



Foundation for Seacoast Health and Subsidiary

Consolidated Financial Statements

Years Ended December 31, 2006 and 2005

VITALE, CATURANO & COMPANY ^{Ltd}

FOUNDATION FOR SEACOAST HEALTH AND SUBSIDIARY

CONSOLIDATED FINANCIAL STATEMENTS

Years Ended December 31, 2006 and 2005

FOUNDATION FOR SEACOAST HEALTH AND SUBSIDIARY

CONSOLIDATED FINANCIAL STATEMENTS

Years Ended December 31, 2006 and 2005

CONTENTS

	<u>Page</u>
Independent Auditor's Report	1
Consolidated Financial Statements:	
Consolidated Statements of Financial Position	2
Consolidated Statements of Activities and Changes in Net Assets	3
Consolidated Statements of Cash Flows	4
Notes to Consolidated Financial Statements	5-14



VITALE, CATURANO & COMPANY Ltd

INDEPENDENT AUDITOR'S REPORT

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

We have audited the accompanying consolidated statement of financial position of Foundation for Seacoast Health (a New Hampshire nonprofit corporation) and Subsidiary (the Foundation) as of December 31, 2006, and the related consolidated statements 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'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 the Foundation's 2005 consolidated financial statements and, in our report dated February 10, 2006, we expressed an unqualified opinion on those consolidated 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 as of December 31, 2006, and the results of its activities and its cash flows for the year then ended, in conformity with accounting principles generally accepted in the United States of America.

Vitale, Caturano & Company, Ltd.

VITALE, CATURANO & COMPANY, LTD.

March 19, 2007
Boston, Massachusetts

FOUNDATION FOR SEACOAST HEALTH AND SUBSIDIARY

Consolidated Statements of Financial Position

December 31, 2006 and 2005

	2006	2005
ASSETS		
Cash and cash equivalents	\$ 223,060	\$ 837,888
Accrued interest and dividends receivable	47,591	83,381
Other receivables	1,347	9,602
Prepaid expenses	46,201	30,727
Investments, at fair value	61,107,679	56,509,325
Property and equipment, net of accumulated depreciation	12,592,750	12,884,650
Other assets, net	186,869	198,814
	<u>\$ 74,205,497</u>	<u>\$ 70,554,387</u>
LIABILITIES AND NET ASSETS		
Liabilities:		
Accounts payable and accrued liabilities	\$ 636,217	\$ 278,655
Grants payable	472,000	500,587
Interest rate swap	82,320	206,155
Series A and B variable rate bonds	14,795,000	14,795,000
Total liabilities	<u>15,985,537</u>	<u>15,780,397</u>
Net assets:		
Unrestricted	57,880,468	54,463,634
Temporarily restricted	339,492	310,356
Total net assets	<u>58,219,960</u>	<u>54,773,990</u>
	<u>\$ 74,205,497</u>	<u>\$ 70,554,387</u>

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

FOUNDATION FOR SEACOAST HEALTH AND SUBSIDIARY

Consolidated Statements of Activities and Changes in Net Assets

For the Year Ended December 31, 2006

With Summarized Comparative Totals for the Year Ended December 31, 2005

	2006			2005
	Unrestricted	Temporarily Restricted	Total	Total
Operating activities:				
Revenues, gains (losses) and other support:				
Interest	\$ 30,625	\$ 2,243	\$ 32,868	\$ 18,074
Dividends	1,029,641	5,980	1,035,621	878,985
Net capital gain distributions	1,735,401	990	1,736,391	1,979,555
Net realized gains (losses) on sale of investments	3,135,942	1,169	3,137,111	(7,148)
Net unrealized gains on investments	1,330,135	18,671	1,348,806	1,261,137
Rental income	292,714	-	292,714	280,170
Other income	283,720	83	283,803	257,697
Total revenues, gains (losses) and other support	7,838,178	29,136	7,867,314	4,668,470
Program expenditures:				
Grants	965,320	-	965,320	1,034,545
Scholarships	10,000	-	10,000	10,000
Other	11,385	-	11,385	6,242
Total program expenditures	986,705	-	986,705	1,050,787
Community campus expenses:				
Interest expense and financing costs	824,417	-	824,417	771,841
Depreciation	447,015	-	447,015	465,347
Other operating expenses	1,158,613	-	1,158,613	1,175,939
Total community campus expenses	2,430,045	-	2,430,045	2,413,127
General and administrative expenses:				
Salaries and employee benefits	334,438	-	334,438	334,816
Trust management and investment fees	118,963	-	118,963	121,642
Depreciation	3,134	-	3,134	5,788
Other expenses	556,016	-	556,016	77,138
Total general and administrative expenses	1,012,551	-	1,012,551	539,384
Excess of revenues, gains (losses) and other support over expenses from operations	3,408,877	29,136	3,438,013	665,172
Nonoperating activities:				
Change in fair value of interest rate swap	123,836	-	123,836	387,350
Excess of revenues, gains (losses) and other support over expenses	3,532,713	29,136	3,561,849	1,052,522
Provision for federal excise taxes	115,879	-	115,879	54,381
Change in net assets	3,416,834	29,136	3,445,970	998,141
Net assets, beginning of year	54,463,634	310,356	54,773,990	53,775,849
Net assets, end of year	\$ 57,880,468	\$ 339,492	\$ 58,219,960	\$ 54,773,990

