

FOUNDATION FOR SEACOAST HEALTH
AND SUBSIDIARY

FINANCIAL REPORT

DECEMBER 31, 2011

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NATHAN WECHSLER & COMPANY
PROFESSIONAL ASSOCIATION
CERTIFIED PUBLIC ACCOUNTANTS & BUSINESS ADVISORS

INDEPENDENT AUDITORS' 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, 2011, and the related consolidated statement of activities and changes in net assets and cash flows for the year then ended. These consolidated financial statements are the responsibility of the Foundation for Seacoast Health and Subsidiary's management. Our responsibility is to express an opinion on these consolidated financial statements based on our audit. The prior year summarized comparative information has been derived from Foundation for Seacoast Health and Subsidiary's December 31, 2010 financial statements and in our report dated March 1, 2011 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 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, 2011, 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.

Nathan Wechsler & Company
Concord, New Hampshire
March 6, 2012

FOUNDATION FOR SEACOAST HEALTH AND SUBSIDIARY

CONSOLIDATED STATEMENTS OF FINANCIAL POSITION

December 31, 2011 and 2010

ASSETS

	2011	2010
Cash and cash equivalents	\$ 1,651,880	\$ 334,147
Other receivables	9,126	692
Prepaid expenses	24,021	2,183
Investments, at fair value	30,117,175	38,190,898
Property and equipment, net	11,469,808	11,931,100
Other assets, net	114,687	124,336
	<hr/>	<hr/>
<i>Total assets</i>	\$ 43,386,697	\$ 50,583,356

LIABILITIES AND NET ASSETS

	2011	2010
Series A and B variable rate bonds	\$ 11,795,000	\$ 11,795,000
Accounts payable and accrued liabilities	117,240	382,444
Grants payable	12,500	3,500
	<hr/>	<hr/>
<i>Total liabilities</i>	11,924,740	12,180,944

COMMITMENTS AND CONTINGENCY (See Notes)

Net Assets:		
Unrestricted	30,933,193	37,878,302
Temporarily restricted	249,044	244,390
Permanently restricted	279,720	279,720
	<hr/>	<hr/>
<i>Total net assets</i>	31,461,957	38,402,412
	<hr/>	<hr/>
<i>Total liabilities and net assets</i>	\$ 43,386,697	\$ 50,583,356

FOUNDATION FOR SEACOAST HEALTH AND SUBSIDIARY

CONSOLIDATED STATEMENT OF ACTIVITIES AND CHANGES IN NET ASSETS
 Year Ended December 31, 2011 and Comparative Totals for Year Ended December 31, 2010

	2011			2010	
	Unrestricted	Temporarily Restricted	Permanently Restricted	Total	Total
Operating activities:					
Revenues, gains and other income:					
Interest and dividends	\$ 527,734	\$ 11,321	\$ -	\$ 539,055	\$ 629,356
Net capital gain distributions, realized and unrealized gains (losses) on investments	(1,439,488)	(6,667)	-	(1,446,155)	2,692,215
Rental income	412,498	-	-	412,498	403,972
Other income	43,085	-	-	43,085	10,570
Contributions	265	25	-	290	21,500
Net assets released from restrictions	25	(25)	-	-	-
<i>Total revenues, gains and other income</i>	<u>(455,881)</u>	<u>4,654</u>	<u>-</u>	<u>(451,227)</u>	<u>3,757,613</u>
Program expenditures:					
Grants	790,000	-	-	790,000	526,000
Scholarships	10,000	-	-	10,000	10,000
Other	18,038	-	-	18,038	7,757
<i>Total program expenditures</i>	<u>818,038</u>	<u>-</u>	<u>-</u>	<u>818,038</u>	<u>543,757</u>
Community campus expenses:					
Salaries and employee benefits	256,186	-	-	256,186	281,406
Interest expense and financing costs	104,980	-	-	104,980	151,744
Depreciation	514,137	-	-	514,137	500,208
Other operating expenses	481,183	-	-	481,183	498,328
<i>Total community campus expenses</i>	<u>1,356,486</u>	<u>-</u>	<u>-</u>	<u>1,356,486</u>	<u>1,431,686</u>
General and administrative expenses:					
Salaries and employee benefits	204,401	-	-	204,401	199,572
Trust management and investment fees	78,881	-	-	78,881	88,833
Depreciation	955	-	-	955	450
Other expenses	4,019,688	-	-	4,019,688	1,644,423
<i>Total general and administrative expenses</i>	<u>4,303,925</u>	<u>-</u>	<u>-</u>	<u>4,303,925</u>	<u>1,933,278</u>
Increase (decrease) in net assets from operating activities	<u>(6,934,330)</u>	<u>4,654</u>	<u>-</u>	<u>(6,929,676)</u>	<u>(151,108)</u>
Provision for federal excise taxes:					
Current federal excise tax expense	10,779	-	-	10,779	34,522
Increase (decrease) in net assets	<u>(6,945,109)</u>	<u>4,654</u>	<u>-</u>	<u>(6,940,455)</u>	<u>(185,630)</u>
<i>Net assets, beginning of year</i>	<u>37,878,302</u>	<u>244,390</u>	<u>279,720</u>	<u>38,402,412</u>	<u>38,588,042</u>
<i>Net assets, end of year</i>	<u>\$ 30,933,193</u>	<u>\$ 249,044</u>	<u>\$ 279,720</u>	<u>\$ 31,461,957</u>	<u>\$ 38,402,412</u>

