



# **FOUNDATION FOR SEACOAST HEALTH AND SUBSIDIARY**

## **CONSOLIDATED FINANCIAL STATEMENTS**

**December 31, 2018 and 2017**

**With Independent Auditor's Report**





## INDEPENDENT AUDITOR'S REPORT

Board of Trustees  
Foundation for Seacoast Health and Subsidiary

We have audited the accompanying consolidated financial statements of Foundation for Seacoast Health and Subsidiary, which comprise the consolidated statement of financial position as of December 31, 2018, and the related consolidated statements of activities 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 consolidated financial statements in accordance with U.S. generally accepted accounting principles; this includes the design, implementation and maintenance of internal control relevant to the preparation and fair presentation of consolidated 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 consolidated financial statements based on our audit. We conducted our audit in accordance with U.S. generally accepted auditing standards. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the consolidated financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the consolidated financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the consolidated 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 consolidated 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 consolidated 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 Foundation for Seacoast Health and Subsidiary as of December 31, 2018, and the changes in their net assets and their cash flows for the year then ended in accordance with U.S. generally accepted accounting principles.

Board of Trustees  
Foundation for Seacoast Health and Subsidiary

***Prior Period Financial Statements and Report on Summarized Comparative Information***

The financial statements of Foundation for Seacoast Health and Subsidiary as of December 31, 2017 were audited by other auditors whose report dated April 17, 2018 expressed an unmodified opinion on those statements. In our opinion, the summarized comparative information presented herein as of and for the year ended December 31, 2017 is consistent, in all material respects, with the audited financial statements from which it has been derived.

***Change in Accounting Principles***

As discussed in note 1 to the consolidated financial statements, during the year ended December 31, 2018, the Foundation adopted new accounting guidance, Accounting Standards Update 2016-14, *Not-for-Profit Entities (Topic 958), Presentation of Financial Statements of Not-for-Profit Entities*. Our opinion is not modified with respect to this matter.

*Berry Dunn McNeil & Parker, LLC*

Portland, Maine  
April 18, 2019

FOUNDATION FOR SEACOAST HEALTH AND SUBSIDIARY

Consolidated Statements of Financial Position

December 31, 2018 and 2017

ASSETS

	<u>2018</u>	<u>2017</u>
Cash and cash equivalents	\$ 467,144	\$ 948,166
Other receivables	33,292	65,319
Prepaid expenses	3,967	8,848
Investments at fair value	27,225,255	30,520,295
Property and equipment, net	<u>7,622,985</u>	<u>7,542,609</u>
Total assets	<u>\$ 35,352,643</u>	<u>\$ 39,085,237</u>

LIABILITIES AND NET ASSETS

Series A bonds, net of unamortized debt issuance costs of \$42,940 in 2018 and \$47,500 in 2017	\$ 5,587,060	\$ 5,762,500
Accounts payable and accrued liabilities	128,523	122,261
Grants payable	<u>175,000</u>	<u>-</u>
Total liabilities	<u>5,890,583</u>	<u>5,884,761</u>
Net assets		
Without donor restrictions	28,910,604	32,559,383
With donor restrictions	<u>551,456</u>	<u>641,093</u>
Total net assets	<u>29,462,060</u>	<u>33,200,476</u>
Total liabilities and net assets	<u>\$ 35,352,643</u>	<u>\$ 39,085,237</u>

---

The accompanying notes are an integral part of these consolidated financial statements.

