

FOUNDATION FOR
COMMUNITY HEALTH, INC.

AUDITED FINANCIAL STATEMENTS

For the year ended December 31, 2005

PATTISON, KOSKEY, HOWE & BUCCI, CPAs, P.C.

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INDEPENDENT AUDITORS' REPORT

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

We have audited the accompanying statement of financial position of Foundation for Community Health, Inc. (a nonprofit organization) as of December 31, 2005 and the related statements of activities, functional expenses and cash flows for the year then ended. These financial statements are the responsibility of the Organization's management. Our responsibility is to express an opinion on these financial statements based on our audit. The prior year summarized comparative information has been derived from the financial statements of Foundation for Community Health, Inc. as of December 31, 2004, and, in our report dated May 23, 2005, we expressed an unqualified opinion on those financial statements.

We conducted our audit 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 audit provides 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 Foundation for Community Health, Inc. as of December 31, 2005 and the changes in its net assets and its cash flows for the year then ended in conformity with accounting principles generally accepted in the United States of America.

Hudson, New York
May 24, 2006

Pattison, Koskey, Howe & Bucci, CPAs, P.C.

FOUNDATION FOR COMMUNITY HEALTH, INC.
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FOUNDATION FOR COMMUNITY HEALTH, INC.
STATEMENT OF FINANCIAL POSITION
December 31, 2005

ASSETS

	<u>2005</u>	<u>2004</u> (Memorandum only)
Current assets:		
Cash and equivalents	\$ 38,415	\$ 94,449
Investments	19,837,676	16,623,507
Accounts receivable	<u>2,477</u>	<u>18,035</u>
Total current assets	<u>19,878,568</u>	<u>16,735,991</u>
Property and equipment, net	<u>19,696</u>	<u>23,450</u>
Other assets:		
Security deposit	<u>1,600</u>	<u>1,600</u>
Total other assets	<u>1,600</u>	<u>1,600</u>
Total assets	<u>\$ 19,899,864</u>	<u>\$16,761,041</u>

LIABILITIES AND NET ASSETS

Current liabilities:		
Accounts payable and accrued expenses	\$ <u>196,088</u>	\$ <u>85,323</u>
Total current liabilities	<u>196,088</u>	<u>85,323</u>
Net assets:		
Unrestricted	16,775,967	13,818,487
Temporarily restricted	58,881	61,388
Permanently restricted	<u>2,868,928</u>	<u>2,795,843</u>
Total net assets	<u>19,703,776</u>	<u>16,675,718</u>
Total liabilities and net assets	<u>\$ 19,899,864</u>	<u>\$16,761,041</u>

See auditors' report and accompanying notes to financial statements.

FOUNDATION FOR COMMUNITY HEALTH, INC.
STATEMENT OF ACTIVITIES
For the year ended December 31, 2005

	Unrestricted	Temporarily Restricted	Permanently Restricted	Total	2004 (Memorandum Only)
Change in net assets:					
Support and revenue:					
Contributions	\$ 2,687,001	\$ -	\$ -	\$ 2,687,001	\$ 2,036,619
Investment income	1,055,399	4,104	187,430	1,246,933	1,902,427
Allocation from Essent Healthcare	2,477	-	-	2,477	18,035
Net assets released from restrictions:					
Satisfaction of donor restrictions	<u>120,956</u>	<u>(6,611)</u>	<u>(114,345)</u>	<u>-</u>	<u>-</u>
Total support and revenue	<u>3,865,833</u>	<u>(2,507)</u>	<u>73,085</u>	<u>3,936,411</u>	<u>3,957,081</u>
Expenses:					
Grants and disbursements	516,206	-	-	516,206	136,909
Management and general	204,302	-	-	204,302	253,374
Program expense	<u>187,845</u>	<u>-</u>	<u>-</u>	<u>187,845</u>	<u>92,686</u>
Total expenses	<u>908,353</u>	<u>-</u>	<u>-</u>	<u>908,353</u>	<u>482,969</u>
Change in net assets	<u>2,957,480</u>	<u>(2,507)</u>	<u>73,085</u>	<u>3,028,058</u>	<u>3,474,112</u>
Net assets, beginning	<u>13,818,487</u>	<u>61,388</u>	<u>2,795,843</u>	<u>16,675,718</u>	<u>13,201,606</u>
Net assets, ending	<u>\$ 16,775,967</u>	<u>\$ 58,881</u>	<u>\$ 2,868,928</u>	<u>\$ 19,703,776</u>	<u>\$ 16,675,718</u>

See auditors' report and accompanying notes to financial statements.

