

FOUNDATION FOR SEACOAST HEALTH
AND SUBSIDIARY

FINANCIAL REPORT

DECEMBER 31, 2014

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INDEPENDENT AUDITOR'S REPORT

To the Board of Trustees
Foundation for Seacoast Health and Subsidiary
Portsmouth, New Hampshire 03801

We have audited the accompanying consolidated statement of financial position of the Foundation for Seacoast Health and Subsidiary as of December 31, 2014, and the related consolidated statement of activities and changes in net assets and cash flows for the year then ended, and the related notes to the financial statements.

Management's Responsibility for the Financial Statements

Management is responsible for the preparation and fair presentation of these 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 financial statements that are free from material misstatement, whether due to fraud or error.

Auditor's Responsibility

Our responsibility is to express an opinion on these financial statements based on our audit. 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 from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the 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 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 the Foundation for Seacoast Health and Subsidiary as of December 31, 2014, and the results of its operations, changes in net assets and cash flows for the year then ended, in conformity with accounting principles generally accepted in the United States of America.

Report on Summarized Comparative Information

We have previously audited the Foundation for Seacoast Health and Subsidiary December 31, 2013 financial statements, and we expressed an unmodified audit opinion on those audited financial statements in our report dated March 10, 2014. In our opinion, the summarized comparative information presented herein as of and for the year ended December 31, 2013 is consistent, in all material respects, with the audited financial statements from which it has been derived.

Nathan Wechsler & Company
Concord, New Hampshire
March 23, 2015

FOUNDATION FOR SEACOAST HEALTH AND SUBSIDIARY

CONSOLIDATED STATEMENTS OF FINANCIAL POSITION

December 31, 2014 and 2013

ASSETS

	2014	2013
Cash and cash equivalents	\$ 1,341,321	\$ 4,955,868
Other receivables	21,991	7,040
Prepaid expenses	27,319	78
Investments, at fair value	27,497,820	29,331,160
Property and equipment, net	10,291,936	10,574,171
Other assets, net	61,179	140,112
	<hr/>	<hr/>
<i>Total assets</i>	\$ 39,241,566	\$ 45,008,429
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LIABILITIES AND NET ASSETS

Series A bonds	\$ 6,350,000	\$ 6,455,000
Series B bonds	-	4,340,000
Accounts payable and accrued liabilities	121,309	57,188
Grants payable	-	10,000
Scholarships payable	-	500
Taxes payable	-	16,218
	<hr/>	<hr/>
<i>Total liabilities</i>	6,471,309	10,878,906
	<hr/>	<hr/>

COMMITMENTS (See Notes)

Net Assets:		
Unrestricted	32,115,379	33,503,047
Temporarily restricted	375,158	346,756
Permanently restricted	279,720	279,720
	<hr/>	<hr/>
<i>Total net assets</i>	32,770,257	34,129,523
	<hr/>	<hr/>
<i>Total liabilities and net assets</i>	\$ 39,241,566	\$ 45,008,429
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FOUNDATION FOR SEACOAST HEALTH AND SUBSIDIARY

CONSOLIDATED STATEMENT OF ACTIVITIES AND CHANGES IN NET ASSETS
Year Ended December 31, 2014 and Comparative Totals for Year Ended December 31, 2013