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, 2006 and 2005

	<u>2006</u>	<u>2005</u>
Cash flows from operating activities:		
Change in net assets	\$ 3,445,970	\$ 998,141
Adjustments to reconcile change in net assets to net cash used in operating activities:		
Change in fair value of interest rate swap	(123,835)	(387,350)
Depreciation	450,149	471,135
Amortization	11,945	11,945
Net realized (gains) losses on sale of investments	(3,137,111)	7,148
Net capital gain distributions	(1,736,391)	(1,979,555)
Net unrealized gains on investments	(1,348,806)	(1,261,137)
Changes in assets and liabilities:		
(Increase) decrease in:		
Accrued interest and dividends receivable	35,790	(36,700)
Other receivables	8,255	3,090
Prepaid expenses	(15,474)	17,989
Increase (decrease) in:		
Grants payable	(28,587)	(7,625)
Accounts payable and accrued liabilities	357,562	80,013
Net cash used in operating activities	<u>(2,080,533)</u>	<u>(2,082,906)</u>
Cash flows from investing activities:		
Capital expenditures	(158,249)	(67,517)
Purchase of investments	(17,498,120)	(2,492,078)
Proceeds from sale or maturity of investments	19,122,074	5,051,359
Net cash provided by investing activities	<u>1,465,705</u>	<u>2,491,764</u>
Net increase (decrease) in cash and cash equivalents	(614,828)	408,858
Cash and cash equivalents, beginning of year	<u>837,888</u>	<u>429,030</u>
Cash and cash equivalents, end of year	<u>\$ 223,060</u>	<u>\$ 837,888</u>
Supplemental disclosure of cash flow information:		
Cash paid during the year for:		
Federal income taxes	<u>\$ -</u>	<u>\$ -</u>
Interest	<u>\$ 710,959</u>	<u>\$ 640,335</u>

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

FOUNDATION FOR SEACOAST HEALTH AND SUBSIDIARY

Notes to Consolidated Financial Statements

Years Ended December 31, 2006 and 2005

1. OPERATIONS

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.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIESBasis of Accounting

The financial statements of the Foundation have been prepared on the accrual basis of accounting. A summary of the significant accounting policies applied in the preparation of the financial statements follows.

Use of Estimates

The preparation of financial statements in conformity with generally accepted accounting principles requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements. Estimates also affect the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates.

Financial Statement Presentation

Under the provisions of Statement of Financial Accounting Standards (SFAS) No. 117, *Financial Statements of Not-for-Profit Organizations*, the Foundation has elected to classify its revenues, gains (losses) and other support, program expenditures, community campus expenses and general and administrative expenses as operating activities and changes in the fair value of interest rate swap as nonoperating activities in the Consolidated Statements of Activities and Changes in Net Assets.

Net assets and revenues and gains (losses) and other support are classified based on the existence or absence of donor-imposed restrictions. Accordingly, net assets of the Foundation and the changes therein are classified and reported as follows:

Unrestricted

Resources over which the Board of Trustees has discretionary control.

Temporarily Restricted

These resources are subject to donor-imposed restrictions that will be satisfied by the actions of the Foundation or the passage of time.

The Foundation's temporarily restricted funds at December 31, 2006 and 2005 are restricted for indigent care.

FOUNDATION FOR SEACOAST HEALTH AND SUBSIDIARY

Notes to Consolidated Financial Statements
Years Ended December 31, 2006 and 2005

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES...continuedFinancial Statement Presentation...continuedPermanently Restricted

These resources represent the principal amount of contributions accepted with the stipulation from the donor that the principal be maintained in perpetuity and only the income from investments thereof be expended for other general purposes or a purpose specified by the donor.

There are no permanently restricted assets held by the Foundation at December 31, 2006 and 2005.

All inter-company transactions have been eliminated during consolidation.

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, 2005, from which the summarized information was derived.