FOUNDATION FOR COMMUNITY HEALTH, INC.
STATEMENT OF FUNCTIONAL EXPENSES
For the year ended December 31, 2005

	Management and general	Program	Total	2004 (Memorandum Only)
Compensation and related expenses				
Salaries	\$ 41,093	\$ 95,884	\$ 136,977	\$ 108,590
Employee benefits	10,113	23,596	33,709	22,350
Payroll taxes	3,080	7,187	10,267	8,178
Total	54,286	126,667	180,953	139,118
Unemployment	283	659	942	515
Legal services	2,792	6,514	9,306	38,554
Management fee	123,136	-	123,136	54,978
Contract services	4,056	2,131	6,187	5,835
Program consultants	-	6,465	6,465	19,230
Insurance	1,128	2,631	3,759	3,652
Rent	2,880	6,720	9,600	9,404
Utilities and fuel	800	1,866	2,666	1,656
Telephone	892	2,082	2,974	2,542
Postage and shipping	618	1,556	2,174	1,221
Office and computer supplies	576	1,418	1,994	7,073
Printing	1,727	5,502	7,229	1,329
Dues and subscriptions	388	3,404	3,792	1,149
Meetings, luncheons, dinners	1,632	1,780	3,412	2,010
Staff development	2,016	1,641	3,657	4,785
Travel	702	1,893	2,595	2,583
Depreciation	1,259	2,939	4,198	2,204
Accounting	2,699	6,299	8,998	5,662
Software support	421	983	1,404	1,350
Fees	452	1,056	1,508	1,238
Equipment rental and maintenance	815	1,902	2,717	2,860
Marketing	472	1,102	1,574	35,500
Miscellaneous	272	635	907	1,612
	<u>\$ 204,302</u>	<u>\$ 187,845</u>	<u>\$ 392,147</u>	<u>\$ 346,060</u>

See auditors' report and accompanying notes to financial statements.

FOUNDATION FOR COMMUNITY HEALTH, INC.
STATEMENT OF CASH FLOWS
For the year ended December 31, 2005

	<u>2005</u>	<u>2004</u> (Memorandum Only)
Cash flows from operating activities:		
Change in net assets	\$ 3,028,058	\$ 3,474,112
Adjustments to reconcile change in net assets to net cash used for operating activities:		
Depreciation	4,198	2,204
Accounts receivable	15,558	(18,035)
Security deposit	-	(1,600)
Accounts payable and accrued expenses	110,765	64,294
Total adjustments	<u>130,521</u>	<u>46,863</u>
Net cash provided by operating activities	<u>3,158,579</u>	<u>3,520,975</u>
Cash flows used for investing activities:		
Increase in investments	(3,214,169)	(3,464,925)
Payments for property and equipment	(444)	(22,910)
Net cash used for investing activities:	<u>(3,214,613)</u>	<u>(3,487,835)</u>
Net increase (decrease) in cash and cash equivalents	(56,034)	33,140
Cash and cash equivalents at beginning of year	<u>94,449</u>	<u>61,309</u>
Cash and cash equivalents at end of year	<u>\$ 38,415</u>	<u>\$ 94,449</u>

See auditors' report and accompanying notes to financial statements.

FOUNDATION FOR COMMUNITY HEALTH, INC.
NOTES TO FINANCIAL STATEMENTS

1. Summary of Significant Accounting Policies:

Nature of operations:

The Foundation for Community Health (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 by the Berkshire Taconic Community Foundation, Inc., under the mandate of the Attorney General and the Superior Court of the State of Connecticut, as a Type three supporting organization of 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.

Method of accounting:

The accounts of the Organization are maintained on the accrual basis of accounting, in accordance with accounting principles generally accepted in the United States of America. Under the accrual basis of accounting, revenue is recognized when earned and expenses recognized 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 No. 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 Organization is subject to donor-imposed restrictions that can be fulfilled by actions of the Organization 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 Organization.

