

FOUNDATION FOR COMMUNITY HEALTH, INC.
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For the Year Ended December 31, 2007

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INDEPENDENT AUDITOR'S REPORT

To the Board of Directors of the
Foundation for Community Health, Inc.

We have audited the accompanying statements of financial position of the Foundation for Community Health, Inc. (a nonprofit organization) as of December 31, 2007 and 2006, and the related statements of activities, functional expenses, and cash flows for the years then ended. These financial statements are the responsibility of the Foundation for Community Health, Inc.'s management. Our responsibility is to express an opinion on these financial statements based on our audits.

We conducted our audits in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of the Foundation for Community Health, Inc. as of December 31, 2007, and 2006 and the changes in its net assets and its cash flows for the years then ended in conformity with accounting principles generally accepted in the United States of America.

Robert E. King & Co., P.C.

Robert E. King & Co., P.C.
May , 2008

Foundation for Community Health, Inc.

Statement of Financial Position

December 31, 2007

With Comparative Totals for 2006

	Totals	
	2007	2006
Current Assets:		
Cash and Cash Equivalents	\$ 34,446	\$ 4,648
Accounts Receivable	-	2,477
Prepaid Expenses	2,544	2,920
Total Current Assets	36,990	10,045
Property and Equipment, net	18,709	18,241
Other Assets:		
Investments	24,142,504	22,363,050
Contribution Receivable - CRT	58,174	-
Security Deposit	1,600	1,600
Total Other Assets	24,202,278	22,364,650
Total Assets	\$ 24,257,977	\$ 22,392,936
Current Liabilities:		
Grants Payable	\$ 306,594	\$ 87,500
Accounts Payable & Accrued Expenses	52,189	51,602
Total Current Liabilities	358,783	139,102
Net Assets:		
Unrestricted	21,174,995	19,632,445
Temporarily Restricted	438,300	335,490
Permanently Restricted	2,285,899	2,285,899
Total Net Assets	23,899,194	22,253,834
Total Liabilities and Net Assets	\$ 24,257,977	\$ 22,392,936

The accompanying notes are an integral part of this financial statement.

Foundation for Community Health, Inc.

Statement of Activities

For the Year Ended December 31, 2007

With Comparative Totals for 2006

	<u>Unrestricted</u>	<u>Temporarily Restricted</u>	<u>Permanently Restricted</u>	<u>Total 2007</u>	<u>Total 2006</u>
Change in Net Assets:					
Support and Revenue:					
Contributions	\$ 569,189	\$ 60,249	\$ -	\$ 629,438	\$ 778,436
Investment Income	1,679,378	436,392	-	2,115,770	2,587,027
Net Assets Released From Restrictions:					
Satisfaction of Donor Restrictions	<u>393,831</u>	<u>(393,831)</u>	<u>-</u>	<u>-</u>	<u>-</u>
Total Support and Revenue	<u>2,642,398</u>	<u>102,810</u>	<u>-</u>	<u>2,745,208</u>	<u>3,365,463</u>
 Expenses:					
Grants and Disbursements	675,061	-	-	675,061	431,562
Management and General	246,951	-	-	246,951	219,501
Program Expenses	<u>177,836</u>	<u>-</u>	<u>-</u>	<u>177,836</u>	<u>164,342</u>
Total Expenses	<u>1,099,848</u>	<u>-</u>	<u>-</u>	<u>1,099,848</u>	<u>815,405</u>
 Change in Net Assets	<u>1,542,550</u>	<u>102,810</u>	<u>-</u>	<u>1,645,360</u>	<u>2,550,058</u>
 Net Assets, Beginning	<u>19,632,445</u>	<u>335,490</u>	<u>2,285,899</u>	<u>22,253,834</u>	<u>19,703,776</u>
 Net Assets, Ending	<u>\$ 21,174,995</u>	<u>\$ 438,300</u>	<u>\$ 2,285,899</u>	<u>\$ 23,899,194</u>	<u>\$ 22,253,834</u>

The accompanying notes are an integral part of this financial statement.

Foundation for Community Health, Inc.

Statement of Cash Flows

December 31, 2007

With Comparative Totals for 2006

	2007	2006
CASH FLOWS FROM OPERATING ACTIVITIES:		
Change in Net Assets	\$ 1,645,360	\$ 2,550,058
Adjustments:		
Depreciation	4,636	4,887
Loss on Disposal of Fixed Assets	-	1,199
Realized and Unrealized Loss on Investments	(1,779,185)	(2,266,401)
Decreases/(Increases) in Assets:		
Accounts Receivable	2,477	-
Prepaid Expenses	376	(2,920)
Contribution Receivable - CRT	(58,174)	-
Increases/(Decreases) in Liabilities		
Grants Payable	219,094	(67,899)
Accounts Payable and Accrued Expenses	587	10,913
Total Adjustments	(1,610,189)	(2,320,221)
Net Cash Provided by Operating Activities	35,171	229,837
 CASH FLOWS USED FOR INVESTING ACTIVITIES:		
Proceeds from Investments	911,544	1,110,190
Purchase of Investments	(911,813)	(1,369,163)
Payments for Property and Equipment	(5,104)	(4,631)
Net Cash Used for Investing Activities	(5,373)	(263,604)
 Net Increase (Decrease) in Cash and Cash Equivalents	29,798	(33,767)
Cash and Cash Equivalents at Beginning of Year	4,648	38,415
Cash and Cash Equivalents at End of Year	\$ 34,446	\$ 4,648