	2014			2013	
	Unrestricted	Temporarily Restricted	Permanently Restricted	Total	Total
Operating activities:					
Revenues, gains and other income:					
Interest and dividends	\$ 371,683	\$ 12,845	\$ -	\$ 384,528	\$ 434,315
Net capital gain distributions, realized and unrealized gains on investments	452,828	23,958	-	476,786	3,394,323
Rental income	473,401	-	-	473,401	450,333
Other income	15,620	-	-	15,620	18,664
Contributions	7,360	-	-	7,360	26,533
Net assets released from restrictions	8,401	(8,401)	-	-	-
<i>Total revenues, gains and other income</i>	<u>1,329,293</u>	<u>28,402</u>	<u>-</u>	<u>1,357,695</u>	<u>4,324,168</u>
Program expenditures:					
Grants	616,600	-	-	616,600	685,450
Scholarships	9,500	-	-	9,500	10,000
Other	25,786	-	-	25,786	18,985
<i>Total program expenditures</i>	<u>651,886</u>	<u>-</u>	<u>-</u>	<u>651,886</u>	<u>714,435</u>
Community campus expenses:					
Salaries and employee benefits	236,958	-	-	236,958	261,532
Interest expense and financing costs	375,513	-	-	375,513	222,261
Depreciation	450,936	-	-	450,936	504,228
Other operating expenses	600,131	-	-	600,131	503,551
<i>Total community campus expenses</i>	<u>1,663,538</u>	<u>-</u>	<u>-</u>	<u>1,663,538</u>	<u>1,491,572</u>
General and administrative expenses:					
Salaries and employee benefits	205,269	-	-	205,269	189,170
Trust management and investment fees	68,524	-	-	68,524	71,380
Depreciation	2,841	-	-	2,841	641
Other expenses	107,833	-	-	107,833	65,629
<i>Total general and administrative expenses</i>	<u>384,467</u>	<u>-</u>	<u>-</u>	<u>384,467</u>	<u>326,820</u>
Increase (decrease) in net assets from operating activities	<u>(1,370,598)</u>	<u>28,402</u>	<u>-</u>	<u>(1,342,196)</u>	<u>1,791,341</u>
Nonoperating activities:					
Loss on disposal of equipment	(1,169)	-	-	(1,169)	(4,239)
Increase (decrease) in net assets before provision for federal excise taxes	<u>(1,371,767)</u>	<u>28,402</u>	<u>-</u>	<u>(1,343,365)</u>	<u>1,787,102</u>
Provision for federal excise taxes:					
Current federal excise tax expense	15,901	-	-	15,901	34,626
Increase (decrease) in net assets	<u>(1,387,668)</u>	<u>28,402</u>	<u>-</u>	<u>(1,359,266)</u>	<u>1,752,476</u>
<i>Net assets, beginning of year</i>	<u>33,503,047</u>	<u>346,756</u>	<u>279,720</u>	<u>34,129,523</u>	<u>32,377,047</u>
<i>Net assets, end of year</i>	<u>\$ 32,115,379</u>	<u>\$ 375,158</u>	<u>\$ 279,720</u>	<u>\$ 32,770,257</u>	<u>\$ 34,129,523</u>

FOUNDATION FOR SEACOAST HEALTH AND SUBSIDIARY

CONSOLIDATED STATEMENTS OF CASH FLOWS

Years ended December 31, 2014 and 2013

	2014	2013
CASH FLOWS FROM OPERATING ACTIVITIES		
Increase (decrease) in net assets	\$ (1,359,266)	\$ 1,752,476
Adjustments to reconcile increase (decrease) in net assets to net cash and cash equivalents used in operating activities:		
Depreciation	453,777	504,869
Amortization	78,933	56,046
Loss on disposal of equipment	1,169	4,239
Net capital gain distributions, realized and unrealized gains on investments	(476,786)	(3,394,323)
Increase (decrease) in taxes payable	(16,218)	16,218
(Increase) decrease in other receivables	(14,951)	2,856
(Increase) decrease in prepaid expenses	(27,241)	13,528
Increase (decrease) in grants payable	(10,000)	4,000
Increase (decrease) in scholarships payable	(500)	500
Increase (decrease) in accounts payable and accrued liabilities	64,121	(112,880)
	<u>64,121</u>	<u>(112,880)</u>
<i>Net cash and cash equivalents used in operating activities</i>	<u>(1,306,962)</u>	<u>(1,152,471)</u>
CASH FLOWS FROM INVESTING ACTIVITIES		
Capital expenditures	(172,708)	(68,169)
Purchase of investments	(1,765,192)	(3,412,861)
Proceeds from sale of investments	4,075,315	9,362,016
	<u>4,075,315</u>	<u>9,362,016</u>
<i>Net cash and cash equivalents provided by investing activities</i>	<u>2,137,415</u>	<u>5,880,986</u>
CASH FLOWS USED IN FINANCING ACTIVITIES		
Repayments on Series A bonds	(105,000)	-
Redemption of Series B variable rate bonds	(4,340,000)	(1,000,000)
	<u>(4,445,000)</u>	<u>(1,000,000)</u>
<i>Net increase (decrease) in cash and cash equivalents</i>	<u>(3,614,547)</u>	<u>3,728,515</u>
Cash and cash equivalents, beginning of year	4,955,868	1,227,353
	<u>4,955,868</u>	<u>1,227,353</u>
<i>Cash and cash equivalents, end of year</i>	<u>\$ 1,341,321</u>	<u>\$ 4,955,868</u>

