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CENTER OF SPECIAL CARE, INC. AND SUBSIDIARIES

CONSOLIDATED FINANCIAL STATEMENTS

MARCH 31, 2016 AND 2015

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. and Subsidiaries
New Britain, Connecticut

Report on the Financial Statements

We have audited the accompanying consolidated financial statements of Center of Special Care, Inc. and Subsidiaries, which comprise the consolidated statements of financial position as of March 31, 2016 and 2015, 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.

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, 2016 and 2015, and the changes in its net assets and its cash flows for the years then ended in accordance with accounting principles generally accepted in the United States of America.

Other Reporting Required by *Government Auditing Standards*

In accordance with *Government Auditing Standards*, we have also issued a report dated July 14, 2016 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* 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 14, 2016

CENTER OF SPECIAL CARE, INC. AND SUBSIDIARIES

CONSOLIDATED STATEMENTS OF FINANCIAL POSITION
MARCH 31, 2016 AND 2015

ASSETS

	2016	2015
Current Assets		
Cash and cash equivalents	$ 1,404,361	$ 3,874,525
Accounts receivable, less allowance for doubtful accounts of $1,255,977 in 2016 and $1,228,743 in 2015	13,427,541	14,333,447
Pledges receivable, less allowance of $28,536 in 2016 and $17,920 in 2015	222,183	210,595
Prepaid sinking fund	1,514,249	1,493,116
Prepaid expenses and other assets	2,305,050	1,803,808
Inventories of supplies	567,253	548,989
Total current assets	19,440,637	22,264,480
Other Assets		
Investments	58,367,675	55,819,964
Pledges receivable, less allowance and discount of $4,698 in 2016 and $5,145 in 2015, less current portion	48,261	105,627
Debt Service Reserve Fund	7,282,856	7,286,402
Debt obligations issuance expense, net of amortization	2,219,604	2,324,027
Insurance funds	1,253,540	1,724,573
Other assets	5,735,983	5,556,761
Total other assets	74,907,919	72,817,354
Property, Plant and Equipment, Net	51,140,670	51,120,871
Total Assets	$ 145,489,226	$ 146,202,705

The accompanying notes are an integral part of the consolidated financial statements

CENTER OF SPECIAL CARE, INC. AND SUBSIDIARIES

CONSOLIDATED STATEMENTS OF FINANCIAL POSITION (CONTINUED)
MARCH 31, 2016 AND 2015

LIABILITIES AND NET ASSETS

	2016	2015
Current Liabilities		
Current portion of long-term debt	$ 1,005,000	$ 965,000
Accounts payable	2,389,194	2,523,158
Salaries, wages, payroll taxes and amounts withheld from employee compensation	6,983,818	6,894,289
Accrued insurance costs	3,248,896	3,943,197
Accrued interest and other liabilities	3,888,787	3,940,743
Total current liabilities	17,515,695	18,266,387
Long-Term Liabilities		
Long-term debt, less current portion	50,391,696	51,396,696
Other long-term liabilities	5,735,845	5,556,761
Total long-term liabilities	56,127,541	56,953,457
Net Assets		
Unrestricted net assets	69,562,535	68,931,834
Temporarily restricted net assets	1,819,508	1,607,397
Permanently restricted net assets	463,947	443,630
Total net assets	71,845,990	70,982,861
Total Liabilities and Net Assets	$ 145,489,226	$ 146,202,705

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, 2016 AND 2015

	2016	2015
Revenues		
Net revenues from services to patients	$ 93,365,950	$ 90,693,886
Other operating revenues	4,005,363	3,327,434
Bad debts	(235,066)	(164,020)
Net assets released from restrictions	627,888	462,442
Total revenues	97,764,135	94,319,742
Operating Expenses		
Salaries, wages and employee benefits	70,731,829	71,613,788
Supplies and other	20,324,100	20,085,567
Interest	2,110,142	2,151,308
Depreciation and amortization	3,893,804	3,695,187
Total operating expenses	97,059,875	97,545,850
Income (loss) from operations	704,260	(3,226,108)
Nonoperating Gains		
Other income, primarily investment income	969,365	2,861,455
Excess (deficiency) of revenues over expenses	1,673,625	(364,653)
Other Changes in Unrestricted Net Assets		
Change in net unrealized gains (losses) on investments	(1,588,455)	515,394
Net assets released for capital additions	545,531	1,933,338
Change in minimum pension liability, net	-	4,008,649
Increase in unrestricted net assets	630,701	6,092,728
Temporarily Restricted Net Assets		
Contributions	1,169,861	2,365,867
Net realized gains on investments	57,236	154,585
Change in net unrealized losses on investments	(89,670)	(4,140)
Net assets released from restrictions used for purchase of capital	(545,531)	(1,933,338)
Net assets released from restrictions used for operations	(379,785)	(322,079)
Increase in temporarily restricted net assets	212,111	260,895
Permanently Restricted Net Assets		
Contributions	20,317	4,319
Increase in permanently restricted net assets	20,317	4,319
Change in Net Assets	863,129	6,357,942
Net Assets - Beginning of Year	70,982,861	64,624,919
Net Assets - End of Year	$ 71,845,990	$ 70,982,861

