Foundation for Seacoast Health and Subsidiary

Consolidated Financial Statements

Years Ended December 31, 2007 and 2006

VITALE, CATURANO & COMPANY Ltd

FOUNDATION FOR SEACOAST HEALTH AND SUBSIDIARY

CONSOLIDATED FINANCIAL STATEMENTS
Years Ended December 31, 2007 and 2006

FOUNDATION FOR SEACOAST HEALTH AND SUBSIDIARY

CONSOLIDATED FINANCIAL STATEMENTS
Years Ended December 31, 2007 and 2006

CONTENTS

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 statements of financial position of Foundation for Seacoast Health (a New Hampshire nonprofit corporation) and Subsidiary (the Foundation) as of December 31, 2007, 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 2006 consolidated financial statements and, in our report dated March 19, 2007, 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, 2007, 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 20 2008
Boston, Massachusetts

FOUNDATION FOR SEACOAST HEALTH AND SUBSIDIARY

Consolidated Statements of Financial Position
December 31, 2007
With Summarized Comparative Totals for the Year Ended December 31, 2006

	2007	2006
ASSETS		
Cash and cash equivalents	**$ 481,652**	$ 223,060
Accrued interest and dividends receivable	**25,510**	47,591
Other receivables	**4,661**	1,347
Prepaid expenses	**89,725**	46,201
Investments, at fair value	**61,984,224**	61,107,679
Property and equipment, net of accumulated depreciation	**12,339,152**	12,592,750
Other assets, net	**197,634**	186,869
	$ 75,122,558	$ 74,205,497
LIABILITIES AND NET ASSETS		
Liabilities:		
Accounts payable and accrued liabilities	**$ 436,004**	$ 636,217
Grants and scholarships payable	**450,000**	472,000
Interest rate swap	**97,792**	82,320
Deferred excise taxes	**187,013**	-
Series A and B variable rate bonds	**14,795,000**	14,795,000
Total liabilities	**15,965,809**	15,985,537
Net assets:		
Unrestricted	**58,885,406**	57,880,468
Temporarily restricted	**271,343**	339,492
Total net assets	**59,156,749**	58,219,960
	$ 75,122,558	$ 74,205,497

FOUNDATION FOR SEACOAST HEALTH AND SUBSIDIARY

Consolidated Statements of Activities and Changes in Net Assets
Year Ended December 31, 2007
With Summarized Comparative Totals for the Year Ended December 31, 2006

	2007			2006
	Unrestricted	Temporarily Restricted	Total	Total
Operating activities:				
Revenues, gains (losses) and other support:				
Interest	$ 22,572	$ 1,850	$ 24,422	$ 32,868
Dividends	1,248,425	5,898	1,254,323	1,035,621
Net capital gain distributions	2,269,522	71	2,269,593	1,736,391
Net realized gains (losses) on sale of investments	(1,207,400)	64,042	(1,143,358)	3,137,111
Net unrealized gains on investments	3,273,880	(51,196)	3,222,684	1,348,806
Rental income	349,622	-	349,622	292,714
Other income	280,162	11,186	291,348	283,803
Net assets released from restrictions	100,000	(100,000)	-	-
Total revenues, gains (losses) and other support	6,336,783	(68,149)	6,268,634	7,867,314
Program expenditures:				
Grants	926,995	-	926,995	965,320
Scholarships	10,000	-	10,000	10,000
Other	7,592	-	7,592	11,385
Total program expenditures	944,587	-	944,587	986,705
Community campus expenses:				
Interest expense and financing costs	825,344	-	825,344	824,417
Depreciation	426,429	-	426,429	447,015
Other operating expenses	1,160,840	-	1,160,840	1,158,613
Total community campus expenses	2,412,613	-	2,412,613	2,430,045
General and administrative expenses:				
Salaries and employee benefits	370,786	-	370,786	334,438
Trust management and investment fees	109,466	-	109,466	118,963
Depreciation	911	-	911	3,134
Other expenses	1,292,229	-	1,292,229	556,016
Total general and administrative expenses	1,773,392	-	1,773,392	1,012,551
Excess of revenues, gains (losses) and other support over expenses from operations	1,206,191	(68,149)	1,138,042	3,438,013
Nonoperating activities:				
Net gain on pension plan assets	15,475	-	15,475	-
Adjustment for the adoption of SFAS 158	10,115	-	10,115	-
Change in fair value of interest rate swap	(15,472)	-	(15,472)	123,836
Total nonoperating activities	10,118	-	10,118	123,836
Excess of revenues, gains (losses) and other support over nonoperating activities	1,216,309	(68,149)	1,148,160	3,561,849
Provision for federal excise taxes	211,371	-	211,371	115,879
Change in net assets	1,004,938	(68,149)	936,789	3,445,970
Net assets, beginning of year	57,880,468	339,492	58,219,960	54,773,990
Net assets, end of year	$ 58,885,406	$ 271,343	$ 59,156,749	$ 58,219,960