FOUNDATION FOR SEACOAST HEALTH AND SUBSIDIARY

CONSOLIDATED STATEMENTS OF CASH FLOWS

Years ended December 31, 2011 and 210

	2011	2010
CASH FLOWS FROM OPERATING ACTIVITIES		
Decrease in net assets	\$ (6,940,455)	\$ (185,630)
Adjustments to reconcile decrease in net assets to net cash and cash equivalents used in operating activities:		
Depreciation	515,093	500,658
Amortization	9,649	45,161
Net capital gain distributions, realized and unrealized (gains) losses on investments	1,446,155	(2,692,215)
(Increase) decrease in other receivables	(8,434)	11,823
(Increase) decrease in prepaid expenses	(21,838)	34,522
Increase (decrease) in grants payable	9,000	(278,900)
Decrease in scholarships payable	-	(2,500)
Increase (decrease) in accounts payable and accrued liabilities	(265,205)	245,257
Decrease in pension obligation	-	(15,588)
	<hr/>	<hr/>
<i>Net cash and cash equivalents used in operating activities</i>	(5,256,035)	(2,337,412)
CASH FLOWS FROM INVESTING ACTIVITIES		
Capital expenditures	(53,801)	(47,971)
Purchase of investments	(8,312,535)	(12,626,929)
Proceeds from sale of investments	14,940,104	14,490,557
	<hr/>	<hr/>
<i>Net cash and cash equivalents provided by investing activities</i>	6,573,768	1,815,657
CASH FLOWS USED IN FINANCING ACTIVITIES		
Redemption of 1998 Series B variable rate bond	-	(3,000,000)
	<hr/>	<hr/>
<i>Net increase (decrease) in cash and cash equivalents</i>	1,317,733	(3,521,755)
Cash and cash equivalents, beginning of year	334,147	3,855,902
	<hr/>	<hr/>
<i>Cash and cash equivalents, end of year</i>	\$ 1,651,880	\$ 334,147
	<hr/> <hr/>	<hr/> <hr/>

FOUNDATION FOR SEACOAST HEALTH AND SUBSIDIARY

CONSOLIDATED STATEMENTS OF CASH FLOWS (CONTINUED)

Years ended December 31, 2011 and 210

	2011		2010
SUPPLEMENTAL DISCLOSURES OF CASH FLOW INFORMATION			
Cash payments for:			
Interest	\$ 30,069	\$	46,085
Federal excise tax payments	\$ 32,617	\$	-

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, 2010, 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, 2011 and 2010 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 (IRC); however, certain unrelated business income may be subject to federal taxation. For the years ended December 31, 2011 and 2010 there was no liability for a tax on unrelated business income.

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.

Defined benefit plan: The Foundation adheres to the Retirement Benefits Compensation topic of the FASB Accounting Standards Codification (FASB ASC 958-715). Under FASB ASC 958-715, the Foundation is required as an employer to recognize the funded status of a benefit plan, measured as the difference between plan assets at fair value and the projected benefit obligation, in its statement of financial position. FASB ASC 958-715 also requires an employer to measure defined benefit plan assets and obligations as of the date of the employer's fiscal year-end statement. The defined pension plan was terminated during the year ended December 31, 2010.