# FOUNDATION FOR SEACOAST HEALTH AND SUBSIDIARY

## Consolidated Statement of Activities

**Year Ended December 31, 2018**  
**(With Comparative Totals for Year Ended December 31, 2017)**

	2018		2017	
	Without Donor Restrictions	With Donor Restrictions	Total	Total
<b>Operating activities</b>				
Revenues, gains, losses and other income				
Interest and dividends, net	\$ 384,666	\$ 12,130	\$ 396,796	\$ 327,983
Net capital gain distributions and realized and unrealized (losses) gains on investments	(2,496,283)	(36,558)	(2,532,841)	3,293,971
Rental income	515,542	-	515,542	481,076
Other income	58,463	-	58,463	44,079
Contributions	-	291	291	5,525
Net assets released from restrictions	<u>65,500</u>	<u>(65,500)</u>	<u>-</u>	<u>-</u>
Total revenues, gains, losses and other income	<u>(1,472,112)</u>	<u>(89,637)</u>	<u>(1,561,749)</u>	<u>4,152,634</u>
<b>Program expenses</b>				
Grants	313,039	-	313,039	360,000
Scholarships	10,668	-	10,668	10,000
Other	6,493	-	6,493	6,529
Total program expenses	<u>330,200</u>	<u>-</u>	<u>330,200</u>	<u>376,529</u>
<b>Community campus expenses</b>				
Salaries and employee benefits	132,446	-	132,446	120,104
Interest expense and financing costs	178,711	-	178,711	184,622
Depreciation	403,870	-	403,870	394,974
Occupancy	615,400	-	615,400	603,254
Other operating expenses	<u>112,304</u>	<u>-</u>	<u>112,304</u>	<u>140,532</u>
Total community campus expenses	<u>1,442,731</u>	<u>-</u>	<u>1,442,731</u>	<u>1,443,486</u>
<b>General and administrative expenses</b>				
Salaries and employee benefits	261,523	-	261,523	264,308
Depreciation	2,400	-	2,400	2,400
Professional fees	93,873	-	93,873	41,243
Other expenses	<u>36,319</u>	<u>-</u>	<u>36,319</u>	<u>34,956</u>
Total general and administrative expenses	<u>394,115</u>	<u>-</u>	<u>394,115</u>	<u>342,907</u>
Total expenses	<u>2,167,046</u>	<u>-</u>	<u>2,167,046</u>	<u>2,162,922</u>
(Decrease) increase in net assets from operating activities	(3,639,158)	(89,637)	(3,728,795)	1,989,712
<b>Nonoperating activities</b>				
Gain on sale of land	<u>-</u>	<u>-</u>	<u>-</u>	<u>737,636</u>
(Decrease) increase in net assets before provision for federal taxes	<u>(3,639,158)</u>	<u>(89,637)</u>	<u>(3,728,795)</u>	<u>2,727,348</u>
<b>Provision for federal taxes</b>				
Current federal excise tax expense	8,701	-	8,701	6,414
Unrelated business income tax	920	-	920	3,866
Total federal tax expense	<u>9,621</u>	<u>-</u>	<u>9,621</u>	<u>10,280</u>
(Decrease) increase in net assets	(3,648,779)	(89,637)	(3,738,416)	2,717,068
Net assets, beginning of year	<u>32,559,383</u>	<u>641,093</u>	<u>33,200,476</u>	<u>30,483,408</u>
Net assets, end of year	<u>\$ 28,910,604</u>	<u>\$ 551,456</u>	<u>\$ 29,462,060</u>	<u>\$ 33,200,476</u>

The accompanying notes are an integral part of these consolidated financial statements.