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

FOUNDATION FOR SEACOAST HEALTH AND SUBSIDIARY

Consolidated Statements of Cash Flows
Year Ended December 31, 2007
With Summarized Comparative Totals for the Year Ended December 31, 2006

	2007	2006
Cash flows from operating activities:		
Change in net assets	**$ 936,789**	$ 3,445,970
Adjustments to reconcile change in net assets to net cash used in operating activities:		
Change in fair value of interest rate swap	**15,472**	(123,836)
Net gain on pension plan assets	**(15,475)**	-
Adjustment for the adoption of SFAS 158	**(10,115)**	-
Depreciation	**427,340**	450,149
Amortization	**16,330**	11,945
Net realized (gains) losses on sale of investments	**1,143,358**	(3,137,111)
Net capital gain distributions	**(2,269,593)**	(1,736,391)
Net unrealized gains on investments	**(3,222,684)**	(1,348,806)
Deferred excise taxes	**187,013**	-
Changes in assets and liabilities:		
(Increase) decrease in:		
Accrued interest and dividends receivable	**22,081**	35,790
Other receivables	**(3,314)**	8,255
Prepaid expenses	**(17,934)**	(15,474)
Other assets	**(27,095)**	-
Increase (decrease) in:		
Grants payable	**(22,000)**	(28,587)
Accounts payable and accrued liabilities	**(200,213)**	357,563
Net cash used in operating activities	**(3,040,040)**	(2,080,533)
Cash flows from investing activities:		
Capital expenditures	**(173,742)**	(158,249)
Purchase of investments	**(17,111,654)**	(17,498,120)
Proceeds from sale or maturity of investments	**20,584,028**	19,122,074
Net cash provided by investing activities	**3,298,632**	1,465,705
Net increase (decrease) in cash and cash equivalents	**258,592**	(614,828)
Cash and cash equivalents, beginning of year	**223,060**	837,888
Cash and cash equivalents, end of year	**$ 481,652**	$ 223,060
Supplemental disclosure of cash flow information:		
Cash paid during the year for:		
Excise taxes	**$ 88,694**	$ 115,879
Interest	**$ 715,549**	$ 710,959

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, 2007 and 2006

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 POLICIES

Basis 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.

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

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.

FOUNDATION FOR SEACOAST HEALTH AND SUBSIDIARY

Notes to Consolidated Financial Statements
Years Ended December 31, 2007 and 2006

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES...continued

Financial Statement Presentation...continued

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, 2007 and 2006 are restricted for indigent care.

Permanently 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, 2007 and 2006.

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, 2006, 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.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES...continued

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).

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 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 $194,000 and $242,000 in 2007 and 2006, 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, 2007 and 2006 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, 2007 and 2006. Fair values are estimated based on current market rates and prices.

FOUNDATION FOR SEACOAST HEALTH AND SUBSIDIARY
Notes to Consolidated Financial Statements
Years Ended December 31, 2007 and 2006

---

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES...continued

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.

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).

Excise Taxes

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

Defined Benefit Plan

In September 2006, the FASB issued SFAS 158, *"Employers' Accounting for Defined Benefit Pension and Other Postretirement Plans – an amendment of FASB Statements No. 87, 88, 106, and 132(R)* (SFAS 158)*."* SFAS 158 requires an employer to recognize the funded status of a benefit plan, measured as the difference between plan assets at fair value and the projected benefit obligation, in its statement of financial position. SFAS 158 also requires an employer to measure defined benefit plan assets and obligations as of the date of the employer's fiscal year-end statement of financial position. This statement is effective as of the end of the fiscal year ending after June 15, 2007. The impact of adopting SFAS 158 is described in Note 8.