The accompanying notes are an integral part of this financial statement.

Foundation for Community Health, Inc.
Statement of Functional Expenses
For the Year Ended December 31, 2007
With Comparative Totals for 2006

	Management		Total	
	and general	Programs	2007	2006
Compensation and Related Expenses				
Salaries	\$ 43,902	\$ 102,438	\$ 146,340	\$ 121,698
Employee Benefits	9,047	21,110	30,157	28,085
Payroll Taxes	<u>3,319</u>	<u>7,745</u>	<u>11,064</u>	<u>9,776</u>
Total	56,268	131,293	187,561	159,559
Unemployment	854	1,993	2,847	1,021
Legal Services	3,246	-	3,246	2,915
Investment & Financial Services	146,454	-	146,454	133,356
Contract Services	-	1,452	1,452	12,870
Program Consultants	-	717	717	-
Insurance	1,231	2,873	4,104	755
Rent	3,360	7,840	11,200	9,600
Utilities and Fuel	1,170	2,730	3,900	3,103
Telephone	1,003	2,339	3,342	3,364
Postage and Shipping	3,417	1,645	5,062	1,480
Office and Computer Supplies	1,140	2,659	3,799	3,622
Printing	5,507	1,000	6,507	4,337
Dues & Subscriptions	1,516	-	1,516	4,413
Meeting, Luncheons, Dinners	2,005	2,626	4,631	4,016
Staff Development	2,205	930	3,135	7,577
Travel	1,101	2,569	3,670	4,630
Depreciation	1,391	3,245	4,636	4,887
Accounting	7,000	-	7,000	1,360
Computer Maintenance Contract	473	1,103	1,576	4,243
Software Support	829	1,933	2,762	1,475
Payroll Service Fees	433	1,010	1,443	1,410
Equipment Rental and Maintenance	900	2,099	2,999	2,717
Marketing	4,893	4,485	9,378	9,124
Loss on Disposal of Assets	-	-	-	1,199
Repairs and Office Maintenance	258	602	860	810
Miscellaneous	<u>297</u>	<u>693</u>	<u>990</u>	<u>-</u>
	\$ 246,951	\$ 177,836	\$ 424,787	\$ 383,843

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FOUNDATION FOR COMMUNITY HEALTH, INC.
Notes to Financial Statements
For the Year Ended December 31, 2007

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Description of the Foundation

The Foundation for Community Health, Inc. (the Organization) was formed to maintain and improve the physical and mental health of all residents of the area historically served by Sharon Hospital, Inc. The Organization was created under mandate of the Attorney General and the Superior Court of the State of Connecticut, as a type three supporting organization of the Berkshire Taconic Community Foundation, Inc. The Organization is a separate, independent corporation governed by its own board of directors, of which three members are appointed by Berkshire Taconic Community Foundation, Inc.

The Organization was created as a result of the sale of Sharon Hospital, Inc. (a not-for-profit corporation) to Essent Healthcare, Inc. (a for profit corporation) based on a lengthy approval process governed by the Attorney General and the Litchfield County Superior Court.

Basis of Accounting

The financial statements of the Organization have been prepared on the accrual basis of accounting and accordingly reflect all significant receivables, payables, and other liabilities. Revenue is recognized when earned and expenditures when incurred.

Financial Statement Presentation

The Organization elected to adopt Statement of Financial Accounting Standards (SFAS) No. 117, Financial Statements of Not-for-Profit Organizations. Under SFAS 117, the Organization is required to report information regarding its financial position and activities according to three classes of net assets: unrestricted net assets, temporarily restricted net assets, and permanently restricted net assets. In addition, the Organization is required to present a statement of cash flows. A description of the three net asset categories follows:

Unrestricted – Net assets that are not subject to donor-imposed restrictions. Unrestricted net assets may be designated for specific purposes by action of the Board of Directors.

Temporarily Restricted – Net assets whose use by the Foundation is subject to donor-imposed restrictions that can be fulfilled by actions of the Foundation pursuant to those restrictions or that expire by the passage of time.

Permanently Restricted - Net assets subject to donor-imposed restrictions that they be maintained permanently by the Foundation.