**FOUNDATION FOR SEACOAST HEALTH AND SUBSIDIARY**

**Consolidated Statements of Cash Flows**

**Years Ended December 31, 2018 and 2017**

	<u>2018</u>	<u>2017</u>
Cash flows from operating activities		
(Decrease) increase in net assets	\$ (3,738,416)	\$ 2,717,068
Adjustments to reconcile (decrease) increase in net assets to net cash used by operating activities		
Depreciation	406,270	397,374
Amortization of debt issuance costs	4,560	4,560
Gain on sale of land	-	(737,636)
Net capital gain distributions and realized and unrealized losses (gains) on investments	2,532,841	(3,293,971)
Decrease (increase) in		
Other receivables	32,027	(39,219)
Prepaid expenses	4,881	19,405
Increase (decrease) in		
Accounts payable and accrued liabilities	6,262	21,308
Grants payable	<u>175,000</u>	<u>(40,000)</u>
Net cash used by operating activities	<u>(576,575)</u>	<u>(951,111)</u>
Cash flows from investing activities		
Additions to property and equipment	(486,646)	(68,256)
Purchase of investments	(450,801)	(5,589,856)
Proceeds from sale of investments	1,213,000	3,850,693
Proceeds from sale of land	<u>-</u>	<u>1,830,391</u>
Net cash provided by investing activities	<u>275,553</u>	<u>22,972</u>
Cash flows from financing activities		
Repayments of Series A bonds	<u>(180,000)</u>	<u>(180,000)</u>
Net cash used by financing activities	<u>(180,000)</u>	<u>(180,000)</u>
Net decrease in cash and cash equivalents	(481,022)	(1,108,139)
Cash and cash equivalents, beginning of year	<u>948,166</u>	<u>2,056,305</u>
Cash and cash equivalents, end of year	<u>\$ 467,144</u>	<u>\$ 948,166</u>
Supplemental disclosures of cash flow information		
Cash payments for:		
Interest	<u>\$ 172,296</u>	<u>\$ 176,716</u>
Federal excise tax payments	<u>\$ 6,495</u>	<u>\$ 12,793</u>

---

The accompanying notes are an integral part of these consolidated financial statements.

# FOUNDATION FOR SEACOAST HEALTH AND SUBSIDIARY

## Notes to Consolidated Financial Statements

December 31, 2018 and 2017

### **Formation and Nature of Activities**

Foundation for Seacoast Health and Subsidiary (the Foundation) was formed to support and promote general public wellness, well-being, health, healthcare, and education 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 returns.

### **1. Summary of Significant Accounting Policies**

#### **Basis of Accounting**

The consolidated 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 consolidated 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.

#### **Use of Estimates**

Management uses estimates and assumptions in preparing financial statements. Those estimates and assumptions affect the reported amount 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 financial statements of the Foundation have been prepared in accordance with U.S. generally accepted accounting principles (U.S. GAAP), which require the Foundation to report information regarding its financial position and activities according to the following net asset classifications:

**Net assets without donor restrictions:** Net assets that are not subject to donor-imposed restrictions and may be expended for any purpose in performing the primary objectives of the organization. These net assets may be used at the discretion of the Foundation's management and Board of Trustees.

**Net assets with donor restrictions:** Net assets subject to stipulations imposed by donors, and grantors. Some donor restrictions are temporary in nature; those restrictions will be met by actions of the Foundation or by the passage of time. Other donor restrictions are perpetual in nature, whereby the donor has stipulated the funds be maintained in perpetuity.

# FOUNDATION FOR SEACOAST HEALTH AND SUBSIDIARY

## Notes to Consolidated Financial Statements

December 31, 2018 and 2017

The consolidated 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 U.S. GAAP. Accordingly, such information should be read in conjunction with the Foundation's consolidated financial statements for the year ended December 31, 2017, from which the summarized information was derived.

### **Recently Issued Accounting Pronouncement**

In August 2016, the Financial Accounting Standards Board (FASB) issued Accounting Standards Update (ASU) No. 2016-14, *Presentation of Financial Statements of Not-for-Profit Entities (Topic 958)*, which makes targeted changes to the not-for-profit financial reporting model. The new ASU marks the completion of the first phase of a larger project aimed at improving not-for-profit financial reporting. Under the new ASU, net asset reporting is streamlined and clarified. The existing three category classification of net assets is replaced with a simplified model that combines temporarily restricted and permanently restricted into a single category called "net assets with donor restrictions." The guidance for classifying deficiencies in endowment funds has also been simplified and clarified. New disclosures highlight restrictions on the use of resources that make otherwise liquid assets unavailable for meeting near-term financial requirements. The ASU also imposes several new requirements related to reporting expenses. The adoption of the ASU had no impact on previously reported total net assets.