Cash and Cash Equivalents

For purposes of the Consolidated Statement of Cash Flows, the Foundation considers all highly liquid investments purchased with an original maturity of three months or less to be cash equivalents.

Investments

In accordance with SFAS No. 124, *Accounting for Certain Investments Held by Not-for-Profit Organizations*, 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.

Property and Equipment

Property and equipment are capitalized at cost and are included within unrestricted net assets. Major additions are capitalized, while ordinary repairs and maintenance are expensed. Depreciation is computed using both straight line and accelerated methods over the estimated useful lives of the assets (see Note 4).

FOUNDATION FOR SEACOAST HEALTH AND SUBSIDIARY

Notes to Consolidated Financial Statements

Years Ended December 31, 2006 and 2005

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES...continuedContributions

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 as net assets released from restrictions.

Unrealized Gains and Losses on Investments

The Foundation records unrealized gains and losses, net of certain management fees, which were approximately \$242,000 and \$263,000 in 2006 and 2005, respectively.

Rental Income

The Foundation receives rents under operating leases. Rental income is recorded as earned in the Foundation's Consolidated Statement of Activities.

Grants and Scholarships

Unconditional grants and scholarships are recognized in the Consolidated Financial Statements when awarded and approved by the Board of Trustees. Grants and scholarships payable at December 31, 2006 and 2005 are due within one year.

Financial Instruments

The carrying values of the Foundation's financial instruments, which consist primarily of cash, investments, interest rate swap, and debt, approximate their respective estimated fair values at December 31, 2006 and 2005. Fair values are estimated based on current market rates and prices.

Concentration of Credit Risk

The Foundation maintains its cash and cash equivalents in bank accounts which may, at times, exceed insurers' limits. The Foundation has not experienced any losses in such accounts and believes that it is not exposed to any significant credit risks relating to its cash and cash equivalents.

FOUNDATION FOR SEACOAST HEALTH AND SUBSIDIARY

Notes to Consolidated Financial Statements

Years Ended December 31, 2006 and 2005

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES...continuedInterest Rate Swap

The Foundation follows SFAS No. 133, *Accounting for Derivative Instruments and Hedging Activities*, as amended by SFAS No. 138. SFAS No. 133, as amended, establishes accounting and reporting standards requiring that every derivative instrument (including certain derivative instruments embedded in other contracts) be recorded in the Statement of Financial Position as either an asset or liability measured at its fair value. SFAS No. 133 requires that changes in the derivative's fair value be recognized currently in earnings unless specific hedge accounting criteria are met. Special accounting for qualifying hedges allows a derivative's gains and losses to offset related results on the hedged item in the Consolidated Statement of Activities and Changes in Net Assets, to the extent effective, and requires that the Foundation must formally document, designate and assess the effectiveness of transactions that receive hedge accounting treatment.

The Foundation uses an interest rate swap to hedge the effects of fluctuations in interest rates related to the interest payments on variable-rate bonds issued in connection with the Community Campus project. The net payments or receipts on the swap were capitalized during the period of construction. Following completion of the facility in October 1999, the net payments or receipts are recorded as an offset to interest expense and financing costs in the accompanying Consolidated Statement of Activities and Changes in Net Assets. Changes in the fair value of the interest rate swap are shown in nonoperating activities in the Consolidated Statements of Activities and Changes in Net Assets.

3. INVESTMENTS

A comparison of the actual costs and fair values of the Foundation's investments at December 31, 2006 and 2005 is as follows:

	2006		
	Unrestricted		
	Cost	Fair Value	Unrealized Appreciation (Depreciation)
Fixed income mutual funds	\$ 7,454,345	\$ 7,453,965	\$ (380)
Alternative investments	16,511,215	22,287,913	5,776,698
Equities and equity mutual funds	<u>30,764,685</u>	<u>31,056,343</u>	<u>291,658</u>
Total unrestricted	<u>54,730,245</u>	<u>60,798,221</u>	<u>6,067,976</u>
	2006		
	Restricted		
	Cost	Fair Value	Unrealized Appreciation (Depreciation)
Fixed income	111,447	110,749	(698)
Equities and equity mutual funds	<u>138,054</u>	<u>198,709</u>	<u>60,655</u>
Total restricted	<u>249,501</u>	<u>309,458</u>	<u>59,957</u>
Total investments, December 31, 2006	<u>\$ 54,979,746</u>	<u>\$ 61,107,679</u>	<u>\$ 6,127,933</u>