Income Taxes

The Organization is exempt from federal income taxes under Section 501(c)(3) of the Internal Revenue Code, therefore there is no provision for income taxes.

Contributions and Classification of Net Assets

Gifts of cash and other assets received are reported as unrestricted revenue and net assets, unless subject to time restrictions. When a donor-stipulated time restriction ends, restricted net assets are reclassified to unrestricted net assets and reported in the statement of activities as restrictions satisfied by payment. Restricted contributions are reported as increases to unrestricted net assets when restrictions expire (that is, when a stipulated restriction of time ends or purpose is accomplished) in the reporting period that the contributions are reported as revenues.

Estimates

The preparation of financial statements in accordance with generally accepted accounting principles requires estimates by management. The actual results of operations may differ from management's estimates.

Cash and Cash Equivalents

For purposes of the statement of cash flows, the Foundation considers all unrestricted highly liquid investments with an initial maturity of three months or less to be cash equivalents. Cash equivalents maintained in investment accounts for re-investment are excluded from cash and are reported as investments.

Investments

Investments consist of the Foundation's share of the Berkshire Taconic Community Foundation's "Balanced Pool," which consists of various types of investments. According to Berkshire Taconic Community Foundation's policies, investments made in marketable debt securities, equity securities, money market funds, and mutual funds with readily determinable fair values are stated at fair value. Realized and unrealized gains and losses are included in the change in net assets in the accompanying Statement of Activities. Investment income restricted by donors are reported as increases to unrestricted net assets when restrictions expire (that is, when a stipulated restriction of time ends or purpose is accomplished) in the reporting period that the income is reported.

The Balanced Pool has significant investments in equity and debt securities and is therefore subject to concentrations of credit and market risk. Investments are managed by investment advisors who are selected and engaged by the Investment Committee of the Board of Directors of the Berkshire Taconic Community Foundation.

Alternative investments may include private equity, venture capital, emerging market debt and hedge funds, which are valued at current estimates of fair value obtained from the general partner or investment manager in the absence of readily determinable public market values.

Accounts Receivable

Pursuant to the purchase agreement, between Essent Healthcare, Inc and Sharon Hospital Inc., and the required approval process, Essent Healthcare, Inc. must transfer a portion of its annual net earnings during the first ten years after the closing of the sale. The agreement requires Essent Healthcare, Inc. to pay the Organization twenty-five (25%) of the amount of net earning in excess of seven (7%) of total revenues, if any, as determined by an independent auditor. During 2007, the Organization received the amount owed from 2005. The Organization was not due any funds from Essent Healthcare Inc. for 2006 or 2007.

Property and Equipment

All acquisitions of property and equipment in excess of \$1,000 and all expenditures for repairs, maintenance, renewals, and betterments that materially prolong the useful lives of assets are capitalized. Property and equipment are carried at cost or, if donated, at the approximate fair value at the date of donation. Depreciation is computed using the straight-line method over the following estimated useful lives of the assets.

Furniture and Fixtures	7 years
Computer Equipment and Software	5 years
Leasehold Improvements	15 years

Grant Awards

Grant awards are recorded as expenses when approved by the Organization and when grant terms do not include material conditions.

Expense Allocation

Certain costs have been allocated among the programs and supporting services benefited based on management's estimate and historical experience.

Investment Income

Investment income includes interest and dividends earned on savings accounts, as well as any other form of investment income, such as realized and unrealized gains. Restricted gains and investment income whose restrictions are met in the same reporting period are reported as unrestricted support.

Comparative Financial Information

The financial statements include certain prior-year summarized comparative information in total but not by net asset class. Such information does not include sufficient detail to constitute a presentation in conformity with generally accepted accounting principles. Accordingly, such information should be read in conjunction with the Organization's financial statements for the year ended December 31, 2006, from which the summarized information was derived.

Advertising Expense

All advertising and marketing costs are expensed in the period incurred as any future economic benefit cannot be quantified.

2. DETAIL NOTES ON ASSETS, LIABILITIES, AND NET ASSETS

Cash and Cash Equivalents

At December 31, 2007, the carrying amounts of the Foundation's deposits were \$34,446 and the bank balance was \$77,760.