### **Contributions**

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

All contributions are included in net assets without donor restrictions 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 support that increases net assets with donor restrictions.

A donor restriction expires when a stipulated time restriction ends or when a purpose is accomplished. Upon expiration, net assets with donor restrictions are reclassified to net assets without donor restrictions and are reported in the consolidated statements of activities as net assets released from restrictions.

### **Rental Income**

The Foundation receives rents under operating leases, through December 31, 2019 for substantially all of the property and equipment in the consolidated statements of financial position. Rental income is recorded as earned in the Foundation's consolidated statements of activities. Future rent under these operating leases will approximate \$539,000 in 2019.

### **Grants and Scholarships**

Unconditional grants and scholarships are recognized in the consolidated financial statements when approved by the Board of Trustees and awarded.

# FOUNDATION FOR SEACOAST HEALTH AND SUBSIDIARY

## Notes to Consolidated Financial Statements

December 31, 2018 and 2017

### **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 pays a nominal amount of tax relating to unrelated business income on its investments.

The Foundation has adopted the provisions of FASB Accounting Standards Codification Topic 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 and had taken no uncertain tax positions that require adjustment or disclosure in the consolidated financial statements. With immaterial exceptions, the Foundation is no longer subject to income tax examinations by the U.S. federal or state tax authorities for years before 2015.

### **Excise Taxes**

Excise taxes are provided for the tax effects of transactions reported in the consolidated financial statements. The Internal Revenue Code imposes a federal excise tax equal to 2% (reduced to 1% if certain requirements are met) on net investment income (principally interest, dividends and net realized capital gains less expenses incurred in the production of investment income).

### **Property and Equipment**

Property and equipment are capitalized at cost if purchased and fair value if donated, and are included with net assets without donor restrictions. 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.

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

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.

**FOUNDATION FOR SEACOAST HEALTH AND SUBSIDIARY**

**Notes to Consolidated Financial Statements**

**December 31, 2018 and 2017**

**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 statements of financial position. The Foundation reviews and evaluates the valuations provided by the investment managers and believes these valuations are a reasonable estimate of fair value at December 31, 2018 and 2017.

Investment income is credited to net assets without donor restrictions 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.

**Functional Expenses**

The financial statements report certain categories of expenses that are attributable to one or more program or supporting functions of the Foundation. Those expenses include the payroll and employee benefits of staff which are allocated based on estimates of time and effort.

**2. Investments**

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

	<u>2018</u>		
	<u>Cost</u>	<u>Fair Value</u>	<u>Unrealized Appreciation (Depreciation)</u>
Fixed income and fixed income mutual funds	\$ 2,867,914	\$ 3,160,031	\$ 292,117
Equities and equity mutual funds	13,039,342	15,219,157	2,179,815
Balanced mutual funds	1,076,943	1,038,708	(38,235)
Alternative investments	<u>6,769,587</u>	<u>7,807,359</u>	<u>1,037,772</u>
Total	<u>\$ 23,753,786</u>	<u>\$ 27,225,255</u>	<u>\$ 3,471,469</u>
	<u>2017</u>		
	<u>Cost</u>	<u>Fair Value</u>	<u>Unrealized Appreciation</u>
Fixed income and fixed income mutual funds	\$ 2,959,573	\$ 3,347,771	\$ 388,198
Equities and equity mutual funds	13,075,302	17,560,495	4,485,193
Balanced mutual funds	1,223,431	1,347,603	124,172
Alternative investments	<u>6,773,253</u>	<u>8,264,426</u>	<u>1,491,173</u>
Total	<u>\$ 24,031,559</u>	<u>\$ 30,520,295</u>	<u>\$ 6,488,736</u>

# FOUNDATION FOR SEACOAST HEALTH AND SUBSIDIARY

## Notes to Consolidated Financial Statements

December 31, 2018 and 2017

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 as of December 31, 2018. In addition, certain funds also require 5 - 15 days' notice of the Foundation's intent to redeem assets (Note 13).