FOUNDATION FOR SEACOAST HEALTH AND SUBSIDIARY

Notes to Consolidated Financial Statements

Years Ended December 31, 2006 and 2005

3. INVESTMENTS...continued

	2005		
	Unrestricted		
	Cost	Fair Value	Unrealized Appreciation (Depreciation)
Fixed income mutual funds	\$ 8,239,659	\$ 8,106,335	\$ (133,324)
Alternative investments	16,083,922	21,757,467	5,673,545
Equities and equity mutual funds	<u>27,152,288</u>	<u>26,349,908</u>	<u>(802,380)</u>
Total unrestricted	<u>51,475,869</u>	<u>56,213,710</u>	<u>4,737,841</u>
	2005		
	Restricted		
	Cost	Fair Value	Unrealized Appreciation (Depreciation)
Fixed income	111,441	111,808	367
Equities and equity mutual funds	<u>142,888</u>	<u>183,807</u>	<u>40,919</u>
Total restricted	<u>254,329</u>	<u>295,615</u>	<u>41,286</u>
Total investments, December 31, 2005	<u>\$51,730,198</u>	<u>\$56,509,325</u>	<u>\$ 4,779,127</u>

Alternative investments consist primarily of investments in limited partnership investment funds and common trust funds. Substantially all of the underlying net assets of the partnership investment funds and common trust funds are comprised of readily marketable securities, which are valued on a mark-to-market basis. The Foundation may only redeem approximately \$12,690,000 of these investments upon the expiration of certain lock-up periods, which vary between December 31, 2007 and 2009.

4. PROPERTY AND EQUIPMENT

At December 31, 2006 and 2005, property and equipment consists of the following:

	2006	2005	Asset Life
Land	\$ 3,006,580	\$ 3,006,580	-
Land improvements	2,065,308	2,030,391	15 years
Equipment and furniture and fixtures	1,169,584	1,107,698	3-7 years
Building	<u>10,129,871</u>	<u>10,129,871</u>	39 years
	16,371,343	16,274,540	
Less - accumulated depreciation	<u>3,778,593</u>	<u>3,389,890</u>	
	<u>\$12,592,750</u>	<u>\$12,884,650</u>	

Included in buildings is capitalized interest of \$518,266 related to interest incurred during the construction of the Community Campus.

FOUNDATION FOR SEACOAST HEALTH AND SUBSIDIARY

Notes to Consolidated Financial Statements

Years Ended December 31, 2006 and 2005

5. 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).

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 \$115,879 and \$54,381 in 2006 and 2005, respectively.

In addition, the IRC requires that certain minimum distributions be made in accordance with a specified formula. The Foundation made sufficient distributions during 2006 and 2005 to meet the requirements of the IRC.

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 \$24,000 in both 2006 and 2005.

The Foundation adopted an unfunded deferred compensation plan during 2003. Employees become a participant in the plan effective on the first day of the plan year in which they are designated by the Board of Trustees to be a participant. At December 31, 2006 and 2005, there was only one participant in the plan. The Foundation will make a contribution of \$40,000 on behalf of the participant for each of the five years prior to the participant's normal retirement date. The participant has a nonforfeitable right to 100% of her account at her retirement date, provided she is still employed at that date. However, the participant is an unsecured creditor of the Foundation for the amount of her deferred compensation. During both 2006 and 2005, the Foundation expensed \$40,000 related to the plan. At December 31, 2006 and 2005, \$160,000 and \$120,000, respectively, was reflected as deferred compensation and is included in accounts payable and accrued liabilities in the accompanying Consolidated Statement of Financial Position.

FOUNDATION FOR SEACOAST HEALTH AND SUBSIDIARY

Notes to Consolidated Financial Statements

Years Ended December 31, 2006 and 2005

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 bonds are due and payable June 1, 2028. The bonds are secured by a letter of credit (Credit Facility) with Bank of America (the Bank). The bonds bear interest as defined in the Agreement and are convertible to a fixed rate upon election of the Foundation of its right to convert and upon compliance with the provisions of the Agreement. During 2006, the interest rate for the 1998A Bonds varied between 2.96% and 4.00% and the interest rate for the 1998B Bonds varied between 4.50% and 5.50%. Interest expense incurred in conjunction with these bonds during the years ended December 31, 2006 and 2005 amounted to \$710,959 and \$640,335, 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 the Bank or expiration of the Credit Facility with the 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, 2006, the Foundation had an unused letter of credit with the Bank in the amount of \$15,018,750. Investments with a minimum market value of \$8,340,000 are pledged as security for draws upon the letter of credit with respect to the 1998B Bonds. The letter of credit was renewed in 2003 and expires in June 2008. The Foundation is required to maintain certain liquidity requirements under the terms of this letter of credit. As of December 31, 2006, the Foundation was in compliance with these requirements and no amounts were outstanding under this letter of credit.