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, 2011 and 2010 is as follows:

	2011		
	Cost	Fair Value	Unrealized Appreciation (Depreciation)
Fixed income and fixed income mutual funds	\$ 4,648,347	\$ 5,289,217	\$ 640,870
Equities and equity mutual funds	13,782,295	12,230,638	(1,551,657)
Balanced mutual fund	489,770	520,380	30,610
Alternative investments	12,164,555	12,076,940	(87,615)
<i>Total</i>	\$ 31,084,967	\$ 30,117,175	\$ (967,792)
	2010		
	Cost	Fair Value	Unrealized Appreciation
Fixed income and fixed income mutual funds	\$ 13,233,862	\$ 13,686,850	\$ 452,988
Cash	2,500,000	2,500,000	-
Equities and equity mutual funds	10,815,910	10,844,901	28,991
Balanced mutual fund	475,470	515,733	40,263
Alternative investments	10,042,056	10,643,414	601,358
<i>Total</i>	\$ 37,067,298	\$ 38,190,898	\$ 1,123,600

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FOUNDATION FOR SEACOAST HEALTH AND SUBSIDIARY

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

Investment fees amounted to \$175,467 and \$161,195 for the years ended December 31, 2011 and 2010, respectively. Of the total investment fees, \$150,385 and \$127,800 are included with unrealized gains and losses for the years ended December 31, 2011 and 2010, respectively. The remaining investment fees of \$25,082 and \$33,395 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, 2011 and 2010, 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.

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, 2011, \$700,000 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 statement of financial position at December 31, 2011. At December 31, 2010, investments include \$2,500,000 of investments redeemed but not yet transferred and reinvested into another investment fund until January 11, 2011.

Investment Liquidity	Bi-Monthly	Monthly	Quarterly	Annually
Alternative Investments	\$ -	\$ 4,782,064	\$ 3,560,060	\$ 3,734,816
Corporate Bond Fund (included in fixed income and fixed income mutual funds)	\$ 1,491,411	\$ -	\$ -	\$ -

Note 4. Property and Equipment

Property and equipment, at cost, December 31,	2011	2010
Land	\$ 3,006,580	\$ 3,006,580
Land improvements	2,997,405	2,997,405
Equipment and furniture and fixtures	1,373,992	1,334,741
Building	10,129,871	10,129,871
<i>Total property and equipment</i>	17,507,848	17,468,597
Less accumulated depreciation	6,038,040	5,537,497
<i>Total property and equipment, net</i>	\$ 11,469,808	\$ 11,931,100

Included in total property and equipment is construction in progress amounting to \$34,282 at December 31, 2011 and 2010.

FOUNDATION FOR SEACOAST HEALTH AND SUBSIDIARY

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

Note 5. Excise Taxes

In accordance with the applicable provisions of the IRC, the Foundation is subject to an excise tax on net investment income, as defined in the IRC. Accordingly, federal excise taxes have been provided in the amount of \$10,779 and \$34,522 for the years ending December 31, 2011 and 2010, 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, 2011 and 2010 to meet the requirements of the IRC.

Note 6. 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 \$12,000 for both the years ended December 31, 2011 and 2010.

Note 7. 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. The total outstanding balance on the 1998A Bond amounted to \$5,340,000 at December 31, 2011 and 2010. The bonds are due and payable June 1, 2028. The bonds are secured by a letter of credit (Credit Facility) with Bank of America ("Bank A").

The bonds bear interest as defined in the Agreement and are convertible to a fixed rate upon election by the Foundation of its right to convert and upon compliance with the provisions of the Agreement. During 2011, the interest rate for the 1998A Bonds varied between 0.15% and 0.43% and the interest rate for the 1998B Bonds varied between 0.18% and 0.29%. Interest expense incurred in conjunction with these bonds during the years ended December 31, 2011 and 2010 amounted to \$30,069 and \$46,085, respectively. The bonds are redeemable prior to maturity at the option of the Foundation, in whole or in part, before the fixed rate conversion date at a redemption price equal to the principal amount redeemed, plus accrued interest to the redemption date, or after the fixed rate conversion date at varying amounts up to 102% of outstanding principal. The redemption may only be satisfied through the Credit Facility in denominations of \$100,000 or any \$5,000 multiple thereof. The bonds are mandatorily redeemable in the event of bankruptcy of Bank A or expiration of the Credit Facility with Bank A and failure of the Foundation to provide a substitute credit facility, at a redemption price equal to 100% of the principal amount redeemed, plus accrued interest to the redemption date.