SUPPLEMENTAL DISCLOSURES OF CASH FLOW INFORMATION

Cash payments for:

Interest	\$ 139,601	\$ 38,486
Federal excise tax payments	\$ 35,153	\$ 12,475

FOUNDATION FOR SEACOAST HEALTH AND SUBSIDIARY

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

Note 1. Formation and Nature of Activities

Foundation for Seacoast Health and Subsidiary (the "Foundation") was formed to support and promote health care in the New Hampshire seacoast area. The Foundation assists local organizations and students by issuing grants, focusing on health programs and activities that are promotional, protective, preventive and educational in nature. The Foundation also operates the Community Campus, which provides space, resources, and leadership for nonprofit organizations working to improve the health and wellness of the seacoast community. The Foundation is primarily supported through investment return.

Note 2. Summary of Significant Accounting Policies

Basis of accounting: The financial statements of the Foundation are prepared on the accrual basis; consequently, revenues and gains are recognized when earned, and expenses and losses are recognized when incurred. The significant accounting policies followed are described below to enhance the usefulness of the financial statements to the reader.

Principles of consolidation: The accompanying consolidated financial statements include the accounts of Foundation for Seacoast Health and its wholly owned subsidiary, Community Campus Corporation. All significant intercompany accounts and transactions have been eliminated.

Estimates and assumptions: Management uses estimates and assumptions in preparing financial statements. Those estimates and assumptions affect the reported amounts of assets and liabilities, the disclosure of contingent assets and liabilities, and the reported revenues and expenses. Accordingly, actual results may differ from estimated amounts.

Basis of presentation: The Foundation adheres to the Presentation of Financial Statements for Not-for-Profit Organizations topic of the FASB Accounting Standards Codification (FASB ASC 958-205). Under FASB ASC 958-205, the Foundation 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. Descriptions of the three net asset categories are as follows:

Unrestricted net assets include revenues and expenses and contributions pledged which are not subject to any donor-imposed restrictions.

Temporarily restricted net assets include contributions and gifts for which donor-imposed restrictions will be met either by the passage of time or the actions of the Foundation and also includes the accumulated appreciation related to the permanently restricted endowment gift, which is a requirement of FASB ASC 958-205-45.

Permanently restricted net assets include gifts which require, by donor restriction, that the corpus be invested in perpetuity and only the income, or a portion thereof, be made available for program operations in accordance with donor restrictions.

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 Foundation's financial statements for the year ended December 31, 2013, from which the summarized information was derived.

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FOUNDATION FOR SEACOAST HEALTH AND SUBSIDIARY

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

Contributions: Contributions received, including unconditional promises to give, are recognized as revenues when donor's commitments are received.

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.

Unconditional promises to give are recorded in the financial statements as pledges receivable and revenue in the appropriate net asset category.

A donor restriction expires when a stipulated time restriction ends or when a purpose is accomplished. Upon expiration, temporarily restricted net assets are reclassified to unrestricted net assets and are reported in the consolidated statement of activities and changes in net assets as net assets released from restrictions.

Rental income: The Foundation receives rents under operating leases. Rental income is recorded as earned in the Foundation's consolidated statement of activities and changes in net assets.

Grants and scholarships: Unconditional grants and scholarships are recognized in the consolidated financial statements when awarded and approved by the Board of Trustees. Grants payable at December 31, 2014 and 2013 are payable within one year.

Income taxes: The Foundation has received a determination from the Internal Revenue Service that it is exempt from federal income taxes pursuant to Section 501(c) (3) of the Internal Revenue Code. The Foundation is also exempt from state income taxes by virtue of its ongoing exemption from federal income taxes.

The Foundation has adopted the provisions of FASB ASC 740, Accounting for Uncertainty in Income Taxes. Accordingly, management has evaluated the Foundation's tax positions and concluded the Foundation had maintained its tax-exempt status, does not have any significant unrelated business income and had taken no uncertain tax positions that require adjustment or disclosure in the financial statements. With few exceptions, the Foundation is no longer subject to income tax examinations by the U.S. Federal or State tax authorities for years before 2011.

Excise taxes: Excise taxes are provided for the tax effects of transactions reported in the consolidated financial statements and consists of taxes currently due plus deferred taxes. Deferred excise tax assets and liabilities are the result of the expected future tax consequences of temporary differences between the financial statement and tax bases of assets and liabilities. A valuation allowance is provided against deferred excise tax assets in circumstances where management believes recoverability of a portion of the assets is not reasonably assured.