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:

The Organization accounts for contributions in accordance with the recommendations of the Financial Accounting Standards Board in SFAS No. 116, Accounting for Contributions Received and Contributions Made. In accordance with this standard, contributions received are recorded as unrestricted, temporarily restricted, or permanently restricted support, depending on the existence or nature of any donor restrictions.

See auditors' report.

FOUNDATION FOR COMMUNITY HEALTH, INC.
NOTES TO FINANCIAL STATEMENTS (CONTINUED)

1. Summary of Significant Accounting Policies (Continued):

Donor imposed restrictions:

All contributions are considered to be available for unrestricted use unless specifically restricted by the donor. Amounts received that are designated for future periods or are restricted by the donor for specific purposes are reported as temporarily restricted or permanently restricted support that increases those net asset classes. When a donor restriction expires, that is when a stipulated time restriction ends or purpose restriction is accomplished, restricted net assets are reclassified to unrestricted net assets and are reported in the statement of activities as net assets released from restriction.

If a restriction is fulfilled in the same time period in which the contribution is received, the Organization reports the support as unrestricted.

Use of estimates:

The preparation of financial statements in conformity with accounting principles generally accepted in the United States of America requires management to make estimates and assumptions that effect certain reported amounts and disclosures. Accordingly, actual results could differ from those estimates.

Cash and cash equivalents:

For purposes of the statement of cash flows, the Organization considers all highly liquid investments available for current use with an initial maturity of three months or less to be cash equivalents.

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 percent (25%) of the amount of net earnings in excess of seven percent (7%) of total revenues, if any, as determined by an independent auditor. At December 31, 2005 Essent Healthcare Inc. owed the Organization \$2,477.

Property and equipment:

Property and equipment is stated at cost or approximate market value for donated items. Expenditures for additions, improvements and maintenance and repairs are charged to operations when incurred. Gains and losses from sales or other dispositions of depreciable property are included in current operations. Depreciation of property and equipment is provided over the estimated useful lives of the respective assets using the straight-line method.

Functional allocation of expenses:

The costs of providing program and support activities have been summarized on a functional basis in the Statement of Activities. Accordingly, certain costs have been allocated, using management's estimate, among the programs and supporting activities benefited.

Employee contributory plan:

The Organization has an employee contributory 403(b) plan that covers substantially all employees. The Organization contributed \$9,251 to this plan for the year ended December 31, 2005.

Advertising:

Advertising costs are expensed as incurred.

See auditors' report.

FOUNDATION FOR COMMUNITY HEALTH, INC.
NOTES TO FINANCIAL STATEMENTS (CONTINUED)

2. Credit and market risk:

The Organization maintains cash balances at a financial institution located in Massachusetts. Accounts at each institution are insured by the Federal Deposit Insurance Corporation up to \$100,000. Additionally, deposits in Massachusetts's savings banks over \$100,000 have unlimited coverage provided by the Deposit Insurance Fund of Massachusetts.

3. Investments:

The Organization carries investments in marketable securities with readily determinable fair values and all investments in debt securities at their fair values in the balance sheet. Unrealized gains and losses are included in the change in net assets in the accompanying statement of activities.

The Organization 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 supervised by the Board of Berkshire Taconic Community Foundation. Though the market value of investments is subject to fluctuation on a year to year basis, the Finance Committee of the Board of the Foundation for Community Health, believes that the investment policy is prudent for the long-term welfare of the Organization.

The Organization's investments are stated at market value in the case of marketable securities and at estimated values for certain nonmarketable securities. The market value of publicly traded securities is based upon quotes from the principal exchanges on which the security is traded.

Non marketable securities include alternative investments such as private equity, venture capital, emerging market debt and hedge funds, which are valued using current estimates of fair value obtained from the general partner or investment manager in the absence of readily determinable public market values.

Investments consisted of the following at December 31,

	2005 Fair Value	2004 (Memorandum Only) Fair Value
Money market	\$ 2,906,300	\$ 886,390
U.S. government and agencies	-	272,275
Mutual funds	4,675,116	6,919,916
Bonds	1,826,268	555,023
Equity securities	7,350,524	6,458,312
Alternatives	3,079,468	1,531,591
Total	\$ 19,837,676	\$ 16,623,507

See auditors' report.