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, 2016 AND 2015

	2016	2015
Cash Flows from Operating Activities		
Change in total net assets	$ 863,129	$ 6,357,942
Adjustments to reconcile change in total net assets to net cash provided by operating activities:		
Depreciation and amortization	3,893,804	3,695,187
Bad debt expense	235,066	193,801
Gain on disposal of property, plant and equipment	-	(8,297)
Net unrealized (gains) losses on investments	1,678,125	(511,254)
Change in minimum pension liability	-	(3,958,074)
Restricted contributions	(1,190,178)	(2,370,186)
(Increase) decrease in operating assets:		
Accounts receivable	670,840	(1,527,712)
Pledges receivable, net	45,778	263,803
Prepaid sinking fund and debt service reserves	(17,587)	(135,245)
Prepaid expenses and other assets	(501,242)	207,510
Insurance funds	471,033	166,384
Inventories of supplies	(18,264)	(40,820)
Other assets	(179,222)	210,779
Increase (decrease) in operating liabilities:		
Accounts payable	(133,964)	(894,284)
Salaries, wages, payroll taxes and amounts withheld from employee compensation	89,529	(26,658)
Accrued insurance costs	(694,301)	47,176
Other long-term liabilities	179,084	(210,779)
Accrued interest and other liabilities	383,264	(236,660)
Net cash provided by operating activities	5,774,894	1,222,613
Cash Flows from Investing Activities		
Purchases of investments	(113,815,984)	(46,571,350)
Sales of investments	109,590,148	37,608,845
Purchases of property, plant and equipment	(4,244,400)	(5,761,237)
Proceeds from sale of property, plant and equipment	-	(9,901)
Decrease in accounts payable related to construction	-	(774,495)
Net cash used in investing activities	(8,470,236)	(15,508,138)
Cash Flows from Financing Activities		
Payments on long-term debt	(965,000)	(930,000)
Restricted contributions	1,190,178	2,370,186
Net cash provided by financing activities	225,178	1,440,186
Net Decrease in Cash and Cash Equivalents	(2,470,164)	(12,845,339)
Cash and Cash Equivalents - Beginning of Year	3,874,525	16,719,864
Cash and Cash Equivalents - End of Year	$ 1,404,361	$ 3,874,525
Cash Paid During the Year for Interest	$ 2,119,272	$ 2,161,141
Noncash Investing and Financing Activities		
Construction in progress included in accrued expenses	$ 435,220	$ -

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. 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 pledges receivable from contributions, accrued insurance costs and contractual allowances on revenues. It is management’s opinion that the estimates applied in the accompanying consolidated financial statements are reasonable.

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 13 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 for the years ended March 31, 2016 and 2015. The expected yearly amortization of bond issuance expense will be $104,422 for each of the next five years, thereafter $1,697,494.

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

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.

Pledges Receivable

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 contribution pension plan that covers substantially all eligible employees. The Hospital had a defined benefit plan that was frozen during fiscal year 2005 and liquidated in fiscal year 2015 (see Note 10). 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).

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.

Subsequent Events

In preparing these consolidated financial statements, management has evaluated subsequent events through July 14, 2016, which represents the date the consolidated financial statements were available to be issued.

NOTE 2 - REVENUE CONCENTRATIONS

During 2016 and 2015, approximately 72% and 68%, respectively, of net patient revenue was received under the Medicaid program; 10% and 9%, respectively, under the Medicare program; and 18% and 23%, respectively, from other third parties and managed Medicare. 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, 2016 and 2015:

	2016	2015
Gross revenues from patients:		
Routine services	$ 107,601,518	$ 97,431,170
Special services	55,774,869	48,004,418
	163,376,387	145,435,588
Allowances (primarily Medicare and Medicaid)	70,010,437	54,741,702
Net Revenues from Services to Patients	$ 93,365,950	$ 90,693,886

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.

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

Changes in endowment net assets for the years ended March 31, 2016 and 2015, are as follows:

	Unrestricted	Temporarily Restricted	Permanently Restricted	Total
Endowment net assets - March 31, 2014	$ -	$ 118,259	$ 439,311	$ 557,570
Investment return:				
Investment income	-	26,808	-	26,808
Investment gains	-	(5,885)	-	(5,885)
Total investment return	-	20,923	-	20,923
Contributions	-	-	4,319	4,319
Appropriation of endowment assets for expenditure	-	(3,658)	-	(3,658)
Endowment net assets - March 31, 2015	-	135,524	443,630	579,154
Investment return:				
Investment income	-	24,845	-	24,845
Investment losses	-	(44,930)	-	(44,930)
Total investment return	-	(20,085)	-	(20,085)
Contributions	-	-	20,317	20,317
Appropriation of endowment assets for expenditure	-	(8,750)	-	(8,750)
Endowment Net Assets - March 31, 2016	$ -	$ 106,689	$ 463,947	$ 570,636

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, 2016 and 2015:

	2016	2015
Receivable in less than one year	$ 250,719	$ 228,515
Receivable in one to five years	53,229	110,772
Total pledges receivable	303,948	339,287
Less allowance for uncollectible promises	28,697	18,209
Less discounts to net present value	4,807	4,856
Net Pledges Receivable	$ 270,444	$ 316,222

The discount rate used in calculating the present value of pledges receivable for the years ended March 31, 2016 and 2015, was 3.00%.