Upon the issuance of the bonds, bond issuance costs of approximately \$280,000 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 financial statements. The bond issuance costs are being amortized using the effective-interest method over the term of the bonds.

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. The Foundation will continue to monitor the potential arbitrage over the term of the bonds.

FOUNDATION FOR SEACOAST HEALTH AND SUBSIDIARY

Notes to Consolidated Financial Statements

Years Ended December 31, 2006 and 2005

8. DEFINED BENEFIT PENSION PLAN

The Foundation adopted a funded noncontributory defined benefit pension plan in 2003. The plan covers all employees that have met the age and eligibility requirements. The plan provides pension benefits that are based upon the employees' compensation and years of service. The annual measurement date is December 31.

Plan obligations and funded status at December 31, 2006 and 2005:

	<u>2006</u>	<u>2005</u>
Change in benefit obligation:		
Benefit obligation at beginning of year	\$ 164,213	\$ 105,514
Service cost	57,586	51,556
Interest cost	8,463	6,241
Actuarial (gain)/loss	(23,400)	4,783
Benefits paid	<u>(398)</u>	<u>(3,881)</u>
Benefit obligation at end of year	<u>206,464</u>	<u>164,213</u>
Change in plan assets:		
Fair value of plan assets at beginning of year	186,203	132,648
Actual return on plan assets	26,723	8,532
Employer contributions	45,076	48,904
Benefits paid	<u>(398)</u>	<u>(3,881)</u>
Fair value of plan assets at end of year	<u>257,604</u>	<u>186,203</u>
Reconciliation of funded status:		
Funded status	51,140	21,990
Unrecognized actuarial (gain) loss	<u>(25,590)</u>	<u>8,737</u>
Net prepaid benefit cost	<u>\$ 25,550</u>	<u>\$ 30,727</u>

The net prepaid benefit cost is included in prepaid expenses on the balance sheet as of December 31, 2006 and 2005.

The accumulated benefit obligation was \$183,413 and \$144,406 at December 31, 2006 and 2005, respectively.

Weighted-average assumptions used to determine benefit obligations at December 31, 2006 and 2005:

	<u>2006</u>	<u>2005</u>
Discount rate	6.00%	5.75%
Rate of compensation increase	3.00%	3.00%

FOUNDATION FOR SEACOAST HEALTH AND SUBSIDIARY

Notes to Consolidated Financial Statements

Years Ended December 31, 2006 and 2005

8. DEFINED BENEFIT PENSION PLAN...continued

Components of net periodic benefit cost for the years ended December 31, 2006 and 2005:

	<u>2006</u>	<u>2005</u>
Service cost	\$ 57,586	\$ 51,556
Interest cost	8,463	6,241
Expected return on plan assets	<u>(15,796)</u>	<u>(11,630)</u>
Net periodic benefit cost	<u>\$ 50,253</u>	<u>\$ 46,167</u>

Weighted-average assumptions used to determine net periodic benefit costs for the years ended December 31, 2006 and 2005:

	<u>2006</u>	<u>2005</u>
Discount rate	5.75%	6.00%
Expected long-term rate of return on plan assets	7.50%	7.50%
Rate of compensation increase	3.00%	3.00%

The 7.50% expected long-term rate of return assumption was derived from historical rates on stocks, government bonds, and 30-day treasury bills, assuming the portfolio was comprised of 100% in balanced mutual funds.

At December 31, 2006, 100% of the plan's assets are invested in mutual funds. The Plan's investment policy for plan assets is designed to maximize total return while preserving the capital values of the funds, protecting the funds from inflation, and providing liquidity as needed for plan benefits. The objective is to provide a rate of return that meets or exceeds the actuarial rate of return. Control of volatility will be achieved through diversification of asset classes. Target asset allocation is a mix of 60% equities and 40% fixed income, and may be achieved through the use of balanced funds, if necessary, due to fund size constraints.

The estimated future benefit payments for the fiscal years ending December 31:

2007	\$ -
2008	14,797
2009	14,618
2010	19,151
2011	18,866
2012 through 2016	144,509

The expected contributions to the plan for the year ending December 31, 2007 are \$50,000.

FOUNDATION FOR SEACOAST HEALTH AND SUBSIDIARY

Notes to Consolidated Financial Statements

Years Ended December 31, 2006 and 2005

9. CONTINGENCIES

The Foundation is pursuing legal action to enforce its right of first refusal to purchase the tangible assets of the Portsmouth Hospital pursuant to an asset purchase agreement. This matter is currently in the discovery phase and the ultimate outcome on this matter is not presently determinable.