

FOUNDATION FOR COMMUNITY HEALTH, INC.
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For the Year Ended December 31, 2008

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

Certified Public Accountants

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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, 2008 and 2007, 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, 2008 and 2007, 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 8, 2009

Foundation for Community Health, Inc.

Statements of Financial Position

December 31, 2008 and 2007

	Totals	
	2008	2007
ASSETS		
Current Assets:		
Cash and Cash Equivalents	\$ 88,593	\$ 34,446
Prepaid Expenses	8,319	2,544
Total Current Assets	96,912	36,990
Fixed Assets, Net	22,248	18,709
Other Assets:		
Investments	17,115,335	24,142,504
Contribution Receivable - CRT	14,113	58,174
Security Deposit	1,600	1,600
Total Other Assets	17,131,048	24,202,278
Total Assets	\$ 17,250,208	\$ 24,257,977
 LIABILITIES AND NET ASSETS		
Current Liabilities:		
Grants Payable	\$ 404,700	\$ 306,594
Accounts Payable & Accrued Expenses	55,041	52,189
Total Current Liabilities	459,741	358,783
Net Assets:		
Unrestricted	14,310,180	21,174,995
Temporarily Restricted	194,388	438,300
Permanently Restricted	2,285,899	2,285,899
Total Net Assets	16,790,467	23,899,194
Total Liabilities and Net Assets	\$ 17,250,208	\$ 24,257,977

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, 2008

With Comparative Totals for 2007

	Total		
	Unrestricted	Temporarily Restricted	Permanently Restricted
Support and Revenue:			
Contributions	\$ 278,523	\$ 38,566	\$ -
Investment Income	(5,981,994)	(208,282)	(6,190,276)
Change in Value of CRT	-	(44,061)	(44,061)
Net Assets Released From Restrictions:			
Satisfaction of Donor Restrictions	30,135	(30,135)	-
Total Support and Revenue	<u>(5,673,336)</u>	<u>(243,912)</u>	<u>(5,917,248)</u>
			<u>2,745,208</u>
Expenses:			
Grants and Disbursements	761,535	-	-
Management and General	239,937	-	-
Program Expenses	190,007	-	-
Total Expenses	<u>1,191,479</u>	<u>-</u>	<u>1,191,479</u>
			<u>1,099,848</u>
Change in Net Assets	(6,864,815)	(243,912)	(7,108,727)
			<u>1,645,360</u>
Net Assets, Beginning	<u>21,174,995</u>	<u>438,300</u>	<u>2,285,899</u>
			<u>23,899,194</u>
Net Assets, Ending	<u>\$ 14,310,180</u>	<u>\$ 194,388</u>	<u>\$ 2,285,899</u>
			<u>\$ 16,790,467</u>
			<u>\$ 23,899,194</u>

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

Foundation for Community Health, Inc.

Statements of Cash Flows
December 31, 2008 and 2007

	2008	2007
CASH FLOWS FROM OPERATING ACTIVITIES:		
Change in Net Assets	\$ (7,108,727)	\$ 1,645,360
Adjustments:		
Depreciation	6,120	4,636
Realized and Unrealized (Gain) Loss on Investments	6,435,853	(1,779,185)
Decreases/(Increases) in Assets:		
Accounts Receivable	-	2,477
Prepaid Expenses	(5,775)	376
Contribution Receivable - CRT	44,061	(58,174)
Increases/(Decreases) in Liabilities		
Grants Payable	98,106	219,094
Accounts Payable and Accrued Expenses	2,852	587
Total Adjustments	6,581,217	(1,610,189)
Net Cash (Used by)/Provided by Operating Activities	(527,510)	35,171
CASH FLOWS USED FOR INVESTING ACTIVITIES:		
Proceeds from Sales of Investments	1,080,281	911,544
Purchase of Investments	(488,965)	(911,813)
Payments for Property and Equipment	(9,659)	(5,104)
Net Cash (Used by)/Provided by Investing Activities	581,657	(5,373)
CASH FLOWS FROM FINANCING ACTIVITIES:	-	-
Net Increase in Cash and Cash Equivalents	54,147	29,798
Cash and Cash Equivalents at Beginning of Year	34,446	4,648
Cash and Cash Equivalents at End of Year	\$ 88,593	\$ 34,446
Supplemental Information:		
Interest Paid	\$ -	\$ -
Income Taxes Paid	-	-