NOTE 5 - INVESTMENTS

The composition of investments at March 31, 2016 and 2015, is set forth below. Investments are stated at market value.

	2016			
	Cost	Market Value	Unrealized Gain	Unrealized Loss
Bond funds	$ 752,465	$ 748,872	6,585	$ (10,178)
Mutual funds:				
Domestic equity	19,793,290	20,026,839	233,549	-
Fixed income	21,988,947	22,164,077	175,130	-
International equity	13,190,561	13,234,346	43,785	-
Alternative investments	1,900,000	2,193,541	293,541	-
	$ 57,625,263	$ 58,367,675	$ 752,590	$ (10,178)

	2015			
	Cost	**Market Value**	**Unrealized Gain**	**Unrealized Loss**
Bond funds	$ 558,412	$ 565,230	$ 8,987	$ (2,169)
Mutual funds:				
Domestic equity	28,969,585	31,526,157	2,654,461	(97,889)
Fixed income	20,395,111	20,172,013	257,033	(480,131)
International equity	1,597,275	1,638,572	55,529	(14,232)
Alternative investments	1,900,000	1,917,992	17,992	-
	$ 53,420,383	$ 55,819,964	$ 2,994,002	$ (594,421)

Investment income (including realized gains and losses, interest and dividends, net of investment fees) earned on investments amounted to $1,026,601 and $3,016,040 during the years ended March 31, 2016 and 2015, respectively. This is included in nonoperating gains and temporarily restricted net assets in the consolidated statements of activities and changes in net assets.

At March 31, 2016, investments with market value below cost for 12 months or more included bond funds with a market value of $107,930 and an unrealized loss of $1,067. At March 31, 2016, investments with market value below cost for less than 12 months included bond funds with a market value of $339,654 and an unrealized loss of $9,111.

At March 31, 2015, investments with market value below cost for 12 months or more included certain investments with a market value of $7,586,457 and an unrealized loss of $234,890. At March 31, 2015, investments with market value below cost for less than 12 months included bond funds with a market value of $9,544,481 and an unrealized loss of $359,531.

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 2016 or 2015.

NOTE 6 - TEMPORARILY AND PERMANENTLY RESTRICTED NET ASSETS

Temporarily restricted net assets at March 31, 2016 and 2015, are available for the following purposes:

	2016	2015
Sports and fitness programs	$ 356,988	$ 351,286
Florence Timura Med Student Fund	244,715	259,923
ALS Clinic/Neuromuscular Fund	191,007	157,974
The Harper Fund for Autism	151,555	95,254
Florence Timura Physical Therapy Fund	109,644	-
Other	105,454	68,272
J. Timura Nursing Scholarship	76,352	63,534
Paul Sutula Nursing Scholarship Fund	70,629	57,744
Dr. Michael Timura III Nursing Scholarship Fund	68,771	53,384
Gold Star Timura Health Professions Scholarship Fund	68,317	55,537
Aquatic Rehab	53,012	63,272
Pediatric	45,409	48,776
Adaptive Equipment	33,640	41,153
Respiratory therapist education	33,185	31,722
Horticultural	28,653	30,699
Gustin Lecture	26,565	27,726
Pulmonary	25,420	60,153
H.R. Gossling Lecture Fund	21,520	27,006
Manes & Motion Rider Assistance Programs	19,739	17,670
Joy of Art	18,839	16,633
Research	16,285	21,564
Gait & Balance Training Fund	16,098	16,287
Patient Recreation Center	10,683	15,446
Lobby Renovations	7,820	7,912
Energy Independence Fund	7,210	8,348
Resource Center	5,031	3,473
Satellite	3,753	3,397
Dental clinic	3,214	3,252
	$ 1,819,508	$ 1,607,397

The Center maintains policies related to its permanently restricted net assets. The policy indicates that management determines a prudent spending level in accordance with UPMIFA. Permanently restricted net assets of $463,947 and $443,630 at March 31, 2016 and 2015, 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, 2016 and 2015:

	2016	2015
Buildings	$ 66,068,870	$ 66,028,695
Fixed and moveable equipment	44,279,556	37,908,498
Land and land improvements	3,450,707	3,407,312
	113,799,133	107,344,505
Less accumulated depreciation	63,349,280	59,714,850
	50,449,853	47,629,655
Construction in progress	690,817	3,491,216
Net Property, Plant and Equipment	$ 51,140,670	$ 51,120,871

Depreciation expense was $3,789,382 and $3,590,765 for the years ended March 31, 2016 and 2015, 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 $3,000,000 in the aggregate for the years ended March 31, 2016 and 2015. 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 $997,915 and $1,539,291 for the years ended March 31, 2016 and 2015, 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, 2016 and 2015, with a 3% and 4% discount rate in 2016 and 2015, respectively. Management considers these reserves to be adequate as of March 31, 2016 and 2015. 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 $1,253,540 and $1,724,573 at March 31, 2016 and 2015, 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.

