

FOUNDATION FOR COMMUNITY HEALTH, INC.
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For the Year Ended December 31, 2006

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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 statement of financial position of the Foundation for Community Health, Inc. (a nonprofit organization) as of December 31, 2006 and the related statements of activities, functional expenses, and cash flows for the year 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 audit. The financial statements of the Foundation for Community Health, Inc. as of December 31, 2005 were audited by other auditors whose report dated May 24, 2006 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 the Foundation for Community Health, Inc. as of December 31, 2006, 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.

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

Robert E. King & Co., P.C.
May 25, 2007

Foundation for Community Health, Inc.

Statement of Financial Position
December 31, 2006
With Comparative Totals for 2005

	Totals	
	2006	2005
Current Assets:		
Cash and Cash Equivalents	\$ 4,648	\$ 38,415
Accounts Receivable	2,477	2,477
Prepaid Expenses	2,920	-
Total Current Assets	10,045	40,892
 Property and Equipment, net	 18,241	 19,696
 Other Assets:		
Investments	22,363,050	19,837,676
Security Deposit	1,600	1,600
Total Other Assets	22,364,650	19,839,276
 Total Assets	 \$ 22,392,936	 \$ 19,899,864
 Current Liabilities:		
Grants Payable	\$ 87,500	\$ 155,399
Accounts Payable & Accrued Expenses	51,602	40,689
Total Current Liabilities	139,102	196,088
 Net Assets:		
Unrestricted		
Undesignated	19,332,445	
Designated	300,000	
Total	19,632,445	17,123,045
Temporarily Restricted	335,490	294,832
Permanently Restricted	2,285,899	2,285,899
Total Net Assets	22,253,834	19,703,776
 Total Liabilities and Net Assets	 \$ 22,392,936	 \$ 19,899,864

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, 2006

With Comparative Totals for 2005

	<u>Unrestricted</u>	<u>Temporarily Restricted</u>	<u>Permanently Restricted</u>	<u>Total 2006</u>	<u>Total 2005</u>
Change in Net Assets:					
Support and Revenue:					
Contributions	\$ 777,261	\$ 1,175	\$ -	\$ 778,436	\$ 2,687,001
Investment Income	2,516,458	70,569	-	2,587,027	1,246,933
Allocation from Essent Healthcare	-	-	-	-	2,477
Net Assets Released From Restrictions:					
Satisfaction of Donor Restrictions	<u>31,086</u>	<u>(31,086)</u>	-	-	-
Total Support and Revenue	<u><u>3,324,805</u></u>	<u><u>40,658</u></u>	<u><u>-</u></u>	<u><u>3,365,463</u></u>	<u><u>3,936,411</u></u>
Expenses:					
Grants and Disbursements	431,562	-	-	431,562	516,206
Management and General	219,501	-	-	219,501	204,302
Program Expenses	<u>164,342</u>	<u>-</u>	<u>-</u>	<u>164,342</u>	<u>187,845</u>
Total Expenses	<u><u>815,405</u></u>	<u><u>-</u></u>	<u><u>-</u></u>	<u><u>815,405</u></u>	<u><u>908,353</u></u>
Change in Net Assets	<u>2,509,400</u>	<u>40,658</u>	<u>-</u>	<u>2,550,058</u>	<u>3,028,058</u>
Net Assets, Beginning	<u>17,123,045</u>	<u>294,832</u>	<u>2,285,899</u>	<u>19,703,776</u>	<u>16,675,718</u>
Net Assets, Ending	<u><u>\$ 19,632,445</u></u>	<u><u>\$ 335,490</u></u>	<u><u>\$ 2,285,899</u></u>	<u><u>\$ 22,253,834</u></u>	<u><u>\$ 19,703,776</u></u>

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

Foundation for Community Health, Inc.