Interest 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.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES...continued

Interest Rate Swap...continued

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, 2007 and 2006 is as follows:

	2007		
	Unrestricted		
	Cost	Fair Value	Unrealized Appreciation (Depreciation)
Fixed income mutual funds	$ 6,192,545	$ 5,987,331	$ (205,214)
Alternative investments	16,393,624	24,040,333	7,646,709
Equities and equity mutual funds	29,883,286	31,783,650	1,900,364
Total unrestricted	52,469,455	61,811,314	9,341,859
	2007		
	Restricted		
	Cost	Fair Value	Unrealized Appreciation (Depreciation)
Fixed income	57,535	58,348	813
Equities and equity mutual funds	106,616	114,562	7,946
Total restricted	164,151	172,910	8,759
Total investments, December 31, 2007	$52,633,606	$61,984,224	$ 9,350,618

FOUNDATION FOR SEACOAST HEALTH AND SUBSIDIARY

Notes to Consolidated Financial Statements
Years Ended December 31, 2007 and 2006

3. **INVESTMENTS**...continued

	2006 Unrestricted Cost		Unrealized Appreciation (Depreciation)
	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	30,764,685	31,056,343	291,658
Total unrestricted	54,730,245	60,798,221	6,067,976

	2006 Restricted		
	Cost	Fair Value	Unrealized Appreciation (Depreciation)
Fixed income	111,447	110,749	(698)
Equities and equity mutual funds	138,054	198,709	60,655
Total restricted	249,501	309,458	59,957
Total investments, December 31, 2006	$54,979,746	$ 61,107,679	$ 6,127,933

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 $12,039,000 of these investments upon the expiration of certain lock-up periods, which vary between December 31, 2008 and 2010.

4. **PROPERTY AND EQUIPMENT**

At December 31, 2007 and 2006, property and equipment consists of the following:

	2007	2006	Asset Life
Land	$ 3,006,580	$ 3,006,580	-
Land improvements	2,117,270	2,065,308	15 years
Equipment and furniture and fixtures	1,291,365	1,169,584	3-7 years
Building	10,129,871	10,129,871	39 years
	16,545,086	16,371,343	
Less - accumulated depreciation	4,205,934	3,778,593	
	$12,339,152	$12,592,750	

5. EXCISE TAXES

In accordance with the applicable provisions of the IRC, the Foundation is subject to an excise tax on net investment income, as defined in the IRC. Accordingly, federal excise taxes have been provided in the amount of $211,371 and $115,879 in 2007 and 2006, respectively.

In addition, the IRC requires that certain minimum distributions be made in accordance with a specified formula. The Foundation made sufficient distributions during 2007 and 2006 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 2007 and 2006.

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, 2007 and 2006, 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 2007 and 2006, the Foundation expensed $40,000 related to the plan. At December 31, 2007 and 2006, $200,000 and $160,000, respectively, was reflected as deferred compensation and is included in accounts payable and accrued liabilities in the accompanying Consolidated Statement of Financial Position.

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 ("Bank A").

7. DEBT...continued

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 2007, the interest rate for the 1998A Bonds varied between 3.13% and 3.98% and the interest rate for the 1998B Bonds varied between 3.48% and 5.78%. Interest expense incurred in conjunction with these bonds during the years ended December 31, 2007 and 2006 amounted to $715,549 and $710,959, respectively. The bonds are redeemable prior to maturity at the option of the Foundation, in whole or in part, before the fixed rate conversion date at a redemption price equal to the principal amount redeemed, plus accrued interest to the redemption date, or after the fixed rate conversion date at varying amounts up to 102% of outstanding principal. The redemption may only be satisfied through the Credit Facility in denominations of $100,000 or any $5,000 multiple thereof. The bonds are mandatorily redeemable in the event of bankruptcy of Bank A or expiration of the Credit Facility with Bank A and failure of the Foundation to provide a substitute credit facility, at a redemption price equal to 100% of the principal amount redeemed, plus accrued interest to the redemption date.

At December 31, 2007, the Foundation had an unused letter of credit with Bank A 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 2007 and expires in June 2012. The Foundation is required to maintain certain liquidity requirements under the terms of this letter of credit.