Workers' Compensation

The Center is self-insured for the deductible portion of workers' compensation claims. The deductible amount per claim was $750,000 at March 31, 2016 and 2015. The Center has purchased excess insurance from a commercial carrier that would cover claims settled above $750,000. The self-insurance workers' compensation liability was determined to be $3,326,705 and $3,462,622 at March 31, 2016 and 2015, respectively. The current portion of $856,096 and $973,356 at March 31, 2016 and 2015, respectively, is included in accrued insurance costs on the consolidated statements of financial position. The long-term portion of $2,470,609 and $2,489,266 at March 31, 2016 and 2015, respectively, is included in other long-term liabilities on the consolidated statements of financial position. Receivables related to insurance on workers' compensation claims totaled $2,670,184 and $2,856,098 at March 31, 2016 and 2015, respectively. The current portion of $199,575 and $366,832 at March 31, 2016 and 2015, respectively, is included in prepaid expenses and other assets on the consolidated statements of financial position. The long-term portion of $2,470,609 and $2,489,266 at March 31, 2016 and 2015, respectively, is included in other assets on the consolidated statements of financial position.

A letter of credit with a bank of $500,000 and $858,000 at March 31, 2016 and 2015, 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, 2016 and 2015, the Center had not drawn on the letter of credit.

Health Insurance

The Center is self-insured for its dental and health insurance and carries a stop-loss policy for individual claims in excess of $250,000. The self-insurance liability was determined to be $1,394,885 and $1,430,550 for the years ended March 31, 2016 and 2015, 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 2015-2022 in the total amount of $9,210,000 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. 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, 2016 was 0.04%. 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 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. 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, 2018.

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 had a termination date of October 1, 2015.

During fiscal years 2016 and 2015, interest expense was $2,110,142 and $2,151,308, 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
2017	$ 1,005,000	$ -	$ -	$ 1,005,000
2018	1,060,000	-	-	1,060,000
2019	1,115,000	-	-	1,115,000
2020	1,170,000	-	-	1,170,000
2021	1,235,000	-	-	1,235,000
Aggregate thereafter	34,335,000	10,550,000	926,696	45,811,696
	39,920,000	10,550,000	926,696	51,396,696
Less current portion	1,005,000	-	-	1,005,000
Total Long-Term Debt	$ 38,915,000	$ 10,550,000	$ 926,696	$ 50,391,696

NOTE 10 - PENSION PLAN

General

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

GAAP requires companies to record a liability on the consolidated statements of financial position for the underfunded portion of its postretirement plans, defined as the amount by which the projected benefit obligation exceeds the fair value of the plan assets.

Obligations and Funded Status

The plan was amended to freeze future benefit accruals in the plan effective June 30, 2004. The effect of this amendment was a plan curtailment.

The following table sets forth the plan's funded status and amounts recognized in the accompanying consolidated statements of financial position as of March 31, 2015:

		Pension Benefits
Change in benefit obligation:		
Projected benefit obligation at beginning of year	$	(14,939,224)
Interest cost		(340,443)
Impact of assumption changes		(580,142)
Experience loss		(58,249)
Benefits paid		-
Settlement amount		15,918,058
Projected benefit obligation at end of year		-
Change in plan assets:		
Fair value of plan assets at beginning of year		10,981,150
Actual return on plan assets		59,163
Employer contributions		3,915,000
Benefits paid		-
Settlement purchase		(14,955,313)
Fair value of plan assets at end of year		-
Unfunded Status	$	-

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, 2015, are as follows:

Discount rate	4.54%
Long-term rate of return	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.

The Board approved the termination of the pension plan in 2014. The termination of the plan took 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 took place during fiscal year 2015, with the purchase of the benefits of plan beneficiaries not currently retired. The purchase of benefits was 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 recognized a loss of $3,965,575 in salaries, wages and employee benefits on the consolidated statements of activities and changes in net assets.

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 $527,551 and $497,209 for the years ended March 31, 2016 and 2015, 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 $237,621 and $203,958 in 2016 and 2015, respectively. Assets and liabilities relating to this plan were $3,265,236 and $3,067,495 at March 31, 2016 and 2015, respectively, and are included in other assets and other long-term liabilities.

