FOUNDATION FOR SEACOAST HEALTH
AND SUBSIDIARY

FINANCIAL REPORT

DECEMBER 31, 2012

CONTENTS

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

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, 2012, and the related consolidated statement of activities and changes in net assets and cash flows for the year then ended. The prior year summarized comparative information has been derived from Foundation for Seacoast Health and Subsidiary's December 31, 2011 financial statements and in our report dated March 6, 2012 we expressed an unqualified opinion on those 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, 2012, 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 12, 2013

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CONSOLIDATED STATEMENTS OF FINANCIAL POSITION
December 31, 2012 and 2011

ASSETS

	2012	2011
Cash and cash equivalents	$ 1,227,353	$ 1,651,880
Other receivables	9,896	9,126
Prepaid expenses	13,606	24,021
Investments, at fair value	31,885,992	30,117,175
Property and equipment, net	11,015,109	11,469,808
Other assets, net	196,158	114,687
Total assets	**$ 44,348,114**	**$ 43,386,697**

LIABILITIES AND NET ASSETS

	2012	2011
Series A and B variable rate bonds	$ 11,795,000	$ 11,795,000
Accounts payable and accrued liabilities	170,067	117,240
Grants payable	6,000	12,500
Total liabilities	11,971,067	11,924,740
COMMITMENTS AND CONTINGENCY (See Notes)		
Net Assets:		
Unrestricted	31,836,670	30,933,193
Temporarily restricted	260,657	249,044
Permanently restricted	279,720	279,720
Total net assets	32,377,047	31,461,957
Total liabilities and net assets	**$ 44,348,114**	**$ 43,386,697**

FOUNDATION FOR SEACOAST HEALTH AND SUBSIDIARY

CONSOLIDATED STATEMENT OF ACTIVITIES AND CHANGES IN NET ASSETS
Year Ended December 31, 2012 and Comparative Totals for Year Ended December 31, 2011

	2012				2011
	Unrestricted	Temporarily Restricted	Permanently Restricted	Total	Total
Operating activities:					
Revenues, gains (losses) and other income:					
Interest and dividends	$ 453,509	$ 11,426	$ -	$ 464,935	$ 539,055
Net capital gain distributions, realized and unrealized gains (losses) on investments	2,851,359	57,237	-	2,908,596	(1,446,155)
Rental income	422,327	-	-	422,327	412,498
Other income	10,961	-	-	10,961	43,085
Contributions	80	750	-	830	290
Net assets released from restrictions	57,800	(57,800)	-	-	-
Total revenues, gains (losses) and other income	3,796,036	11,613	-	3,807,649	(451,227)
Program expenditures:					
Grants	714,500	-	-	714,500	790,000
Scholarships	10,000	-	-	10,000	10,000
Other	8,662	-	-	8,662	18,038
Total program expenditures	733,162	-	-	733,162	818,038
Community campus expenses:					
Salaries and employee benefits	254,636	-	-	254,636	256,186
Interest expense and financing costs	162,674	-	-	162,674	104,980
Depreciation	515,039	-	-	515,039	514,137
Other operating expenses	489,407	-	-	489,407	481,183
Total community campus expenses	1,421,756	-	-	1,421,756	1,356,486
General and administrative expenses:					
Salaries and employee benefits	198,520	-	-	198,520	204,401
Trust management and investment fees	72,324	-	-	72,324	78,881
Depreciation	641	-	-	641	955
Other expenses	448,068	-	-	448,068	4,019,688
Total general and administrative expenses	719,553	-	-	719,553	4,303,925
Increase (decrease) in net assets from operating activities	921,565	11,613	-	933,178	(6,929,676)
Provision for federal excise taxes:					
Current federal excise tax expense	18,088	-	-	18,088	10,779
Increase (decrease) in net assets	**903,477**	**11,613**	**-**	**915,090**	**(6,940,455)**
Net assets, beginning of year	30,933,193	249,044	279,720	31,461,957	38,402,412
Net assets, end of year	**$ 31,836,670**	**$ 260,657**	**$ 279,720**	**$ 32,377,047**	**$ 31,461,957**