Property and equipment: Property and equipment are capitalized at cost if purchased and fair value if donated and are included with unrestricted net assets. If donors stipulate how long the assets must be used, the contributions are recorded as restricted support. In the absence of such stipulations, contributions of property and equipment are recorded as unrestricted support. Major additions are capitalized, while ordinary repairs and maintenance are expensed.

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FOUNDATION FOR SEACOAST HEALTH AND SUBSIDIARY

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

Depreciation is computed using the straight-line method over estimated useful lives as follows:

	Years
Land improvements	15
Equipment, furniture and fixtures	3-7
Building.....	39

Cash and cash equivalents: For purposes of reporting cash flows, the Foundation considers all highly liquid debt instruments purchased with an original maturity of three months or less to be cash equivalents.

Investments: The Foundation's investments in marketable equity securities and all debt securities are reported at their fair value, based upon quoted market prices or estimated fair value provided by external managers, in the consolidated statement of financial position. Investment income is credited to unrestricted net assets unless otherwise designated by the donor. Related interest and dividends are recorded on the accrual basis. The Foundation's investments do not have a significant concentration of credit risk within any industry, geographic location, or specific location.

Note 3. Investments

A comparison of the actual costs and fair values of the Foundation's investments at December 31, 2014 and 2013 is as follows:

	2014		
	Cost	Fair Value	Unrealized Appreciation
Fixed income and fixed income mutual funds	\$ 963,344	\$ 1,334,791	\$ 371,447
Equities and equity mutual funds	11,991,537	14,495,649	2,504,112
Balanced mutual funds	529,205	653,319	124,114
Alternative investments	10,582,994	11,014,061	431,067
<i>Total</i>	<u>\$ 24,067,080</u>	<u>\$ 27,497,820</u>	<u>\$ 3,430,740</u>
	2013		
	Cost	Fair Value	Unrealized Appreciation
Fixed income and fixed income mutual funds	\$ 2,139,577	\$ 2,411,704	\$ 272,127
Cash equivalents	3,000,000	3,000,000	-
Equities and equity mutual funds	11,901,447	14,491,276	2,589,829
Balanced mutual funds	483,450	616,524	133,074
Alternative investments	8,389,047	8,811,656	422,609
<i>Total</i>	<u>\$ 25,913,521</u>	<u>\$ 29,331,160</u>	<u>\$ 3,417,639</u>

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FOUNDATION FOR SEACOAST HEALTH AND SUBSIDIARY

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

Investment fees amounted to \$164,961 and \$170,969 for the years ended December 31, 2014 and 2013, respectively. Of the total investment fees, \$146,933 and \$149,862 are included with unrealized gains and losses for the years ended December 31, 2014 and 2013, respectively. The remaining investment fees of \$18,028 and \$21,107 are included in trust management and investment fees in the accompanying consolidated statement of activities and changes in net assets for the years ended December 31, 2014 and 2013, respectively.

Alternative investments consist primarily of investments in limited partnership investment funds, offshore fund vehicles and funds of funds. Substantially all of the underlying net assets of the alternative investment funds are comprised of readily marketable securities, which are valued on a mark-to-market basis. One partnership interest was subject to a lock up period imposed by the fund manager which prohibits redemption during the first year subsequent to purchase. This lock up period expired in January, 2015.

The table below details the restrictions on the Foundation's ability to redeem assets. In addition, certain funds also require 15-100 days notice of the Foundation's intent to redeem assets. On December 31, 2014 and 2013, \$- and \$4,193,679, respectively, was redeemed from alternative investments and in transit to the Foundation's money market fund which has been included in cash and cash equivalents in the accompanying consolidated statements of financial position.

Investment Liquidity	Monthly	Annually
Alternative investments	\$ 3,288,675	\$ 7,725,386
Corporate Bond Fund (included in fixed income and fixed income mutual funds)	\$ 1,334,791	\$ -

Note 4. Property and Equipment

Property and equipment, at cost, December 31,	2014	2013
Land	\$ 3,006,580	\$ 3,006,580
Land improvements	2,997,405	2,997,405
Equipment, furniture and fixtures	1,586,128	1,446,161
Building	10,129,871	10,129,871
<i>Total property and equipment</i>	17,719,984	17,580,017
Less accumulated depreciation	7,428,048	7,005,846
<i>Total property and equipment, net</i>	\$ 10,291,936	\$ 10,574,171

Included in total property and equipment is construction in progress amounting to \$34,282 at December 31, 2014 and 2013.