FOUNDATION FOR COMMUNITY HEALTH, INC.
NOTES TO FINANCIAL STATEMENTS (CONTINUED)

3. Investments (Continued):

Investment return and its classification in the statement of activities consisted of the following for the year ended December 31, 2005:

	Unrestricted	Temporarily Restricted	Permanently Restricted	Total
Interest and dividends	\$ 199,434	\$ 787	\$ 35,842	\$ 236,063
Realized and unrealized gains	855,965	3,317	151,588	1,010,870
Total	\$ 1,055,399	\$ 4,104	\$ 187,430	\$ 1,246,933

4. Property and equipment:

Property and equipment consisted of the following at December 31,

	2005	2004 (Memorandum Only)
Equipment	\$ 22,948	\$ 22,504
Leasehold Improvements	3,294	3,294
	26,242	25,798
Accumulated depreciation	(6,546)	(2,348)
Property and equipment, net	\$ 19,696	\$ 23,450

5. Temporarily restricted net assets:

Temporarily restricted net assets are available for the following purposes at December 31,

	2005	2004 (Memorandum Only)
Assistance funds	\$ 7	\$ 948
Field of interest funds	58,874	60,440
Total	\$ 58,881	\$ 61,388

6. Permanently restricted net assets:

Permanently restricted net assets at December 31, include the following donor restricted principal in perpetuity, the revenue from which is expendable as provided by the donor:

	2005	2004 (Memorandum Only)
Field of interest	\$ 639,058	\$ 622,603
Unrestricted	2,229,870	2,173,240
Total	\$ 2,868,928	\$ 2,795,843

See auditors' report.

FOUNDATION FOR COMMUNITY HEALTH, INC.
 NOTES TO FINANCIAL STATEMENTS (CONTINUED)

7. Net assets released from restrictions:

Net assets were released from donor restrictions in 2005 by incurring expenses satisfying the restricted purposes or by occurrence of other events specified by the donors.

Purpose restrictions accomplished-funds were
 expended in accordance with donor provision \$ 120,956

8. Income beneficiary trusts:

The Organization is the income beneficiary of three trusts that are currently managed by Bank of America and Legacy Portfolio Management. The assets held in these trusts, for which the Organization has no beneficial interest in the principal, amounted to \$6,775,405 and \$6,843,241, respectively as of December 31, 2005 and 2004. The Organization received a total of \$278,780 and \$281,726 in contributions from these trusts for the years ended December 31, 2005 and 2004.

9. Lease commitments:

The Organization entered into a lease agreement from July 12, 2004 to June 30, 2006 for its office space at 106B Upper Main Street, Sharon, Connecticut. Rent expense for 2005 totaled \$9,600. Minimum payments under this noncancelable operating lease were as follows as of December 31, 2005:

Year	Amount
2006	\$ 4,800
2007	-
2008	-
2009	-
2010	-
Total	<u>\$ 4,800</u>

The Organization leases a copier under an agreement signed June 21, 2004. The lease requires 60 monthly payments of \$226.45. The lease expense for 2005 amounted to \$2,717. Future minimum payments under this lease were as follows as of December 31, 2005:

Year	Amount
2006	\$ 2,717
2007	2,717
2008	2,717
2009	1,585
2010	-
Total	<u>\$ 9,736</u>

See auditors' report.

FOUNDATION FOR COMMUNITY HEALTH, INC.
NOTES TO FINANCIAL STATEMENTS (CONTINUED)

10. 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 decide to sell within that period. The Organization had not exceeded this requirement in 2005.

11. Related party transactions:

The Organization receives 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. Total fees paid for 2005 were \$123,128.

12. Subsequent events:

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 percent (25%) of the amount of net earnings in excess of seven percent (7%) of total revenues, if any, as determined by an independent auditor. The Organization is to receive \$2,477 for 2005.

Also pursuant to the purchase agreement, an independent liquidator is managing the funds as of December 31, 2005 amounting to \$870,321 that are to be used for the liquidation costs of Sharon Hospital Inc. Upon complete and final liquidation the remaining funds, if any will be contributed to the Organization. As of March 31, 2006 these funds amounted to \$868,935.

See auditors' report.