CONSOLIDATED STATEMENTS OF CASH FLOWS
Years ended December 31, 2012 and 2011

	2012	2011
CASH FLOWS FROM OPERATING ACTIVITIES		
Increase (decrease) in net assets	$ 915,090	$ (6,940,455)
Adjustments to reconcile increase (decrease) in net assets to net cash and cash equivalents used in operating activities:		
Depreciation	515,680	515,093
Amortization	28,065	9,649
Net capital gain distributions, realized and unrealized (gains) losses on investments	(2,908,596)	1,446,155
Increase in other receivables	(770)	(8,434)
(Increase) decrease in prepaid expenses	10,415	(21,838)
Increase (decrease) in grants payable	(6,500)	9,000
Increase (decrease) in accounts payable and accrued liabilities	52,828	(265,205)
Net cash and cash equivalents used in operating activities	**(1,393,788)**	**(5,256,035)**
CASH FLOWS FROM INVESTING ACTIVITIES		
Capital expenditures	(60,981)	(53,801)
Purchase of investments	(5,385,534)	(8,312,535)
Proceeds from sale of investments	6,525,312	14,940,104
Net cash and cash equivalent provided by investing activities	**1,078,797**	**6,573,768**
CASH FLOWS USED IN FINANCING ACTIVITIES		
Letter of credit fees	**(109,536)**	**-**
Net increase (decrease) in cash and cash equivalents	**(424,527)**	**1,317,733**
Cash and cash equivalents, beginning of year	1,651,880	334,147
Cash and cash equivalents, end of year	**$ 1,227,353**	**$ 1,651,880**

SUPPLEMENTAL DISCLOSURES OF CASH FLOW INFORMATION		
Cash payments for:		
Interest	$ 38,223	$ 30,069
Federal excise tax payments	$ -	$ 32,617

See 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, 2011, from which the summarized information was derived.

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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, 2012 and 2011 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 2009.

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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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, 2012 and 2011 is as follows:

	2012		
	Cost	Fair Value	Unrealized Appreciation
Fixed income and fixed income mutual funds	$ 5,004,048	$ 5,752,655	$ 748,607
Equities and equity mutual funds	13,296,657	13,450,510	153,853
Balanced mutual funds	462,338	531,234	68,896
Alternative investments	11,713,552	12,151,593	438,041
Total	$ 30,476,595	$ **31,885,992**	$ 1,409,397

	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 funds	489,770	520,380	30,610
Alternative investments	12,164,555	12,076,940	(87,615)
Total	$ 31,084,967	$ **30,117,175**	$ (967,792)

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Investment fees amounted to $168,828 and $175,467 for the years ended December 31, 2012 and 2011, respectively. Of the total investment fees, $145,952 and $150,385 are included with unrealized gains and losses for the years ended December 31, 2012 and 2011, respectively. The remaining investment fees of $22,876 and $25,082 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, 2012 and 2011, 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, 2012 and 2011, $573,995 and $700,000, 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	Bi-Monthly	Monthly	Annually
Alternative investments	$ -	$ 4,631,230	$ 7,520,363
Corporate Bond Fund (included in fixed income and fixed income mutual funds)	$ 1,655,978	$ -	$ -

Note 4. Property and Equipment

Property and equipment, at cost, December 31,	2012	2011
Land	$ 3,006,580	$ 3,006,580
Land improvements	2,997,405	2,997,405
Equipment and furniture and fixtures	1,412,487	1,373,992
Building	10,129,871	10,129,871
Total property and equipment	17,546,343	17,507,848
Less accumulated depreciation	6,531,234	6,038,040
Total property and equipment, net	**$ 11,015,109**	**$ 11,469,808**

Included in total property and equipment is construction in progress amounting to $34,282 at December 31, 2012 and 2011.

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. Accordingly, federal excise taxes have been provided in the amount of $18,088 and $10,779 for the years ending December 31, 2012 and 2011, respectively.

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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, 2012 and 2011 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 $8,672 and $12,000 for the years ended December 31, 2012 and 2011, respectively.

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, 2012 and 2011. The bonds are due and payable June 1, 2028. The bonds were secured by a letter of credit with Bank of America through June 2012. Effective July 2012, the bonds are secured by a letter of credit (Credit Facility) with Citizen's Bank.

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 2012, the interest rate for the 1998A Bonds varied between 0.16% and 0.37% and the interest rate for the 1998B Bonds varied between 0.19% and 0.46%. Interest expense incurred in conjunction with these bonds during the years ended December 31, 2012 and 2011 amounted to $38,223 and $30,069, 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 Citizen's Bank or expiration of the Credit Facility with Citizen's Bank 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, 2012, the Foundation had an unused letter of credit with Citizen's Bank in the amount of $11,974,501. The letter of credit was issued July 2, 2012 and matures on July 1, 2015. The Foundation is required to maintain certain liquidity requirements and annual operating cash flow to annual operating expenses under the terms of this letter of credit. Under the terms of the letter of credit agreement, the Foundation is required to make monthly payments on the bond totaling $142,500 and $216,250 for the years ended December 31, 2014 and 2015, respectively. The Foundation is also required to use Citizen's Bank as its primary bank of account and maintain a minimum cash balance of $500,000.