FOUNDATION FOR SEACOAST HEALTH AND SUBSIDIARY

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

Note 5. Excise Taxes

In accordance with the applicable provisions of the Internal Revenue Code (IRC), the Foundation is subject to an excise tax on net investment income. Accordingly, federal excise taxes have been provided in the amount of \$15,901 and \$34,626 for the years ending December 31, 2014 and 2013, respectively.

In addition, the IRC requires that certain minimum distributions be made in accordance with a specified formula. The Foundation made sufficient distributions during the years ended December 31, 2014 and 2013 to meet the requirements of the IRC.

Note 6. Retirement Plan

On August 19, 2014, the Foundation adopted an eligible deferred compensation 457(b) plan for the benefit of a select group of its management or highly compensated employees. The maximum amount of employee and employer contributions, in the aggregate is \$17,500 for 2014. The Foundation's contribution under this plan for the year ended December 31, 2014 amounted to \$7,500.

Note 7. Deferred Compensation

The Foundation sponsors a tax-deferred insurance annuity plan for its eligible full-time employees. The Foundation does not contribute to this plan. Employees designate the amount of income to be deferred in accordance with the applicable provisions of the IRC. Employees' deferred compensation totaled \$- and \$5,840 for the years ended December 31, 2014 and 2013, respectively.

Note 8. Debt

On June 11, 1998, the Business Finance Authority of the State of New Hampshire (the Issuer) issued \$6,455,000 of Series A nontaxable variable rate demand bonds (1998A Bonds) and \$8,340,000 of Series B taxable variable rate demand bonds (1998B Bonds), on behalf of the Foundation, pursuant to a loan and trust agreement (the Agreement) between the Issuer, the Foundation and the Bank of New Hampshire (the Trustee). The proceeds were used for construction of the community campus building.

The Foundation redeemed \$3,000,000 on the Series B taxable variable rate demand bond on February 1, 2010. In May, 2013, the Foundation redeemed \$1,000,000 on the Series B taxable variable rate demand bonds. The remaining balance was fully redeemed on May 1, 2014.

The remaining Series A bonds are due and payable May 1, 2024. The bonds are secured by a first mortgage on all real property including land and buildings and a negative pledge on the Foundation's endowment.

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FOUNDATION FOR SEACOAST HEALTH AND SUBSIDIARY

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

On May 1, 2014, the Foundation elected to convert the Series A bonds from a variable rate to a fixed rate pursuant to the provisions of the Agreement. The interest rate per the conversion is 2.992%. Interest expense incurred in conjunction with these bonds during the years ended December 31, 2014 and 2013 amounted to \$139,601 and \$38,486, respectively. The bonds are subject to redemption prior to maturity at a redemption price of par plus accrued interest. RBS Citizens N.A. requires the Foundation to maintain certain liquidity requirements and operating cash flow to operating expenses of no less than 1:1 which will be tested semi-annually.

The Foundation was not in compliance with the operating cash flow to operating expenses covenant at December 31, 2014. The bank has waived this covenant for the year ended December 31, 2014 on March 23, 2015.

Upon the issuance of the bonds, bond issuance costs of \$254,487 were incurred related to bond insurance, underwriter's discount, and other issuance costs. These costs were capitalized in accordance with generally accepted accounting principles and are included in other assets in the accompanying consolidated financial statements. The portions of the bond issuance costs attributable to the Series B bonds redeemed on May 31, 2013 and on May 1, 2014, which amounted to \$8,660 and \$35,374, respectively, were expensed.

The remaining bond issuance costs are being amortized using the effective-interest method over the term of the bonds. Amortization expense for the years ended December 31, 2015 through 2019 will be \$4,560 each year and \$38,376 thereafter.

The Foundation incurred fees of \$109,536 during the year ended December 31, 2012 related to the issuance of the letter of credit with RBS Citizens N.A. These costs were capitalized in accordance with generally accepted accounting principles and are included in other assets in the accompanying consolidated financial statements. As part of the conversion of the Series A bonds as described above, the letter of credit was canceled on May 1, 2014. The remaining issuance costs of \$38,986 were expensed.