<u>Investment</u>	<u>Frequency of Permitted Redemptions</u>	
	<u>Semi-monthly</u>	<u>Annually</u>
Alternative investments	\$ 1,274,914	\$ 6,532,445
Corporate bond fund (included in fixed income and fixed income mutual funds)	1,652,561	-

### 3. Property and Equipment

Property and equipment, at cost, is as follows as of December 31:

	<u>2018</u>	<u>2017</u>
Land	\$ <b>1,250,036</b>	\$ 1,250,036
Land improvements	<b>3,016,347</b>	2,956,347
Equipment, furniture and fixtures	<b>2,157,177</b>	1,775,200
Building	<b><u>10,141,199</u></b>	<u>10,141,200</u>
Total property and equipment	<b>16,564,759</b>	16,122,783
Less accumulated depreciation	<b><u>(8,941,774)</u></b>	<u>(8,580,174)</u>
Total property and equipment, net	<b><u>\$ 7,622,985</u></b>	<b><u>\$ 7,542,609</u></b>

### 4. 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 \$8,701 and \$6,414 for the years ended December 31, 2018 and 2017, 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, 2018 and 2017 to meet the requirements of the IRC.

# FOUNDATION FOR SEACOAST HEALTH AND SUBSIDIARY

## Notes to Consolidated Financial Statements

December 31, 2018 and 2017

### 5. Retirement Plan

The Foundation sponsors an eligible deferred compensation 457(b) plan for the benefit of a select group of its management or highly-compensated employees. Employee and employer contributions, in the aggregate, are subject to certain limits as set by the Internal Revenue Service. The Foundation made contributions of \$15,000 for the years ended December 31, 2018 and 2017.

### 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.

### 7. Series A Bonds

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 and \$8,340,000 of Series B taxable variable rate demand bonds, on behalf of the Foundation, pursuant to a loan and trust agreement (the Agreement) among the Issuer, the Foundation, and the Bank of New Hampshire (which served as the Trustee). The proceeds were used for construction of the Community Campus building.

The Series B taxable variable rate demand bonds were fully redeemed on May 1, 2014. The remaining Series A bonds are due in varying monthly principal installments May 1, 2024. The total outstanding balance on the Series A bonds amounted to \$5,630,000 and \$5,810,000 at December 31, 2018 and 2017, respectively. The Series A bonds are presented in the statements of financial position, net of unamortized debt issuance costs of \$42,940 and \$47,500 at December 31, 2018 and 2017, respectively. The bonds are collateralized by a first mortgage on all real property, including land and buildings, and a negative pledge on the Foundation's endowment.

Maturities on the bonds are as follows:

2019	\$ 180,000
2020	195,000
2021	240,000
2022	240,000
2023	240,000
Thereafter	<u>4,535,000</u>
Total	<u>\$ 5,630,000</u>

# FOUNDATION FOR SEACOAST HEALTH AND SUBSIDIARY

## Notes to Consolidated Financial Statements

December 31, 2018 and 2017

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. RBS Citizens N.A. became the Trustee of the bonds during this conversion. The interest rate per the conversion is 2.992%. The effective interest rate is 3.305%. The bonds are subject to redemption prior to maturity at a redemption price of par plus accrued interest. The Foundation is required to maintain certain financial ratios. At December 31, 2018 and 2017, the Foundation met these financial ratios.

The IRC imposes certain restrictions on the ability of a tax-exempt issuance to earn 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, 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.

### 8. Concentration of Credit Risk

The Foundation maintains cash accounts with several financial institutions. The balances are insured by the Federal Deposit Insurance Corporation up to \$250,000. At December 31, 2018, the Foundation's uninsured cash balances totaled approximately \$191,000.

### 9. Fair Value Measurements

Fair value is defined as the exchange price that would be received for an asset or paid to transfer a liability (an exit price) in the principal or most advantageous market for the asset or liability in an orderly transaction between market participants on the measurement date. It also establishes a fair value hierarchy which requires an entity to maximize the use of observable inputs and minimize the use of unobservable inputs when measuring fair value. The three levels of inputs that may be used to measure fair value are:

**Level 1:** Quoted prices (unadjusted) for identical assets or liabilities in active markets that the entity has the ability to access as of the measurement date.