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, 2008, 2009, 2010, 2011 and 2012 will be $8,483, and thereafter will be $130,778.

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.

At December 31, 2007, the Foundation had an unsecured, unused letter of credit with Centrix Bank ("Bank B") in the amount of $312,000. The letter of credit expires in December 2009. The Foundation is required to maintain certain covenant requirements under the terms of this letter of credit.

FOUNDATION FOR SEACOAST HEALTH AND SUBSIDIARY

Notes to Consolidated Financial Statements
Years Ended December 31, 2007 and 2006

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.

The following table shows the incremental effect of adopting SFAS 158 (see Note 2) on individual line items within the consolidated statements of financial position as of December 31, 2007:

	Balance before SFAS 158 Adoption	SFAS 158 Adoption Adjustment	Balance after SFAS 158 Adoption
Prepaid pension costs	$ 12,154	$ 10,115	$ 22,269
Total assets	75,112,443	10,115	75,122,558
Unrestricted net assets	58,875,291	10,115	58,885,406
Total net assets	59,146,634	10,115	59,156,749
Total liabilities and net assets	75,112,443	10,115	75,122,558

Plan obligations and funded status at December 31, 2007 and 2006:

	2007	2006
Change in benefit obligation:		
Benefit obligation at beginning of year	$ 206,464	$ 164,213
Service cost	62,445	57,586
Interest cost	12,200	8,463
Actuarial (gain)/loss	4,872	(23,400)
Benefits paid	-	(398)
Benefit obligation at end of year	285,981	206,464
Change in plan assets:		
Fair value of plan assets at beginning of year	257,604	186,203
Actual return on plan assets	10,603	26,723
Employer contributions	40,043	45,076
Benefits paid	-	(398)
Fair value of plan assets at end of year	308,250	257,604
Funded status	$ 22,269	$ 51,140

The net prepaid benefit cost is a noncurrent asset and is included in prepaid expenses on the consolidated statements of financial position as of December 31, 2007 and 2006.

FOUNDATION FOR SEACOAST HEALTH AND SUBSIDIARY
Notes to Consolidated Financial Statements
Years Ended December 31, 2007 and 2006

8. DEFINED BENEFIT PENSION PLAN...continued

The accumulated benefit obligation was $262,082 and $183,413 at December 31, 2007 and 2006, respectively.

Weighted-average assumptions used to determine benefit obligations at December 31, 2007 and 2006:

	2007	2006
Discount rate	5.75%	6.00%
Rate of compensation increase	3.00%	3.00%

Components of net periodic benefit cost for the years ended December 31, 2007 and 2006:

	2007	2006
Service cost	$ 62,445	$ 57,586
Interest cost	12,200	8,463
Expected return on plan assets	(20,947)	(15,796)
Amortization on net (gain) loss	(259)	-
Net periodic benefit cost	$ 53,439	$ 50,253

Other changes in plan assets and benefit obligations recognized in changes in unrestricted net assets for the years ended December 31, 2007 and 2006:

	2007	2006
Net periodic benefit cost	$ 53,439	$ 50,253
Net loss (gain)	15,475	(34,327)
Total recognized in changes in unrestricted net assets	$ 68,914	$ 15,926

The estimated net loss, prior service cost and transition obligation for the plan that will be amortized from accumulated other comprehensive income into net periodic benefit costs over the next fiscal year are $1,593, $0 and $0, respectively.

Weighted-average assumptions used to determine net periodic benefit costs for the years ended December 31, 2007 and 2006:

	2007	2006
Discount rate	6.00%	5.75%
Expected long-term rate of return on plan assets	7.50%	7.50%
Rate of compensation increase	3.00%	3.00%
Average future years of service	11.4000	10.2500

8. DEFINED BENEFIT PENSION PLAN...continued

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, 2007 and 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:

2008	$ 15,000
2009	14,000
2010	19,000
2011	19,000
2012	18,000
2013 through 2017	157,000

The expected employer contributions to the plan for the year ending December 31, 2008 are unknown. No plan assets are expected to be returned to the Foundation during the year ending December, 31, 2008.

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 before the New Hampshire Supreme Court and the ultimate outcome is not presently determinable.