The IRC imposes certain restrictions on the ability of a tax-exempt issuance to earn an interest arbitrage on the proceeds of the issuance while they are temporarily invested prior to being expended for the tax-exempt purpose. In general, if the proceeds, while they are temporarily invested prior to expenditure for the tax-exempt purpose, from a tax-exempt issuance are invested at a rate of return greater than the rate of return paid to the holders of the tax-exempt issue, then the excess (i.e., the arbitrage), must be paid to the Internal Revenue Service. The Foundation monitors the potential arbitrage over the term of the bonds.

Note 9. Concentration of Credit Risk

The Foundation maintains cash accounts with several financial institutions. The balances are insured by the Federal Deposit Insurance Corporation (FDIC) up to \$250,000. At December 31, 2014, the Foundation's uninsured cash balances totaled approximately \$299,700. Also, the Foundation had a balance of approximately \$787,000 which was not insured or guaranteed by the Federal Deposit Insurance Corporation or any other government at December 31, 2014.

FOUNDATION FOR SEACOAST HEALTH AND SUBSIDIARY

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

Note 10. Fair Value Measurements

The Fair Value Measurements Topic of the FASB Accounting Standards Codification (FASB ASC 820-10) establishes 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 measurements involving significant unobservable inputs (level 3 measurements).

The three levels of the fair value hierarchy are as follows:

- Level 1 - inputs are unadjusted, quoted prices in active markets for identical assets at the measurement date. The types of assets carried at level 1 fair value generally are securities listed in active markets. The Foundation has valued their investments listed on national exchanges at the last sales price as of the day of valuation.
- Level 2 - observable inputs, directly or indirectly, in non-active markets, including investments priced at net asset value per share, which have been redeemed or are redeemable in the near term (locked up for a period of less than one year).
- Levels 3 - unobservable inputs, and reflect assumptions on the part of the reporting entity, or are priced at net asset value per share and cannot be redeemed without the imposition of a redemption fee or because of restriction periods ranging from equal to or greater than one year.

The inputs or methodology used for valuing investments are not necessarily an indication of the risk associated with investing in those investments.

Financial assets carried at fair value on a recurring basis consist of the following:

	Level 1	Level 2	Level 3
December 31, 2014			
Assets:			
International stock funds	\$ 5,569,374	\$ -	-
Domestic equity mutual funds	7,428,859	-	-
Inflation hedging energy fund	1,497,416	-	-
Corporate bond funds	-	1,334,791	-
Balanced funds	653,319	-	-
Money market fund	787,183	-	-
Alternative investments	-	3,288,675	7,725,386
<i>Total</i>	\$ 15,936,151	\$ 4,623,466	\$ 7,725,386

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FOUNDATION FOR SEACOAST HEALTH AND SUBSIDIARY

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

December 31, 2013	Level 1	Level 2	Level 3
Assets:			
International stock funds	\$ 6,732,043	\$ -	-
Domestic equity mutual funds	5,242,445	-	-
Inflation hedging energy fund	2,516,788	-	-
Corporate bond funds	-	1,337,668	-
Multisector bond	1,074,036	-	-
Balanced funds	616,524	-	-
Money market fund	34,404	-	-
Alternative investments	-	4,341,839	4,469,817
<i>Total</i>	<u>\$ 16,216,240</u>	<u>\$ 5,679,507</u>	<u>\$ 4,469,817</u>

The following table presents the change in level 3 instruments for the years ended December 31, 2014 and 2013:

	Alternative Investments
Balance, December 31, 2012	\$ 7,520,363
Sales	(3,397,740)
Total realized and unrealized gains included in changes in net assets, net of fees	347,194
Balance, December 31, 2013	<u>4,469,817</u>
Transfers	3,000,000
Sales	(883,939)
Total realized and unrealized gains included in changes in net assets, net of fees	1,139,508
Balance, December 31, 2014	<u>\$ 7,725,386</u>
Total amount of gains attributable to the change in realized and unrealized gains relating to assets held at the reporting date, including changes in net assets	<u>\$ 1,139,508</u>

All assets have been valued using a market approach and have been consistently applied. There were no changes in the valuation techniques during the current year. The market approach uses prices and other relevant information generated by market transactions involving identical or comparable assets. Prices may be indicated by pricing guides, sales transactions, market trades, or other sources.