**Level 2:** Significant other observable inputs other than Level 1 prices, such as quoted prices for similar assets or liabilities, quoted prices in markets that are not active, and other inputs that are observable or can be corroborated by observable market data.

**Level 3:** Significant unobservable inputs that reflect an entity's own assumptions about the assumptions that market participants would use in pricing an asset or liability.

**FOUNDATION FOR SEACOAST HEALTH AND SUBSIDIARY**

**Notes to Consolidated Financial Statements**

**December 31, 2018 and 2017**

Assets measured at fair value on a recurring basis are summarized by level below.

	<u>Level 1</u>	<u>Level 2</u>	<u>Level 3</u>	<u>Total</u>
December 31, 2018				
Investments:				
International stock funds	\$ 5,080,234	\$ -	\$ -	\$ 5,080,234
Domestic equity mutual funds	7,084,565	-	-	7,084,565
Inflation hedging energy fund	1,124,698	-	-	1,124,698
Inflation hedging bond fund	996,692	-	-	996,692
Real estate fund	932,968	-	-	932,968
Fixed income fund	1,507,470	-	-	1,507,470
Corporate bond fund	-	1,652,561	-	1,652,561
Balanced funds	1,038,708	-	-	1,038,708
Alternative investments	-	1,274,914	-	1,274,914
Total	<u>\$ 17,765,335</u>	<u>\$ 2,927,475</u>	<u>\$ -</u>	<u>20,692,810</u>
Other assets measured at net asset value (NAV)				<u>6,532,445</u>
Total investments				<u>\$ 27,225,255</u>
Money market funds	<u>\$ 37,340</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 37,340</u>
December 31, 2017				
Investments:				
International stock funds	\$ 6,230,616	\$ -	\$ -	\$ 6,230,616
Domestic equity mutual funds	7,947,337	-	-	7,947,337
Inflation hedging energy fund	1,356,366	-	-	1,356,366
Inflation hedging bond fund	1,010,753	-	-	1,010,753
Real estate fund	1,015,423	-	-	1,015,423
Fixed income fund	1,491,004	-	-	1,491,004
Corporate bond fund	-	1,856,767	-	1,856,767
Balanced funds	1,347,603	-	-	1,347,603
Alternative investments	-	1,288,695	-	1,288,695
Total	<u>\$ 20,399,102</u>	<u>\$ 3,145,462</u>	<u>\$ -</u>	<u>23,544,564</u>
Other investments measured at NAV				<u>6,975,731</u>
Total investments				<u>\$ 30,520,295</u>
Money market funds	<u>\$ 6,201</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 6,201</u>

# FOUNDATION FOR SEACOAST HEALTH AND SUBSIDIARY

## Notes to Consolidated Financial Statements

December 31, 2018 and 2017

The fair value of Level 2 assets has been measured using quoted market prices of similar assets and the fair value market approach, as determined by comparable sales data beginning on the date of acquisition. Level 3 investments are valued based on the net asset values as reported in the financial statements of the related interest.

### 10. Commitments

In October 2017, the Foundation entered into a food service agreement with a company to operate the food service facility at the Community Campus. The term of the agreement is three years, and it 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. In addition, the Foundation pays a monthly subsidy for any excess of food service expenses over net sales. Total fees paid amounted to \$64,846 and \$58,638 for the years ended December 31, 2018 and 2017, respectively.

In December 2014, the Foundation entered into a janitorial service agreement with a company. The term of the agreement is one year, and it shall automatically renew for renewal periods of one year each, unless terminated by either party upon 30 days prior written notice. Total expenses related to this agreement for the years ended December 31, 2018 and 2017 totaled \$111,287 and \$108,573, respectively.

