Year	$ 42,697	$ 903,565	$ 946,262	$ 61,088,942	$ 286,134	$ 7,183,488	$ (4,879,907)	$ 64,624,919

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

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