At December 31, 2011, the Foundation had an unused letter of credit with Bank A in the amount of \$12,002,717. The letter of credit was renewed in 2003 and 2007 and expires in June 2012. The Foundation is required to maintain certain liquidity requirements under the terms of this letter of credit.

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FOUNDATION FOR SEACOAST HEALTH AND SUBSIDIARY

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

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 bond issuance costs are being amortized using the effective-interest method over the term of the bonds. Additional amortization of approximately \$31,500 was expensed during the year ended December 31, 2010 as a result of the partial redemption of the Series B variable rate bond. Amortization expense for the years ended December 31, 2012 through 2016 will be \$6,555 each year and \$78,658 thereafter.

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. During 2003, the Foundation was required to make a payment of \$143,591 in accordance with the IRC. In applying for certification for the next five-year cycle, the Foundation determined that the previous calculation of the rebate liability was incorrect. As a result, the Foundation submitted a request for an overpayment refund to the Internal Revenue Service. The Foundation received a refund of \$29,335 during the year ended December 31, 2011 which has been included as other income in the accompanying consolidated statement of activities and changes in net assets. The Foundation will continue to monitor the potential arbitrage over the term of the bonds.

Note 8. Defined Benefit Pension Plan

The Foundation adopted a funded noncontributory defined benefit pension plan in 2003. The accrual of benefits ceased effective December 31, 2009. The Plan was officially terminated during the year ended December 31, 2010. The final catch up contribution to fully fund the Plan amounted to \$34,107 during the year ended December 31, 2010. The total benefits paid to employees, including direct rollovers, amounted to \$154,005 during the year ended December 31, 2010.

Note 9. Contingency

The Foundation is pursuing legal action to enforce its right of first refusal to purchase the tangible assets of the Portsmouth Regional Hospital pursuant to an Asset Purchase Agreement with Hospital Corporation of America ("HCA") in 1983. After appeal of an earlier ruling, the liability portion of the Foundation's claim was tried before the Rockingham County Superior Court, resulting in an opinion dated December 15, 2009, finding that HCA breached the Asset Purchase Agreement through a 1999 transaction and that the Foundation should have been afforded the right of first refusal to repurchase the portion of Portsmouth Regional Hospital at that time. After the New Hampshire Supreme Court denied HCA's interlocutory appeal of that ruling, the Rockingham County Superior Court held a trial on the remedies phase of the case in May, 2011. The trial court declined to specifically enforce the Foundation's right of first refusal, instead ordering HCA to unwind the triggering transaction and to pay a portion of the Foundation's legal fees incurred in connection with the liability phase of the trial. The Foundation has filed an appeal of that ruling with the New Hampshire Supreme Court. Management remains committed to aggressively pursuing their contractual rights through the litigation, but is unable to predict what the ultimate remedy will be.

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 (not locked up for a period of less than one year).
- Level 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 and liabilities carried at fair value on a recurring basis consist of the following:

	Level 1	Level 2	Level 3
<u>December 31, 2011</u>			
Assets:			
International stock funds	\$ 5,526,504	\$ -	\$ -
Domestic equity mutual funds	4,631,764	-	-
Inflation hedging energy fund	2,072,370	-	-
U.S. Treasury obligations	1,214,123	-	-
U.S. Government agencies	2,583,682	-	-
Corporate bond funds	-	1,491,411	-
Balanced funds	520,379	-	-
Money market fund	825,180	-	-
Alternative investments	-	8,342,124	3,734,816
<i>Total</i>	\$ 17,374,002	\$ 9,833,535	\$ 3,734,816

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FOUNDATION FOR SEACOAST HEALTH AND SUBSIDIARY

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

<u>December 31, 2010</u>	<u>Level 1</u>	<u>Level 2</u>	<u>Level 3</u>
Assets:			
International stock funds	\$ 2,716,795	\$ 2,628,376	\$ -
Domestic equity mutual funds	5,499,730	-	-
U.S. Treasury obligations	4,789,661	36,092	-
U.S. Government agencies	3,853,172	-	-
Short-term bond index funds	2,626,749	-	-
Corporate bond funds	-	2,381,176	-
Balanced funds	515,733	-	-
Alternative investments	-	3,880,552	6,762,862
<i>Total</i>	<u>\$ 20,001,840</u>	<u>\$ 8,926,196</u>	<u>\$ 6,762,862</u>