### 11. Endowment Funds and Net Assets

The State of New Hampshire enacted the Uniform Prudent Management of Institutional Funds Act (UPMIFA) effective July 1, 2008, the provisions of which apply to endowment funds existing on or established after that date. 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 U.S. 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 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 net assets with donor restrictions (held in perpetuity) (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 net assets with donor restrictions (held in perpetuity) is classified as net assets with donor restrictions until those amounts are appropriated

# FOUNDATION FOR SEACOAST HEALTH AND SUBSIDIARY

## Notes to Consolidated Financial Statements

**December 31, 2018 and 2017**

for expenditure by the Foundation 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. The Foundation has a policy that permits spending from the underwater endowment funds depending on the degree to which the fund is underwater, unless otherwise precluded by donor intent or relevant laws and regulations. As of December 31, 2018, 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 and capital appreciation, which exceeds the annual distribution with acceptable levels of risk. The real return objective for the Foundation is 5% over a long-time 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 in order to avoid exposing 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, 2018 is as follows:

	<u>Board Designated</u>	<u>Funds Subject to Use or Time Restriction</u>	<u>Funds of Perpetual Duration</u>	<u>Total</u>
Donor-restricted endowment funds	\$ -	\$ 234,779	\$ 279,720	\$ 514,499
Board-designated endowment funds	<u>26,710,756</u>	<u>-</u>	<u>-</u>	<u>26,710,756</u>
Total	<u>\$26,710,756</u>	<u>\$ 234,779</u>	<u>\$ 279,720</u>	<u>\$ 27,225,255</u>

**FOUNDATION FOR SEACOAST HEALTH AND SUBSIDIARY**

**Notes to Consolidated Financial Statements**

**December 31, 2018 and 2017**

Changes in endowment net assets for the year ended December 31, 2018 are as follows:

	<u>Board Designated</u>	<u>Funds Subject to Use or Time Restriction</u>	<u>Funds of Perpetual Duration</u>	<u>Total</u>
Endowment net assets, beginning of year	\$ 29,918,368	\$ 322,207	\$ 279,720	\$ 30,520,295
Investment loss:				
Investment income	384,666	12,130		396,796
Net capital gain distributions and depreciation (realized and unrealized)	<u>(2,496,283)</u>	<u>(36,558)</u>		<u>(2,532,841)</u>
Total investment loss	<u>(2,111,617)</u>	<u>(24,428)</u>		<u>(2,136,045)</u>
Appropriation of endowment assets for expenditure	<u>(1,095,995)</u>	<u>(63,000)</u>		<u>(1,158,995)</u>
Endowment net assets, end of year	<u>\$ 26,710,756</u>	<u>\$ 234,779</u>	<u>\$ 279,720</u>	<u>\$ 27,225,255</u>

Endowment net asset composition by type of fund as of December 31, 2017 is as follows:

	<u>Board Designated</u>	<u>Funds Subject to Use or Time Restriction</u>	<u>Funds of Perpetual Duration</u>	<u>Total</u>
Donor-restricted endowment funds	\$ -	\$ 322,207	\$ 279,720	\$ 601,927
Board-designated endowment funds	<u>29,918,368</u>	<u>-</u>	<u>-</u>	<u>29,918,368</u>
Total	<u>\$ 29,918,368</u>	<u>\$ 322,207</u>	<u>\$ 279,720</u>	<u>\$ 30,520,295</u>

Changes in endowment net assets as of December 31, 2017 are as follows:

	<u>Board Designated</u>	<u>Funds Subject to Use or Time Restriction</u>	<u>Funds of Perpetual Duration</u>	<u>Total</u>
Endowment net assets, beginning of year	\$ 24,921,564	\$ 285,877	\$ 279,720	\$ 25,487,161
Investment return:				
Investment income	327,983	11,119	-	339,102
Net capital gain distributions and appreciation (realized and unrealized)	<u>3,205,760</u>	<u>88,211</u>	<u>-</u>	<u>3,293,971</u>
Total investment return	<u>3,533,743</u>	<u>99,330</u>	<u>-</u>	<u>3,633,073</u>
Investment of proceeds from property sales	2,450,000	-	-	2,450,000
Appropriation of endowment assets for expenditure	<u>(986,939)</u>	<u>(63,000)</u>	<u>-</u>	<u>(1,049,939)</u>
Endowment net assets, end of year	<u>\$ 29,918,368</u>	<u>\$ 322,207</u>	<u>\$ 279,720</u>	<u>\$ 30,520,295</u>