NOTE 11 - FUNCTIONAL EXPENSES

Functional expenses for the Center are as follows:

	2016	2015
Health care services	$ 84,442,091	$ 84,864,890
General and administrative	12,617,784	12,680,960
	$ 97,059,875	$ 97,545,850

NOTE 12 - 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, 2016 are as follows:

Year Ending March 31	
2017	$ 873,216
2018	831,551
2019	586,714
2020	477,342
2021	30,908
Thereafter	48,056
	$ 2,847,787

Rent expense recorded by the Center for the years ended March 31, 2016 and 2015, was $1,658,961 and $1,453,993, respectively.

NOTE 13 - 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. When, as a practical expedient, an investment is measured at fair value on the basis of net asset value, its classification as Level 2 or 3 will be impacted by the ability to redeem the investment at net asset value at the measurement date. If there is uncertainty or the inability to redeem an investment at net asset value in the near term subsequent to the measurement date, the investment is categorized as Level 3.

Mutual Funds
Mutual funds are valued at the quoted net asset value of shares held by the Center at March 31, 2016.

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.

Investment in Limited Partnership
The interest in the investment in limited partnership is valued by an external investment manager taking into consideration the fair value of the underlying assets and liabilities, current distribution rates and discounts for redemption and liquidity restrictions. The valuation involves assumptions and methods that are reviewed by the Center's Finance Committee. Because investment in this partnership is not readily marketable, the estimated fair value is subject to uncertainty and may differ significantly from the value that would have been used had a market for such investment existed.

Pledges Receivable
The fair value of pledges receivable is estimated based upon the net present value of estimated cash flows discounted at a treasury rate commensurate with the timing of the estimated cash flow.

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.

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, 2016 and 2015:

	Fair Value	Fair Value Measurements Using		
Description	**March 31, 2016**	**Level 1**	**Level 2**	**Level 3**
Investments:				
Bond funds	$ 748,872	$ 621,434	$ 127,438	$ -
Mutual funds:				
Domestic equity	20,026,839	20,026,839	-	-
Fixed income	22,164,077	22,164,077	-	-
International equity	13,234,346	13,234,346	-	-
Insurance funds	1,253,540	-	-	1,253,540
Investment in limited partnership	2,193,541	-	2,193,541	-
Pledges receivable	270,444	-	-	270,444
Total	$ 59,891,659	$ 56,046,696	$ 2,320,979	$ 1,523,984

Description	Fair Value March 31, 2015	Fair Value Measurements Using Level 1	Level 2	Level 3
Investments:				
Bond funds	$ 565,230	$ 267,246	$ 297,984	$ -
Mutual funds:				
Domestic equity	31,526,157	31,526,157	-	-
Fixed income	20,172,013	20,172,013	-	-
International equity	1,638,572	1,638,572	-	-
Insurance funds	1,724,573	-	-	1,724,573
Investment in limited partnership	1,917,992	-	1,917,992	-
Pledges receivable	316,222	-	-	316,222
Total	$ 57,860,759	$ 53,603,988	$ 2,215,976	$ 2,040,795

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, 2016 and 2015:

	Insurance Funds 2016	Insurance Funds 2015
Balance - beginning	$ 1,724,573	$ 1,890,957
Contributions	-	857,000
Fees	(11,365)	(41,395)
Income (loss)	(4,668)	57,224
Withdrawals	(455,000)	(1,039,213)
Balance - Ending	$ 1,253,540	$ 1,724,573

	Pledges Receivable 2016	Pledges Receivable 2015
Balance - beginning	$ 316,222	$ 580,025
New pledges receivable	149,314	387,885
Collections	(166,404)	(626,345)
Direct write-offs	(18,248)	(25,999)
Change in allowance and discount	(10,440)	656
Balance - Ending	$ 270,444	$ 316,222

The carrying amounts and estimated fair values of the Center's long-term debt at March 31, 2016 are as follows:

Description	Carrying Amount at March 31, 2016	Fair Value at March 31, 2016
Financial liabilities:		
Series C revenue bonds	$ 39,920,000	$ 41,627,709
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, 2015 are as follows:

Description	Carrying Amount at March 31, 2015	Fair Value at March 31, 2015
Financial liabilities:		
Series C revenue bonds	$ 40,885,000	$ 43,335,191
Series D revenue bonds	10,550,000	10,550,000
HUD mortgage	926,696	926,696

NOTE 14 - HEALTHCARE INDUSTRY

The healthcare industry is subject to numerous laws and regulations of federal, state and local governments. These laws and regulations include, but are not necessarily limited to, matters such as licensure, accreditation, government healthcare program participation requirements, reimbursement for patient services, and Medicare and Medicaid fraud and abuse. Government activity has increased with respect to investigations and allegations concerning possible violations of fraud and abuse statutes and regulations by healthcare providers. Violations of these laws and regulations could result in expulsion from government healthcare programs together with the imposition of significant fines and penalties, as well as significant repayments for patient services previously billed. Management believes that the Center is in compliance with fraud and abuse regulations, as well as other applicable government laws and regulations. Compliance with such laws and regulations can be subject to future government review and interpretation.

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.