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, 2008
With Comparative Totals for 2007

	Management		Totals	
	and General	Programs	2008	2007
<i>Compensation and Related Expenses</i>				
Salaries	\$ 48,375	\$ 112,876	\$ 161,251	\$ 146,340
Employee Benefits	10,321	24,083	34,404	30,157
Payroll Taxes	3,615	8,434	12,049	11,064
Total	62,311	145,393	207,704	187,561
Unemployment	591	1,380	1,971	2,847
Legal Services	2,749	-	2,749	3,246
Investment & Financial Services	133,994	-	133,994	146,454
Contract Services	-	5,340	5,340	1,452
Program Consultants	-	1,200	1,200	717
Insurance	1,161	2,709	3,870	4,104
Rent	3,300	7,700	11,000	11,200
Utilities and Fuel	1,227	2,862	4,089	3,900
Telephone	992	2,315	3,307	3,342
Postage and Shipping	803	1,172	1,975	5,062
Office and Computer Supplies	1,113	2,891	4,004	3,799
Printing	2,981	-	2,981	6,507
Dues & Subscriptions	878	-	878	1,516
Meeting, Luncheons, Dinners	3,116	2,599	5,715	4,631
Staff Development	4,829	-	4,829	3,135
Travel	3,376	2,132	5,508	3,670
Depreciation	1,836	4,284	6,120	4,636
Accounting	7,450	-	7,450	7,000
Computer Maintenance Contract	1,513	3,529	5,042	1,576
Software Support	479	1,118	1,597	2,762
Payroll Service Fees	408	952	1,360	1,443
Equipment Rental and Maintenance	790	1,843	2,633	2,999
Marketing	3,788	-	3,788	9,378
Repairs and Office Maintenance	252	588	840	860
Miscellaneous	-	-	-	990
Totals	\$ 239,937	\$ 190,007	\$ 429,944	\$ 424,787

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

FOUNDATION FOR COMMUNITY HEALTH, INC.

Notes to the Financial Statements

December 31, 2008

NOTE 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.

FOUNDATION FOR COMMUNITY HEALTH, INC.

Notes to the Financial Statements

December 31, 2008

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.

Endowment

In August 2008, The Financial Accounting Standards Board (FASB) issued staff position No. FAS 117-1: *Endowments of Not-For-Profit Organizations: Net Asset Classification of Funds Subject to an Enacted Version of the Uniform Prudent Management of Institutional Funds Act, and Enhances Disclosures for all Endowment Funds* (FAS 117-1). FAS 117-1 provides accounting standards on the net asset classification of donor-restricted endowment funds for a not-for-profit organization that are subject to an enacted version of the Uniform Prudent Management of Institutional Funds Act (UPMIFA). FAS 117-1 also provides for other disclosures concerning an organization's endowment funds and whether or not the organization is subject to UPMIFA. The State of Connecticut adopted its version of UPMIFA, which became effective October 1, 2007 (CTPMIFA). In 2009, The State of New York has introduced legislation for adoption of UPMIFA. Prior to the issuance of FAS 117-1, accumulated gains and income on donor restricted endowment assets were classified as unrestricted net assets in accordance with the Uniform Management of Institutional Funds Act (UMIFA). Under SP No. 117-1, accumulated gains and income on donor-restricted endowment assets of perpetual duration are classified as temporarily restricted net assets until appropriated for expenditure. The Foundation, although a Connecticut Corporation, also operates in New York. The Board of Directors has determined that until legislation is passed in both states, they will continue to manage and account for their endowments in accordance with UMIFA.

FOUNDATION FOR COMMUNITY HEALTH, INC.

Notes to the Financial Statements

December 31, 2008

Investments

Investments consist of the Foundation's share of the Berkshire Taconic Community Foundation's "Managed Pool," which consists of various types of investments. The Managed 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 (BTCF). BTCF engages its own auditors who issued an unqualified opinion on their financial statements for the year ended December 31, 2008.