# FOUNDATION FOR SEACOAST HEALTH AND SUBSIDIARY

## Notes to Consolidated Financial Statements

December 31, 2018 and 2017

### 12. Net Assets with Donor Restrictions

As of December 31, 2018 and 2017, net assets subject to expenditure for a specified purpose are as follows:

	<u>2018</u>	<u>2017</u>
Indigent care	\$ 234,875	\$ 322,207
Scholarships	36,553	38,762
Hospital support	<u>308</u>	<u>308</u>
	<u>\$ 271,736</u>	<u>\$ 361,277</u>

As of December 31, 2018 and 2017, net assets subject to Foundation spending policy (invested in perpetuity) are as follows:

	<u>2018</u>	<u>2017</u>
Income restricted for:		
Indigent care	<u>\$ 279,720</u>	<u>\$ 279,720</u>

Net assets released from net assets with donor restrictions are as follows for the years ended December 31:

	<u>2018</u>	<u>2017</u>
Satisfaction of use restrictions		
Indigent care	\$ 63,000	\$ 63,000
Scholarships	<u>2,500</u>	<u>3,000</u>
	<u>\$ 65,500</u>	<u>\$ 66,000</u>

### 13. Liquidity and Availability of Financial Assets

The Foundation regularly monitors the availability of resources required to meet its operating needs and other contractual commitments, while also striving to maximize the investment of its available funds. The Foundation has various sources of liquidity at its disposal, including cash and cash equivalents and investments.

For purposes of analyzing resources available to meet general expenditures over a 12-month period, the Foundation considers all expenditures related to the operation and maintenance of the Community Campus, grant and scholarship awards, and administrative expenses to support those activities to be general expenditures.

In addition to financial assets available to meet general expenditures over the next 12 months, the Foundation operates with a cash flow budget to determine the amount of investment funds required to support anticipated operating expenses, capital expenditures and debt service over the next 12-month period. The budgeted endowment spending falls within the Foundation's spending policy guidelines of 4% to 6% of the previous 12-quarter moving average of the unrestricted fund assets.

# FOUNDATION FOR SEACOAST HEALTH AND SUBSIDIARY

## Notes to Consolidated Financial Statements

December 31, 2018 and 2017

As of December 31, 2018, the following financial assets could readily be made available within one year of the balance sheet date to meet general expenditures:

Cash and cash equivalents	\$ 429,804
Accounts receivable	33,292
Payout on donor restricted funds	73,000
Budgeted endowment spending	<u>1,417,910</u>
	<u>\$ 1,954,006</u>

At December 31, 2018, \$514,595 of the Foundation's endowment was donor restricted. Although not expected to be needed, the unrestricted portion of the Foundation's endowment in excess of the budgeted spending amount could be used to meet cash needs if necessary. Prudent investment management, however, must be considered to ensure the preservation of the funds for future use.

Approximately 65 percent of the Foundation's investment portfolio consists of highly liquid investments; 35 percent of the portfolio's investments may be redeemed with 5 to 15 days' notice of intent to redeem assets. See Notes 2, 9, and 11 for further information about the Foundation's investment portfolio, net assets and endowment funds, respectively.

#### 14. Subsequent Events

The Foundation has evaluated subsequent events through April 18, 2019, the date which the consolidated financial statements were available to be issued, and has not evaluated subsequent events after that date. There were no subsequent events that would require recognition or disclosure in the consolidated financial statements for the year ended December 31, 2018.