GAAP requires disclosures of an estimate of fair value of certain financial instruments. The Foundation's significant financial instruments include cash, debt and other short-term assets and liabilities. For these financial instruments, carrying values approximate fair value.

FOUNDATION FOR SEACOAST HEALTH AND SUBSIDIARY

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

Note 11. Commitments

During April, 2013, the Foundation entered into a five-year lease agreement for the rental of a copier. As of December 31, 2014, the total remaining operating lease payments under this lease are as follows:

<u>Year ending December 31,</u>			
2015		\$	1,620
2016			1,620
2017			1,620
2018			540
	<i>Total</i>	\$	<u>5,400</u>

Rental expense under this lease agreement amounted to \$1,620 for the year ended December 31, 2014.

During the year ended December 31, 2014, the Foundation entered into a food service agreement with a company to operate the food service facility at the Community Campus commencing October, 2014. The terms of the agreement is for three years and may be renewed upon mutual agreement between both parties. Either party may terminate the agreement upon 90 days prior written notice. The agreement requires the Foundation to pay a monthly management fee and a monthly general administrative fee which are both based on 5% of net sales not to exceed \$15,000 annually or a minimum of \$850 per month. The fees paid, which include start-up costs, amounted to approximately \$20,000 as of December 31, 2014.

During the year ended December 31, 2014, the Foundation entered into a janitorial service agreement with a company commencing December, 2014. The terms of the agreement is for a period of one year and shall automatically renew for renewal periods of one year each, unless terminated by either party upon 30 days prior written notice. The agreement requires monthly payments of \$8,654. As of December 31, 2014, the future minimum payments amount to approximately \$95,000.

Note 12. Endowment Funds and Net Assets

The Foundation adheres to the Other Presentation Matters section of the Presentation of Financial Statements for Not-for-Profit Organizations topic of the FASB Accounting Standards Codification (FASB ASC 958-205-45). FASB ASC 958-205-45 provides guidance on the net asset classification of donor-restricted endowment funds for a nonprofit organization that is subject to an enacted version of the Uniform Prudent Management of Institutional Funds Act (UPMIFA). FASB ASC 958-205-45 also requires additional disclosures about an organization's endowment funds (both donor-restricted endowment funds and board-designated endowment funds) whether or not the organization is subject to UPMIFA.

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FOUNDATION FOR SEACOAST HEALTH AND SUBSIDIARY

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

The State of New Hampshire enacted UPMIFA effective July 1, 2008, the provisions of which apply to endowment funds existing on or established after that date. The Foundation has adopted FASB ASC 958-205-45 for the year ended December 31, 2009. The Foundation's endowment consists of three individual funds established for indigent care and general operating support. Its endowment includes both donor-restricted endowment funds and funds designated by the Board of Trustees to function as endowments. As required by GAAP, net assets associated with endowment funds, including those funds designated by the Board of Trustees, are classified and reported based on the existence or absence of donor-imposed restrictions.

The Board of Trustees of the Foundation has interpreted the Uniform Prudent Management of Institutional Funds Act (UPMIFA) as allowing the Foundation to appropriate for expenditure or accumulate so much of an endowment fund as the Foundation determines to be prudent for the uses, benefits, purposes and duration for which the endowment fund is established, subject to the intent of the donor as expressed in the gift instrument.

As a result of this interpretation, the Foundation 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 UPMIFA. In accordance with UPMIFA, the Foundation considers the following factors in making a determination to appropriate or accumulate donor-restricted endowment funds: (1) the duration and preservation of the various funds, (2) the purposes of the donor-restricted endowment funds, (3) general economic conditions, (4) the possible effect of inflation and deflation, (5) the expected total return from income and the appreciation of investments, (6) other resources of the Foundation, and (7) the investment policies of the Foundation.

From time to time, the fair value of assets associated with individual donor-restricted endowment funds may fall below the level that the donor or UPMIFA requires the Foundation to retain as a fund of perpetual duration. As of December 31, 2014, there were no deficiencies of this nature associated with the individual donor-restricted endowment fund.