Statement of Cash Flows

December 31, 2006

With Comparative Totals for 2005

	<u>2006</u>	<u>2005</u>
CASH FLOWS FROM OPERATING ACTIVITIES:		
Change in Net Assets	\$ 2,550,058	\$ 3,028,058
Adjustments:		
Depreciation	4,887	4,198
Loss on Disposal of Fixed Assets	1,199	-
Realized and Unrealized Loss on Investments	(2,266,401)	(1,010,870)
Decreases/(Increases) in Assets:		
Accounts Receivable	-	15,558
Prepaid Expenses	(2,920)	-
Grants Payable	(67,899)	-
Accounts Payable and Accrued Expenses	10,913	110,765
Total Adjustments	<u>(2,320,221)</u>	<u>(880,349)</u>
Net Cash Provided by Operating Activities	<u>229,837</u>	<u>2,147,709</u>
CASH FLOWS USED FOR INVESTING ACTIVITIES:		
Proceeds from Investments	1,110,190	375,819
Purchases of Investments	(1,369,163)	(2,579,118)
Payments for Property and Equipment	<u>(4,631)</u>	<u>(444)</u>
Net Cash Used for Investing Activities	<u>(263,604)</u>	<u>(2,203,743)</u>
Net Increase (Decrease) in Cash and Cash Equivalents	(33,767)	(56,034)
Cash and Cash Equivalents at Beginning of Year	<u>38,415</u>	<u>94,449</u>
Cash and Cash Equivalents at End of Year	<u>\$ 4,648</u>	<u>\$ 38,415</u>

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, 2006 With Comparative Totals for 2005

	Management		Total	
	and general	Programs	2006	2005
Compensation and Related Expenses				
Salaries	\$ 34,075	\$ 87,623	\$ 121,698	\$ 136,977
Employee Benefits	7,864	20,221	28,085	33,709
Payroll Taxes	<u>2,737</u>	<u>7,039</u>	<u>9,776</u>	<u>10,267</u>
Total	44,676	114,883	159,559	180,953
Unemployment	286	735	1,021	942
Legal Services	2,915	-	2,915	9,306
Investment & Financial Services	133,356	-	133,356	123,136
Contract Services	9,316	3,554	12,870	6,187
Program Consultants	-	-	-	6,465
Insurance	211	544	755	3,759
Rent	2,688	6,912	9,600	9,600
Utilities and Fuel	869	2,234	3,103	2,666
Telephone	942	2,422	3,364	2,974
Postage and Shipping	414	1,066	1,480	2,174
Office and Computer Supplies	1,014	2,608	3,622	1,994
Printing	1,156	3,181	4,337	7,229
Dues & Subscriptions	1,236	3,177	4,413	3,792
Meeting, Luncheons, Dinners	481	3,535	4,016	3,412
Staff Development	2,122	5,455	7,577	3,657
Travel	1,296	3,334	4,630	2,595
Depreciation	4,887	-	4,887	4,198
Accounting	1,360	-	1,360	8,998
Computer Maintenance Contract	1,188	3,055	4,243	-
Software Support	413	1,062	1,475	1,404
Payroll Service Fees	1,410	-	1,410	1,508
Equipment Rental and Maintenance	761	1,956	2,717	2,717
Marketing	5,078	4,046	9,124	1,574
Loss on Disposal of Assets	1,199	-	1,199	-
Repairs and Office Maintenance	227	583	810	-
Miscellaneous	<u>-</u>	<u>-</u>	<u>-</u>	<u>907</u>
	<u>\$ 219,501</u>	<u>\$ 164,342</u>	<u>\$ 383,843</u>	<u>\$ 392,147</u>

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

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FOUNDATION FOR COMMUNITY HEALTH, INC.
Notes to Financial Statements
For the Year Ended December 31, 2006

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:

Foundation for Community Health, Inc.
Notes to Financial Statements
For the Year Ended December 31, 2006

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.

Foundation for Community Health, Inc.
Notes to Financial Statements
For the Year Ended December 31, 2006

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. At December 31, 2006, Essent Healthcare Inc. owed the Organization \$2,477 from the 2005 year. No amount will be received for the year ended December 31, 2006.

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, 2005, 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, 2006, the carrying amounts of the Foundation's deposits were \$4,648 and the bank balance was \$9,712.

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>2006</u>	<u>2005</u>
Money Market	\$ 1,999,668	\$ 2,906,300
Mutual Funds	7,558,944	4,675,116
Bonds	1,792,350	1,826,268
Equity Securities	5,818,413	7,350,524
Alternatives	5,193,675	3,079,468
	<u>\$ 22,363,050</u>	<u>\$ 19,837,676</u>

Investment return on the investment pool and its classification in the statement of activities consisted of the following:

	<u>2006</u>	<u>2005</u>
Dividends and Interest	\$ 320,626	\$ 236,063
Net Realized and Unrealized Gains	<u>2,266,401</u>	<u>1,010,870</u>
	<u>\$ 2,587,027</u>	<u>\$ 1,246,933</u>

Fixed Assets

Fixed Assets consist of the following:

	<u>2006</u>	<u>2005</u>
Equipment	\$ 24,301	\$ 22,948
Leasehold Improvements	<u>3,294</u>	<u>3,294</u>
	27,595	26,242
Accumulated Depreciation	<u>(9,354)</u>	<u>(6,546)</u>
	<u>\$ 18,241</u>	<u>\$ 19,696</u>

Depreciation Expense was \$4,887 and \$4,198 for the years ended December 31, 2006 and 2005.