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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 as of and for the years ended March 31, 2016 and 2015, and our report thereon dated July 14, 2016, 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 are 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 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 14, 2016

CENTER OF SPECIAL CARE, INC. AND SUBSIDIARIES

CONSOLIDATING STATEMENT OF FINANCIAL POSITION
MARCH 31, 2016

	Hospital for Special Care	HSC Community Services, Inc. Consolidated	Center of Special Care, Inc.	Hospital for Special Care Foundation, Inc.	Elimination	Consolidated
ASSETS						
Current assets:						
Cash and cash equivalents	$ 413,543	$ 199,249	$ -	$ 791,569	$ -	$ 1,404,361
Accounts receivable, less allowance of $1,255,977	13,417,007	10,534	-	-	-	13,427,541
Pledges receivable, net of allowance and discount of $28,536	-	2,461	-	219,722	-	222,183
Prepaid sinking fund	1,514,249	-	-	-	-	1,514,249
Prepaid expenses and other assets	2,292,598	7,804	-	4,648	-	2,305,050
Inventories of supplies	567,253	-	-	-	-	567,253
Due from affiliates	(476)	15,811	-	-	(15,335)	-
Total current assets	18,204,174	235,859	-	1,015,939	(15,335)	19,440,637
Other assets:						
Investments	51,212,837	-	293,305	6,861,533	-	58,367,675
Pledges receivable, net of allowance and discount of $4,968, less current portion	-	-	-	48,261	-	48,261
Investments in Foundation	5,223,001	387,920	-	-	(5,610,921)	-
Debt Service Reserve Fund	7,282,856	-	-	-	-	7,282,856
Debt obligations issuance expense, net of amortization	2,219,604	-	-	-	-	2,219,604
Insurance funds	1,253,540	-	-	-	-	1,253,540
Other assets	5,735,845	-	-	138	-	5,735,983
Total other assets	72,927,683	387,920	293,305	6,909,932	(5,610,921)	74,907,919
Property, plant and equipment, net	49,963,295	1,177,375	-	-	-	51,140,670
Total Assets	$ 141,095,152	$ 1,801,154	$ 293,305	$ 7,925,871	$ (5,626,256)	$ 145,489,226

CENTER OF SPECIAL CARE, INC. AND SUBSIDIARIES

CONSOLIDATING STATEMENT OF FINANCIAL POSITION (CONTINUED)
MARCH 31, 2016

	Hospital for Special Care	HSC Community Services, Inc. Consolidated	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	$ 1,005,000	$ -	$ -	$ -	$ -	$ 1,005,000
Accounts payable	2,373,276	15,918	-	-	-	2,389,194
Salaries, wages, payroll taxes and amounts withheld from employee compensation	6,983,818	-	-	-	-	6,983,818
Accrued insurance costs	3,243,096	5,800	-	-	-	3,248,896
Due to affiliates	-	32,640	-	(17,305)	(15,335)	-
Accrued interest and other liabilities	3,765,587	31,030	-	92,170	-	3,888,787
Total current liabilities	17,370,777	85,388	-	74,865	(15,335)	17,515,695
Long-term liabilities:						
Long-term debt, less current portion	49,465,000	926,696	-	-	-	50,391,696
Other long-term liabilities	5,735,845	-	-	-	-	5,735,845
Total long-term liabilities	55,200,845	926,696	-	-	-	56,127,541
Net assets:						
Unrestricted net assets	66,625,470	403,675	293,305	2,466,753	(226,668)	69,562,535
Temporarily restricted net assets	1,434,113	385,395	-	4,920,306	(4,920,306)	1,819,508
Permanently restricted net assets	463,947	-	-	463,947	(463,947)	463,947
Total net assets	68,523,530	789,070	293,305	7,851,006	(5,610,921)	71,845,990
Total Liabilities and Net Assets	$ 141,095,152	$ 1,801,154	$ 293,305	$ 7,925,871	$ (5,626,256)	$ 145,489,226