Investments

The Foundation's share of the Berkshire Taconic Community Foundation's (BTCF) "Balanced Pool" was reported by BTCF to consist of the following at December 31:

	<u>2007</u>	<u>2006</u>
Money Market	\$ 1,747,240	\$ 1,999,668
Mutual Funds	-	7,558,944
Bonds	1,093,522	1,792,350
Equity Securities	7,187,783	5,818,413
International Securities	5,144,518	-
Alternatives	<u>8,969,441</u>	<u>5,193,675</u>
	<u>\$ 24,142,504</u>	<u>\$ 22,363,050</u>
	<u>2007</u>	<u>2006</u>
Dividends and Interest	\$ 440,008	\$ 320,626
Net Realized and Unrealized Gains	1,779,185	2,266,401
Bank Fees	(103,423)	*
	<u>\$ 2,115,770</u>	<u>\$ 2,587,027</u>

* Not presented separately in prior year

Fixed Assets

Fixed Assets consist of the following:

	<u>2007</u>	<u>2006</u>
Equipment	\$ 29,405	\$ 24,301
Leasehold Improvements	<u>3,294</u>	<u>3,294</u>
	32,699	27,595
Accumulated Depreciation	<u>(13,990)</u>	<u>(9,354)</u>
	<u>\$ 18,709</u>	<u>\$ 18,241</u>

Depreciation Expense was \$4,636 and \$4,887 for the years ended December 31, 2007 and 2006.

Temporarily Restricted Net Assets

Temporarily Restricted Net Assets consists of the following:

	<u>2007</u>	<u>2006</u>
Contribution Receivable – CRT	\$ 58,174	\$ 0
Assistance Funds	923	(49)
Field of Interest Funds	<u>379,203</u>	<u>335,539</u>
Total	<u>\$ 438,300</u>	<u>\$335,490</u>

Permanently Restricted Net Assets

Permanently restricted net assets consist of the following:

	<u>2007</u>	<u>2006</u>
Field of Interest Funds	\$ 423,062	\$ 423,062
“Unrestricted” Endowments	<u>1,862,837</u>	<u>1,862,837</u>
Total	<u>\$ 2,285,899</u>	<u>\$ 2,285,899</u>

3. BENEFICIARY INTEREST IN PERPETUAL TRUSTS

The Organization is the income beneficiary of three irrevocable perpetual trusts, the assets of which are managed by and in the possession of Bank of America and Legacy Portfolio Management. The assets held in these trusts were valued at \$7,372,329 and \$7,294,063 respectively as of December 31, 2007 and 2006. The Foundation has interests in the income only, and no provision to receive any principal. The Foundation received \$275,793 and \$277,911 in income distributions based on the fund's income after certain trust expenses for the years ending December 31, 2007 and 2006.

4. CHARITABLE REMAINDER TRUST

The Foundation has a split-interest in a charitable remainder trust, administered by a trustee outside the Foundation. The charitable remainder trust provides for the payment of distributions to the designated beneficiaries over the trust's term (the beneficiaries' lifetime). At the end of the trust's term, the Foundation will receive 10% of remaining assets. An asset is reported in the Foundation's Statement of Financial Position representing the present value of the expected future benefits using a 5% discount rate and the Joint and Last survivor table. On an annual basis, the Foundation revalues the asset.

5. LEASE COMMITMENTS

The Foundation leases a copier under an agreement signed June 21, 2004. The lease requires 60 monthly payments of \$226.45. The lease expense for 2007 and 2006 amounted to \$2,717 and \$2,717. Future minimum lease payments under this lease were as follows as of December 31, 2007:

<u>Year</u>	<u>Amount</u>
2008	\$2,717
2009	1,585

The Foundation entered into a lease agreement from July 2007 to May, 2008 for its office space requiring monthly payments of \$1,000. Rent expense for 2007 and 2006 totaled \$11,200 and \$9,600. Total lease payments remaining are as follows:

2008	\$5,000
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6. TAX DEFERRED ANNUITY

The Foundation has adopted a 403(b)(7) Tax Deferred Annuity Plan for its employees and contributes 7% of annual salaries for eligible employees. Investment companies maintain the invested assets. The employer contributions to the plan for the years ending December 31, 2007 and 2006 were \$10,131 and \$7,490.

7. CONTINGENCIES

Under terms set forward by the Attorney General of the State of Connecticut, the Organization may not spend or deplete more than 5% of its unrestricted assets in each of the first five years of existence. This is to ensure that the Organization has assets to consider buying back the hospital should Essent Healthcare, Inc. decide to sell within that period. The Organization has not exceeded this requirement in 2007. A clarification on the restrictions was requested from the Attorney General's office during 2006, however clarification was not received until 2007, resulting in \$300,000 of 2006 budgeted grants being expended in 2007 without regard to the 5% limit, as per agreement with Attorney General.

8. RELATED PARTY TRANSACTIONS

The Organization received financial management and administrative functions from Berkshire Taconic Community Foundation, Inc. The Organization is a supporting organization of Berkshire Taconic Community Foundation, Inc. The fee paid for these services is based on a graduated fee schedule measured on total assets managed. The total fees paid for 2007 and 2006 were \$146,454 and \$133,356.

9. SUBSEQUENT EVENTS

Subsequent to year-end, the Foundation received notification of ownership of investments totaled to the former Sharon Hospital consisting of approximately \$6,500 of mutual funds and an interest in an oil company with an undetermined distribution value.