Operating Lease

The Foundation entered into a two-year lease for building space that expired on June 30, 2006. The lease is currently extended on a month-to-month basis at a rate of \$800 per month.

Temporarily Restricted Net Assets

Temporarily Restricted Net Assets consists of the following:

	<u>2006</u>	<u>2005</u>
Assistance Funds	\$ (49)	\$ 7
Field of Interest Funds	<u>335,539</u>	<u>294,839</u>
Total	<u>\$ 335,490</u>	<u>\$ 294,832</u>

Permanently Restricted Net Assets

Permanently restricted net assets consist of the following:

	<u>2006</u>	<u>2005</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 \$7,294,063 and \$6,775,405, respectively as of December 31, 2006 and 2005. The Foundation has interests in the income only, and no provision to receive any principal. The Foundation received \$277,911 and \$278,780 in income distributions based on the fund's income after certain trust expenses for the years ending December 31, 2006 and 2005.

4. 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 2006 amounted to \$2,717. Future minimum lease payments under this lease were as follows as of December 31, 2006:

<u>Year</u>	<u>Amount</u>
2007	\$ 2,717
2008	2,717
2009	1,585

The Foundation entered into a lease agreement from July 2005 to June 2006 for its office space. Rent expense for 2006 totaled \$9,600. The lease was not formally extended, and is currently being paid month-to-month.

5. TAX DEFERRED ANNUITY

The Foundation has adopted a 403(b)(7) Tax Deferred Annuity Plan for its employees. Investment companies maintain the invested assets. The employer contributions to the plan for the years ending December 31, 2006 and 2005 were \$7,490 and \$9,251.

6. 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 2006. A clarification on the restrictions was requested from the Attorney General's office during the year. Because the clarification was not received until February 2007, \$300,000 of the grants budgeted by the Board of Directors for the year were not able to be awarded as of December 31, 2006 and will be expended in 2007 without regard to the 5% limit, as per agreement with Attorney General.

7. 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 2006 were \$133,356.

8. SUBSEQUENT EVENTS

Pursuant to the purchase agreement, an independent liquidator is managing the funds to be used for the liquidation of Sharon Hospital Inc. During 2006, \$500,000 was received. Final liquidation was completed in April, 2007 and a final distribution of \$345,732 was received. The Foundation was also notified that \$52,723.87 of the final distribution consists of amounts overpaid to the Hospital by former patients. This amount must be returned to its rightful owners or escheated to the State of Connecticut. Legal counsel has advised that in connection with the failure of the former Sharon Hospital, Inc. to timely refund the overpayments, a penalty in excess of \$39,500 may be assessed against the Foundation as successor-in-interest. Legal counsel is working towards abatement of that penalty, and believes a favorable outcome is likely.

9. PRIOR PERIOD RESTATEMENT

An adjustment was made to correct the December 31, 2005 net assets by class. The adjustment reclassifies unrestricted and temporarily restricted income produced by permanently restricted net assets.

	<u>Unrestricted</u>	<u>Temporarily Restricted</u>	<u>Permanently Restricted</u>	<u>Total</u>
December 31, 2005 net assets, as previously reported	\$ 16,775,967	\$ 58,881	\$ 2,868,928	\$ 19,703,776
Reclassification of investment income on permanently restricted assets	<u>347,078</u>	<u>235,951</u>	<u>(583,029)</u>	<u>-</u>
December 31, 2005 Net Assets, as restated	<u>\$ 17,123,045</u>	<u>\$ 294,832</u>	<u>\$ 2,285,899</u>	<u>\$ 19,703,776</u>

The reclassification had no effect on the 2006 or 2005 change in net assets as a whole.

10. CHANGE IN CLASSIFICATION OF FINANCIAL STATEMENTS

Investment activity in the prior year Comparative Statement of Cash Flows was reclassified to be presented in accordance with Generally Accepted Accounting Principles. Realized and Unrealized Gains, Proceeds from Investments, and Purchases of Investments are now separately stated. Also, in the Statement of Financial Position, Grants Payable has been reclassified to be reported separately from Other Current Liabilities.