CENTER OF SPECIAL CARE, INC. AND SUBSIDIARIES

CONSOLIDATING STATEMENT OF FINANCIAL POSITION
MARCH 31, 2015

	Hospital for Special Care	HSC Community Services, Inc. Consolidated	Center of Special Care, Inc.	Hospital for Special Care Foundation, Inc.	Elimination	Consolidated
ASSETS						
Current assets:						
Cash and cash equivalents	$ 2,742,400	$ 395,323	$ -	$ 736,802	$ -	$ 3,874,525
Accounts receivable, less allowance of $1,228,743	14,314,967	18,480	-	-	-	14,333,447
Pledges receivable, net of allowance and discount of $17,920	-	5,111	-	205,484	-	210,595
Prepaid sinking fund	1,493,116	-	-	-	-	1,493,116
Prepaid expenses and other assets	1,790,615	9,279	-	3,914	-	1,803,808
Inventories of supplies	548,989	-	-	-	-	548,989
Due from affiliates	125,816	25,515	-	-	(151,331)	-
Total current assets	21,015,903	453,708	-	946,200	(151,331)	22,264,480
Other assets:						
Investments	48,559,830	-	305,664	6,954,470	-	55,819,964
Pledges receivable, net of allowance and discount of $5,145, less current portion	-	-	-	105,627	-	105,627
Investments in Foundation	5,143,021	415,799	-	-	(5,558,820)	-
Debt Service Reserve Fund	7,286,402	-	-	-	-	7,286,402
Debt obligations issuance expense, net of amortization	2,324,027	-	-	-	-	2,324,027
Insurance funds	1,724,573	-	-	-	-	1,724,573
Other assets	5,556,761	-	-	-	-	5,556,761
Total other assets	70,594,614	415,799	305,664	7,060,097	(5,558,820)	72,817,354
Property, plant and equipment, net	49,889,465	1,231,406	-	-	-	51,120,871
Total Assets	$ 141,499,982	$ 2,100,913	$ 305,664	$ 8,006,297	$ (5,710,151)	$ 146,202,705

CENTER OF SPECIAL CARE, INC. AND SUBSIDIARIES

CONSOLIDATING STATEMENT OF FINANCIAL POSITION (CONTINUED)
MARCH 31, 2015

	Hospital for Special Care	HSC Community Services, Inc. Consolidated	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	$ 965,000	$ -	$ -	$ -	$ -	$ 965,000
Accounts payable	2,481,448	41,710	-	-	-	2,523,158
Salaries, wages, payroll taxes and amounts withheld from employee compensation	6,894,289	-	-	-	-	6,894,289
Accrued insurance costs	3,756,427	186,770	-	-	-	3,943,197
Due to affiliates	-	45,687	-	105,644	(151,331)	-
Accrued interest and other liabilities	3,839,493	22,830	-	78,420	-	3,940,743
Total current liabilities	17,936,657	296,997	-	184,064	(151,331)	18,266,387
Long-term liabilities:						
Long-term debt, less current portion	50,470,000	926,696	-	-	-	51,396,696
Other long-term liabilities	5,556,761	-	-	-	-	5,556,761
Total long-term liabilities	56,026,761	926,696	-	-	-	56,953,457
Net assets:						
Unrestricted net assets	65,863,689	499,068	305,664	2,490,081	(226,668)	68,931,834
Temporarily restricted net assets	1,229,245	378,152	-	4,888,522	(4,888,522)	1,607,397
Permanently restricted net assets	443,630	-	-	443,630	(443,630)	443,630
Total net assets	67,536,564	877,220	305,664	7,822,233	(5,558,820)	70,982,861
Total Liabilities and Net Assets	$ 141,499,982	$ 2,100,913	$ 305,664	$ 8,006,297	$ (5,710,151)	$ 146,202,705

CENTER OF SPECIAL CARE, INC. AND SUBSIDIARIES

CONSOLIDATING STATEMENT OF ACTIVITIES AND CHANGES IN NET ASSETS
FOR THE YEAR ENDED MARCH 31, 2016

	Hospital for Special Care	HSC Community Services, Inc. Consolidated	Center of Special Care, Inc.	Hospital for Special Care Foundation, Inc.	Elimination	Consolidated
Revenues:						
Net revenues from services to patients	$ 93,405,861	$ 154,406	$ -	$ -	$ (194,317)	$ 93,365,950
Other operating revenues	3,872,980	552,991	-	43,830	(464,438)	4,005,363
Bad debts	(235,000)	(66)	-	-	-	(235,066)
Net assets released from restrictions	-	11,277	-	616,611	-	627,888
Total revenues	97,043,841	718,608	-	660,441	(658,755)	97,764,135
Operating expenses:						
Salaries, wages and employees benefits	69,850,446	596,690	-	479,010	(194,317)	70,731,829
Supplies and other	19,541,784	372,998	-	766,230	(356,912)	20,324,100
Interest	2,110,142	-	-	-	-	2,110,142
Depreciation and amortization	3,806,283	87,521	-	-	-	3,893,804
Total operating expenses	95,308,655	1,057,209	-	1,245,240	(551,229)	97,059,875
Income (loss) from operations	1,735,186	(338,601)	-	(584,799)	(107,526)	704,260
Nonoperating gains:						
Other income, primarily investment income	858,282	426	(3,444)	37,403	76,698	969,365
Excess (deficiency) of revenues over expenses	2,593,468	(338,175)	(3,444)	(547,396)	(30,828)	1,673,625
Other changes in unrestricted net assets:						
Change in equity interest in Foundation	(150,484)	(557)	-	-	151,041	-
Change in net unrealized gains on investments	(1,398,514)	-	(8,915)	(60,813)	(120,213)	(1,588,455)
Net assets released for capital additions	545,531	-	-	-	-	545,531
Transfer among affiliates	(828,220)	243,339	-	584,881	-	-
Increase (decrease) in unrestricted net assets	761,781	(95,393)	(12,359)	(23,328)	-	630,701
Temporarily restricted net assets:						
Contributions	494,076	45,820	-	770,544	(140,579)	1,169,861
Net realized gains on investments	-	25	-	133,909	(76,698)	57,236
Change in net unrealized gains on investments	-	-	-	(209,883)	120,213	(89,670)
Change in equity interest in Foundation	210,148	(27,325)	-	-	(182,823)	-
Net assets released from restrictions used for purchase of capital	(499,356)	-	-	(46,175)	-	(545,531)
Net assets released from restrictions used for operations	-	(11,277)	-	(616,611)	248,103	(379,785)
Increase in temporarily restricted net assets	204,868	7,243	-	31,784	(31,784)	212,111
Permanently restricted net assets:						
Contributions	-	-	-	20,317	-	20,317
Change in equity interest in Foundation	20,317	-	-	-	(20,317)	-
Increase in permanently restricted net assets	20,317	-	-	20,317	(20,317)	20,317
Change in Net Assets	986,966	(88,150)	(12,359)	28,773	(52,101)	863,129
Net Assets - Beginning of Year	67,536,564	877,220	305,664	7,822,233	(5,558,820)	70,982,861
Net Assets - End of Year	$ 68,523,530	$ 789,070	$ 293,305	$ 7,851,006	$ (5,610,921)	$ 71,845,990