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The Foundation incurred fees of $109,536 during the year ended December 31, 2012 related to the issuance of the letter of credit with Citizen's Bank. These costs were capitalized in accordance with generally accepted accounting principles and are included in other assets in the accompanying consolidated financial statements.

The letter of credit fees are being amortized over the term of the agreement. Amortization expense for each of the years ended December 31, 2013 and 2014 will be $36,512 and $18,256 for the year ended December 31, 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 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, 2013 through 2017 will be $6,555 each year and $72,103 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. 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, 2012 due to a temporary federal program. Under the program, there is no limit to the amount of insurance for eligible accounts. However, the Foundation had a balance of approximately $5,400 which was not insured or guaranteed by the Federal Deposit Insurance Corporation or any other government at December 31, 2012.

Beginning January 1, 2013, the federal program reverted to prior law and the Foundation's interest and non-interest bearing accounts will be insured up to $250,000 per depositor at each financial institution.

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.

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).

- 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.

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

December 31, 2012	Level 1	Level 2	Level 3
Assets:			
International stock funds	$ 6,560,093	$ -	$ -
Domestic equity mutual funds	4,761,463	-	-
Inflation hedging energy fund	2,128,954	-	-
U.S. Treasury obligations	1,247,818	-	-
U.S. Government agencies	1,765,007	-	-
Corporate bond funds	-	1,655,978	-
Multisector bond	1,083,852	-	-
Balanced funds	531,234	-	-
Money market fund	5,382	-	-
Alternative investments	-	4,631,230	7,520,363
Total	$ 18,083,803	$ 6,287,208	$ 7,520,363

December 31, 2011	Level 1	Level 2	Level 3
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
Total	$ 17,374,002	$ 9,833,535	$ 3,734,816

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The following table presents the change in level 3 instruments for the years ended December 31, 2012 and 2011:

		Alternative Investments
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		(137,064)
Balance, December 31, 2011		3,734,816
Purchases and transfers		3,446,467
Sales		(398,474)
Total realized and unrealized gains included in changes in net assets, net of fees		737,554
Balance, December 31, 2012	$	7,520,363
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	$	737,554

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 transfer between Level 2 and Level 3 was caused by changes in liquidity. The Foundation's policy is to recognize transfers between levels as of the beginning of the year.

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.

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, 2012, the total remaining operating lease payments under this lease amounted to $248 which is payable during the year ended December 31, 2013.

Rental expense under this lease agreement amounted to $1,488 for the year ended December 31, 2012.

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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, 2012, the future minimum payments amount to $9,000.

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.

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.

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.

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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, 2012, 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, 2012 is as follows:

	Board Designated	Temporarily Restricted	Permanently Restricted	Total
Donor-restricted endowment fund	$ -	$ 251,514	$ 279,720	$ 531,234
Board-designated endowment funds	31,354,758	-	-	31,354,758
Total	$ 31,354,758	$ 251,514	$ 279,720	$ **31,885,992**

Changes in endowment net assets as of December 31, 2012 are as follows:

	Board Designated	Temporarily Restricted	Permanently Restricted	Total
Endowment net assets, beginning of year	$ 29,596,796	$ 240,659	$ 279,720	$ 30,117,175
Investment return net of fees:				
Investment income	453,307	11,418	-	464,725
Net capital gain distributions and appreciation (realized and unrealized)	2,851,359	57,237	-	2,908,596
Total investment return	3,304,666	68,655	-	3,373,321
Appropriation of endowment assets for expenditure	(1,546,704)	(57,800)	-	(1,604,504)
Endowment of net assets, end of year	$ 31,354,758	$ 251,514	$ 279,720	$ **31,885,992**

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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
Total	$ 29,596,796	$ 240,659	$ 279,720	$ **30,117,175**

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 of net assets, end of year	$ 29,596,796	$ 240,659	$ 279,720	$ **30,117,175**

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.

At December 31, 2012 and 2011, temporarily restricted net assets are comprised of the portion of the perpetual endowment fund subject to program restrictions under UPMIFA of $51,732 and $27,835, respectively, and temporarily restricted funds of $199,782 and $212,824, respectively, restricted for indigent care.

At December 31, 2012 and 2011, temporarily restricted assets on the consolidated statements of financial position also include $9,143 and $8,385, respectively, of assets restricted for collaboration and a small project not included in endowment funds.

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Note 13. Subsequent Events

The Foundation has evaluated subsequent events through March 12, 2013 the date which the financial statements were available to be issued, and have not evaluated subsequent events after that date. The Foundation is currently in the process of redeeming $1,000,000 on the Series B taxable variable rate demand bond. This transaction is expected to be redeemed in the first half of 2013.