Marketable investments in equities and debt securities are carried at fair value based upon quoted market prices. For limited marketability investments, including alternative investments which are principally absolute return strategies, private equity and real estate, the carrying value is the estimated fair value. Because alternative investments are not immediately marketable given the nature of the underlying strategies and the terms of the governing partnership agreements, the estimated fair value is subject to uncertainty and, therefore, may differ from the value that may be received if a ready market for the investments had been in existence, and the difference could be material. The Foundation's alternative investments accessed through limited partnerships are determined by the general partner to be at fair value pursuant to FASB's accounting standards FAS No. 157, *Fair Value Measurements*, as further discussed below, after it considers certain pertinent factors, including, but not limited to, the partner's share of the underlying limited partnership's net assets, liquidity features of the partnership, the underlying portfolio of holdings, the current market conditions for observable, corroborated or correlated transactions, comparable or similar products' fair valuations, external assessments of the limited partnerships' holdings, and the audit opinion from the independent auditor of the limited partnership.

Fair Value of Financial Instruments

In accordance with FAS No. 157, the Foundation is required to measure the fair value of its assets and liabilities under a three-level hierarchy, as follows:

Level 1: Quoted market prices for identical assets or liabilities to which an entity has access at the measurement date.

Level 2: Inputs and information other than quoted market indices included in Level 1 that are observable for the asset or liability, either directly or indirectly. Level 2 inputs include:

- a. Quoted prices for similar assets or liabilities in active markets.
- b. Quoted prices for identical or similar assets in markets that are not active;
- c. Observable inputs other than quoted prices for the asset or liability;
- d. Inputs derived principally from, or corroborated by, observable market data by correlation or by other means.

Level 3: Unobservable inputs for the asset or liability. Unobservable inputs should be used to measure the fair value to the extent that observable inputs are not available.

FOUNDATION FOR COMMUNITY HEALTH, INC.

Notes to the Financial Statements

December 31, 2008

Observable inputs reflect the assumptions market participants would use in pricing the asset or liability developed from sources independent of the reporting entity; and unobservable inputs reflect the reporting entity's own assumptions about the assumptions market participants would use in pricing the asset or liability developed based on the best information available in the circumstances.

In accordance with FAS No. 157, the Foundation's carrying amount of cash and cash equivalents and grants payable approximate fair value under Level 1. Investments are carried at fair value based on Level 1, Level 2, and Level 3 inputs and are presented in Note 9. Split-interest agreements are reported at fair value based on the life expectancy of the beneficiary and the net present value of the expected cash flows using a discount rate. Agency funds are carried at fair value based on the underlying investments. Derivatives instruments are measured at fair value based on Level 2 and Level 3 observable inputs. The Foundation's alternative investments include private equity, venture capital emerging market debt, and hedge funds. The Foundation does not use derivatives for speculative purposes or for leveraging returns, but rather these instruments are used with the objectives of reducing overall portfolio risk and/or lowering the cost of investment management.

The Foundation believes that the carrying amount of its investments is a reasonable fair value as of December 31, 2008, in accordance with FAS No. 157.

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. The Organization was not due any funds from Essent Healthcare Inc. for 2008 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.

Website	3 years
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.

FOUNDATION FOR COMMUNITY HEALTH, INC.

Notes to the Financial Statements

December 31, 2008

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, 2007, 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.

NOTE 2 – DETAIL NOTES ON ASSETS, LIABILITIES, AND NET ASSETS

Cash and Cash Equivalents

At December 31, 2008, the carrying amounts of the Foundation's deposits were \$88,593, and the bank balance was \$94,055.

Investments

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

	<u>2008</u>	<u>2007</u>
Dividends and Interest	\$ 345,426	\$ 440,008
Net Realized and Unrealized Gains	(6,435,853)	1,779,185
Custodial & Management Fees	(99,849)	(103,423)
	<u>\$ (6,190,276)</u>	<u>\$ 2,115,770</u>

FOUNDATION FOR COMMUNITY HEALTH, INC.

Notes to the Financial Statements

December 31, 2008

Fixed Assets

Fixed Assets consist of the following:	<u>2008</u>	<u>2007</u>
Equipment	\$ 33,835	\$ 29,405
Website Development in Progress	5,228	-
Leasehold Improvements	<u>3,294</u>	<u>3,294</u>
	42,357	32,699
Accumulated Depreciation	<u>(20,109)</u>	<u>(13,990)</u>
	<u>\$ 22,248</u>	<u>\$ 18,709</u>

Depreciation Expense was \$6,120 and \$4,636 for the years ended December 31, 2008 and 2007.