CENTER OF SPECIAL CARE, INC. AND SUBSIDIARIES

CONSOLIDATING STATEMENT OF ACTIVITIES AND CHANGES IN NET ASSETS
FOR THE YEAR ENDED MARCH 31, 2015

	Hospital for Special Care	HSC Community Services, Inc. Consolidated	Center of Special Care, Inc.	Hospital for Special Care Foundation, Inc.	Elimination	Consolidated
Revenues:						
Net revenues from services to patients	$ 90,709,620	$ 172,047	$ -	$ -	$ (187,781)	$ 90,693,886
Other operating revenues	3,051,151	564,761	-	25,834	(314,312)	3,327,434
Bad debts	(162,572)	(1,448)	-	-	-	(164,020)
Net assets released from restrictions	-	11,086	-	451,356	-	462,442
Total revenues	93,598,199	746,446	-	477,190	(502,093)	94,319,742
Operating expenses:						
Salaries, wages and employees benefits	70,778,548	540,762	-	482,259	(187,781)	71,613,788
Supplies and other	19,327,114	393,694	-	675,750	(310,991)	20,085,567
Interest	2,151,308	-	-	-	-	2,151,308
Depreciation and amortization	3,624,702	70,485	-	-	-	3,695,187
Total operating expenses	95,881,672	1,004,941	-	1,158,009	(498,772)	97,545,850
Income (loss) from operations	(2,283,473)	(258,495)	-	(680,819)	(3,321)	(3,226,108)
Nonoperating gains (losses):						
Other income, primarily investment income	2,536,821	670	16,963	99,189	207,812	2,861,455
Excess (deficiency) of revenues over expenses	253,348	(257,825)	16,963	(581,630)	204,491	(364,653)
Other changes in unrestricted net assets:						
Change in equity interest in Foundation	195,147	3,772	-	-	(198,919)	-
Change in net unrealized gains on investments	519,598	-	2,567	(1,199)	(5,572)	515,394
Net assets released for capital additions	1,675,977	257,361	-	-	-	1,933,338
Change in minimum pension liability	4,008,649	-	-	-	-	4,008,649
Transfer among affiliates	(699,281)	156,620	-	542,661	-	-
Increase (decrease) in unrestricted net assets	5,953,438	159,928	19,530	(40,168)	-	6,092,728
Temporarily restricted net assets:						
Contributions	1,610,745	50,408	-	841,758	(137,044)	2,365,867
Net realized gains on investments	-	154	-	362,243	(207,812)	154,585
Change in net unrealized gains on investments	-	-	-	(9,712)	5,572	(4,140)
Change in equity interest in Foundation	486,758	(11,085)	-	-	(475,673)	-
Net assets released from restrictions used for purchase of capital	(1,607,638)	(257,361)	-	(68,339)	-	(1,933,338)
Net assets released from restrictions used for operations	-	(11,086)	-	(451,356)	140,363	(322,079)
Increase (decrease) in temporarily restricted net assets	489,865	(228,970)	-	674,594	(674,594)	260,895
Permanently restricted net assets:						
Contributions	-	-	-	4,319	-	4,319
Change in equity interest in Foundation	4,319	-	-	-	(4,319)	-
Increase in permanently restricted net assets	4,319	-	-	4,319	(4,319)	4,319
Change in Net Assets	6,447,622	(69,042)	19,530	638,745	(678,913)	6,357,942
Net Assets - Beginning of Year	61,088,942	946,262	286,134	7,183,488	(4,879,907)	64,624,919
Net Assets - End of Year	$ 67,536,564	$ 877,220	$ 305,664	$ 7,822,233	$ (5,558,820)	$ 70,982,861