The following table presents the change in level 3 instruments for the years ended December 31, 2011 and 2010:

	Alternative Investments
Balance, December 31, 2009	\$ 6,346,049
Purchases	6,344,038
Sales	(6,844,038)
Total realized and unrealized gains included in changes in net assets, net of fees	<u>916,813</u>
Balance, December 31, 2010	6,762,862
Transfers out of Level 3	(2,165,220)
Sales	(725,762)
Total realized and unrealized losses included in changes in net assets, net of fees	<u>(137,064)</u>
Balance, December 31, 2011	<u>\$ 3,734,816</u>
Total amount of losses attributable to the change in realized and unrealized losses relating to assets held at the reporting date, included in changes in net assets	<u>\$ 137,064</u>

During the year ended December, 31, 2011, the Foundation transferred international stock funds of \$2,628,376 from Level 2 to Level 1 due to an increase in market activity. The Foundation's policy is to recognize transfers between levels as of the actual date of the event or change in circumstance that caused the transfer.

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 March 2008, the Foundation entered into a five-year lease agreement for the rental of a copier. As of December 31, 2011, the total remaining operating lease payments under this lease are as follows:

Year ending December 31,

2012	\$ 1,488
2013	<u>248</u>
<i>Total</i>	<u>\$ 1,736</u>

Rental expense under this lease agreement amounted to \$1,488 for the year ended December 31, 2011.

During the year ended December 31, 2010, the Foundation entered into a food service agreement with a company to operate the food service facility at the Community Campus commencing April, 2010. Under the terms of the agreement, the term is for one year and shall automatically renew for renewal periods of one year each, unless terminated by either party upon 90 days prior written notice. The agreement requires monthly payments of \$3,000. As of December 31, 2011, the future minimum payments amount to \$9,000.

During the year ended December 31, 2011, the Foundation entered into one-year natural gas and electricity agreements. The future minimum payments under the agreements are based on usage. The agreements expire November 30, 2012.

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.

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 3 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.

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FOUNDATION FOR SEACOAST HEALTH AND SUBSIDIARY

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

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, 2011, 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.

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, 2011 is as follows:

	Board Designated	Temporarily Restricted	Permanently Restricted	Total
Donor-restricted endowment fund	\$ -	\$ 240,659	\$ 279,720	\$ 520,379
Board-designated endowment funds	29,596,796	-	-	29,596,796
<i>Total</i>	<u>\$ 29,596,796</u>	<u>\$ 240,659</u>	<u>\$ 279,720</u>	<u>\$ 30,117,175</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, 2011 are as follows:

	Board Designated	Temporarily Restricted	Permanently Restricted	Total
Endowment net assets, beginning of year	\$ 37,675,164	\$ 236,014	\$ 279,720	\$ 38,190,898
Investment return net of fees:				
Investment income	527,555	11,313	-	538,868
Net capital gain distributions and depreciation (realized and unrealized)	(1,439,487)	(6,668)	-	(1,446,155)
Total investment return	(911,932)	4,645	-	(907,287)
Appropriation of endowment assets for expenditure	(7,166,436)	-	-	(7,166,436)
Endowment net assets, end of year	<u>\$ 29,596,796</u>	<u>\$ 240,659</u>	<u>\$ 279,720</u>	<u>\$ 30,117,175</u>

Endowment net asset composition by type of fund as of December 31, 2010 is as follows:

	Board Designated	Temporarily Restricted	Permanently Restricted	Total
Donor-restricted endowment fund	\$ -	\$ 236,014	\$ 279,720	\$ 515,734
Board-designated endowment funds	37,675,164	-	-	37,675,164
<i>Total</i>	<u>\$ 37,675,164</u>	<u>\$ 236,014</u>	<u>\$ 279,720</u>	<u>\$ 38,190,898</u>

Changes in endowment net assets as of December 31, 2010 are as follows:

	Board Designated	Temporarily Restricted	Permanently Restricted	Total
Endowment net assets, beginning of year	\$ 40,539,384	\$ 204,026	\$ 279,720	\$ 41,023,130
Investment return net of fees:				
Investment income	618,745	10,596	-	629,341
Net capital gain distributions and appreciation (realized and unrealized)	2,651,906	40,309	-	2,692,215
Total investment return	3,270,651	50,905	-	3,321,556
Appropriation of endowment assets for expenditure	(6,134,871)	(18,917)	-	(6,153,788)
Endowment net assets, end of year	<u>\$ 37,675,164</u>	<u>\$ 236,014</u>	<u>\$ 279,720</u>	<u>\$ 38,190,898</u>

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FOUNDATION FOR SEACOAST HEALTH AND SUBSIDIARY

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

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 and Lamprey Health Care Medical Financial Assistance Program, that improve and assist the provision of health care to the indigent population of the New Hampshire Seacoast area. The original terms of this donor restricted gift were intended to be used for the care of seafaring men without funds who need hospital service. During the year ended December 31, 2010, the Foundation petitioned the New Hampshire Director of Charitable Trusts to broaden the terms of the fund. The petition to broaden the terms to expand the scope of the population that would benefit from the bequest to the general Seacoast indigent population was granted by the Rockingham County Probate Court of New Hampshire.

At December 31, 2011 and 2010, temporarily restricted net assets are comprised of the portion of the perpetual endowment fund subject to program restrictions under UPMIFA of \$27,835 and \$25,090, respectively, and temporarily restricted funds of \$212,824 and \$210,924, respectively, restricted for indigent care.

At December 31, 2011 and 2010, temporarily restricted assets on the consolidated statements of financial position also include \$8,385 and \$8,376, respectively, of assets restricted for collaboration not included in endowment funds.

Note 13. Accounting for Uncertainty in Income Taxes

The Foundation adopted the provisions of FASB Interpretation No. 48, *Accounting for Uncertainty in Income Taxes* (FASB ASC 740), on January 1, 2009. FASB ASC 740 seeks to reduce the diversity in practice associated with certain aspects of measurement and recognition in accounting for income taxes. In addition, FASB ASC 740 provides guidance on derecognition, classification, interest and penalties, and accounting in interim periods and requires expanded disclosure with respect to the uncertainty in income taxes.

The Foundation's accounting policy for evaluating uncertain tax positions includes a review of all material tax positions for all types of taxes in all jurisdictions and for all open years in accordance with the recognition and measurement requirements of FASB ASC 740. The most common form of tax positions for Foundations is a position taken in the entity's tax exempt status. However, FASB ASC 740 also looks at other forms of tax positions, including whether there are unrelated business income activities conducted that would be taxable and whether certain conditions are met to permit a Foundation's excise tax to be reduced to 1% of net taxable investment income rather than 2%. Once this process is completed, the positions are evaluated in terms of their likelihood to succeed. For tax positions that do not meet the definition of more likely than not to succeed, no tax benefit is considered. Only those tax positions that have a greater-than-50% chance of being sustained on audit by a knowledgeable agent are included in valuing the benefit. This analysis is performed using all relevant authorities.

The Foundation files the Form 990-PF. With few exceptions, the Foundation is no longer subject to U.S. federal tax examinations by tax authorities for years before 2008. Management of the Foundation believes it has no material uncertain tax positions and, accordingly it will not recognize any liabilities for unrecognized tax benefits.

Note 14. Concentration of Credit Risk

The Foundation maintains cash accounts with several financial institutions. The Foundation's non-interest bearing cash balances were fully insured at December 31, 2011 due to a temporary federal program in effect from December 31, 2010 through December 31, 2012. Under the program, there is no limit to the amount of insurance for eligible accounts. The Foundation has no interest-bearing amounts on deposit in excess of federally insured limits at December 31, 2011. However, included in cash and cash equivalents is the Foundation's money market fund which had a balance of \$825,180 which was not insured or guaranteed by the Federal Deposit Insurance Corporation or any other government at December 31, 2011.

Note 15. Subsequent Events

The Foundation has evaluated subsequent events through March 6, 2012 the date which the financial statements were available to be issued, and have not evaluated subsequent events after that date. No subsequent events were identified that would require disclosure in the financial statements for the year ended December 31, 2011.