Temporarily Restricted Net Assets

Temporarily Restricted Net Assets consists of the following:

	<u>2008</u>	<u>2007</u>
Contribution Receivable – CRT	\$ 14,113	\$ 58,174
Assistance Funds	-	923
Field of Interest Funds	<u>180,275</u>	<u>379,203</u>
Total	<u>\$ 194,388</u>	<u>\$ 438,300</u>

Permanently Restricted Net Assets

Permanently Restricted Net Assets consist of the following:

	<u>2008</u>	<u>2007</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>

NOTE 3 – BENEFICIARY INTEREST IN PERPETUAL TRUSTS

The Organization is the income beneficiary of two irrevocable perpetual trusts, the assets of which are managed by and in the possession of Bank of America. The trustees of an additional trust managed by Legacy Portfolio Management elected to dissolve the trust and make a one-time payout to the beneficiaries during 2008. The Foundation received \$40,017. The assets held in these trusts were valued at \$5,527,292 and \$7,372,329 respectively as of December 31, 2008 and 2007. The Foundation has interests in the income only, and no provision to receive any principal. The Foundation received \$297,383 and \$275,793 in income distributions based on the fund's income after certain trust expenses for the years ending December 31, 2008 and 2007.

FOUNDATION FOR COMMUNITY HEALTH, INC.

Notes to the Financial Statements

December 31, 2008

NOTE 7 – RELATED PARTY TRANSACTIONS

The Organization received financial management and administrative functions from Berkshire Taconic Community Foundation, Inc. The Organization is a type three 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 2008 and 2007 were \$133,994 and \$146,454. Amounts owed to Berkshire Taconic Community Foundation, Inc. were \$27,142 and \$37,947 at December 31, 2008 and 2007.

NOTE 8 – FAIR VALUE INFORMATION

The following summary of assets measured at fair value on a recurring basis was determined by applying the percentage of the Foundation's investment in the Berkshire Taconic Community Foundation's Managed Pool to its reported fair value information as disclosed in its audited financial statements.

<u>Description</u>	<u>December 31,</u> <u>2008</u>	<u>Fair Value Measurements Using</u>		
		<u>Quoted Priced</u> <u>in Active</u> <u>Markets for</u> <u>Identical Assets</u> <u>(Level 1)</u>	<u>Significant</u> <u>Other</u> <u>Observable</u> <u>Inputs</u> <u>(Level 2)</u>	<u>Significant</u> <u>Unobservable</u> <u>Inputs</u> <u>(Level 3)</u>
US Equity	\$ 3,699,595	\$ 3,699,595	\$ -	\$ -
International Equity	3,572,722	3,572,722	-	-
Long/Short Equity	2,180,193	-	2,180,193	-
Fixed Income	1,670,229	1,670,229	-	-
Absolute Return	2,328,399	-	-	2,328,399
Private Equity	521,909	-	-	521,909
Real Assets	800,815	-	800,815	-
Emerging Markets	1,105,857	1,105,857	-	-
Money Markets	1,229,974	1,229,974	-	-
Non-Performing Assets	5,642	-	-	5,642
Total	\$ 17,115,335	\$ 11,278,377	\$ 2,981,008	\$ 2,855,950

FOUNDATION FOR COMMUNITY HEALTH, INC.

Notes to the Financial Statements

December 31, 2008

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:

	<u>Absolute Return</u>	<u>Private Equity</u>	<u>Non- Performing Assets</u>	<u>Total</u>
Balance, beginning of year	\$ 2,346,220	\$ 445,684	\$ 5,642	\$ 2,797,546
Total gains or losses (realized and unrealized) included in the change in net assets	(362,280)	(63,252)	-	(425,532)
Purchases and Sales	328,763	139,477	-	468,240
Transfers in and/or out of Level 3	<u>15,696</u>	<u>-</u>	<u>-</u>	<u>15,696</u>
Balance, end of year	<u>\$ 2,328,399</u>	<u>\$ 521,909</u>	<u>\$ 5,642</u>	<u>\$ 2,855,950</u>

The amount of total losses for the period included in changes in net assets attributable to the change in unrealized losses relating to assets still held at end of year

\$ (760,302)	\$ (68,683)	\$ -	\$ (828,985)
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NOTE 9 – SUBSEQUENT EVENTS

For the first quarter of 2009, the Organization's investment pool experienced Unrealized Losses of \$492,564 and Realized Losses of \$89,162.