Investment Return Objectives, Risk Parameters and Strategies: The Foundation has adopted investment and spending policies for endowment assets that attempt to provide a predictable stream of funding to programs supported by its endowment funds while also maintaining the purchasing power of those endowment assets over the long-term. Accordingly, the investment process seeks to achieve an after-cost total real rate of return, including investment income as well as capital appreciation, which exceeds the annual distribution with acceptable levels of risk. The real return objective for the Foundation is 5% over a longtime horizon net of any fees. In order to have a reasonable probability of earning this return, the Board of Trustees adopts asset allocation policies each year based on the current market conditions. Actual returns in any given year may vary from this amount. Investment risk is measured in terms of the total endowment fund; investment assets and allocation between asset classes and strategies are managed to not expose the fund to unacceptable levels of risk.

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FOUNDATION FOR SEACOAST HEALTH AND SUBSIDIARY

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

Spending Policy: The Foundation has adopted a spending policy to expend during a fiscal year no less than 4% and not more than 6% of the fund's average market value for the preceding twelve quarters.

Endowment net asset composition by type of fund as of December 31, 2014 is as follows:

	Board Designated	Temporarily Restricted	Permanently Restricted	Total
Donor-restricted endowment fund	\$ -	\$ 373,603	\$ 279,720	\$ 653,323
Board-designated endowment funds	26,844,497	-	-	26,844,497
<i>Total</i>	<u>\$ 26,844,497</u>	<u>\$ 373,603</u>	<u>\$ 279,720</u>	<u>\$ 27,497,820</u>

Changes in endowment net assets as of December 31, 2014 are as follows:

	Board Designated	Temporarily Restricted	Permanently Restricted	Total
Endowment net assets, beginning of year	\$ 28,714,636	\$ 336,804	\$ 279,720	\$ 29,331,160
Investment return net of fees:				
Investment income	371,541	12,841	-	384,382
Net capital gain distributions and appreciation (realized and unrealized)	452,828	23,958	-	476,786
Total investment return	<u>824,369</u>	<u>36,799</u>	<u>-</u>	<u>861,168</u>
Appropriation of endowment assets for expenditure	<u>(2,694,508)</u>	<u>-</u>	<u>-</u>	<u>(2,694,508)</u>
Endowment of net assets, end of year	<u>\$ 26,844,497</u>	<u>\$ 373,603</u>	<u>\$ 279,720</u>	<u>\$ 27,497,820</u>

Endowment net asset composition by type of fund as of December 31, 2013 is as follows:

	Board Designated	Temporarily Restricted	Permanently Restricted	Total
Donor-restricted endowment fund	\$ -	\$ 336,804	\$ 279,720	\$ 616,524
Board-designated endowment funds	28,714,636	-	-	28,714,636
<i>Total</i>	<u>\$ 28,714,636</u>	<u>\$ 336,804</u>	<u>\$ 279,720</u>	<u>\$ 29,331,160</u>

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FOUNDATION FOR SEACOAST HEALTH AND SUBSIDIARY

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

Changes in endowment net assets as of December 31, 2013 are as follows:

	Board Designated	Temporarily Restricted	Permanently Restricted	Total
Endowment net assets, beginning of year	\$ 31,354,758	\$ 251,514	\$ 279,720	\$ 31,885,992
Investment return net of fees:				
Investment income	423,791	10,493	-	434,284
Net capital gain distributions and appreciation (realized and unrealized)	3,303,692	90,631	-	3,394,323
Total investment return	3,727,483	101,124	-	3,828,607
Appropriation of endowment assets for expenditure	(6,367,605)	(15,834)	-	(6,383,439)
Endowment of net assets, end of year	\$ 28,714,636	\$ 336,804	\$ 279,720	\$ 29,331,160

Permanently restricted net assets of \$279,720 are comprised of the original value of the donor restricted gift to the permanent endowment to support the Foundation's various programs, including Families First of the Greater Seacoast, that improve and assist the provision of health care to the indigent population of the New Hampshire Seacoast area.

At December 31, 2014 and 2013, temporarily restricted net assets are comprised of the accumulated appreciation related to the perpetual endowment fund under UPMIFA of \$121,142 and \$98,561, respectively, and temporarily restricted funds of \$252,461 and \$238,243, respectively, restricted for indigent care.

At December 31, 2014 and 2013, temporarily restricted assets on the consolidated statements of financial position also include \$1,555 and \$9,952, respectively, of assets restricted for collaboration and a small project not included in endowment funds.

Note 13. Subsequent Events

The Foundation has evaluated subsequent events through March 23, 2015 the date which the financial statements were available to be issued, and have not evaluated subsequent events after that date. There were no other subsequent events that would require disclosure in the financial statements for the year ended December 31, 2014.