MARCH OF DIMES FOUNDATION

Financial Statements

December 31, 2012

(With Independent Auditors' Report Thereon)

KPMG

KPMG LLP
345 Park Avenue
New York, NY 10154-0102

Independent Auditors' Report

The Board of Trustees
March of Dimes Foundation:

We have audited the accompanying financial statements of the March of Dimes Foundation, which comprise the balance sheet as of December 31, 2012, and the related statements of activities, functional expenses, 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 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 financial statements that are free from material misstatement, whether due to fraud or error.

Auditors' Responsibility

Our responsibility is to express an opinion on these financial statements based on our audit. We conducted our audit in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditors' judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the organization's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the organization's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

KPMG

Opinion

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of March of Dimes Foundation as of December 31, 2012, and the changes in its net assets and its cash flows for the year then ended in accordance with U.S. generally accepted accounting principles.

Report on Summarized Comparative Information

We have previously audited the March of Dimes Foundation's 2011 financial statements, and we expressed an unmodified audit opinion on those audited financial statements in our report dated April 24, 2012. In our opinion, the summarized comparative information presented herein as of and for the year ended December 31, 2011 is consistent, in all material respects, with the audited financial statements from which it has been derived.

KPMG LLP

April 17, 2013

MARCH OF DIMES FOUNDATION

Balance Sheet

December 31, 2012, with comparative amounts as of December 31, 2011

(amounts in thousands)

Assets	**2012**	**2011**
Cash and cash equivalents	$ 15,882	$ 13,501
Sponsorships and other receivables	8,110	6,515
Inventory and other assets	6,166	6,330
Investments (note 2)	100,241	105,695
Assets held in trust by others (notes 2 and 4)	10,052	9,136
Land, building and equipment - net (note 5)	15,071	15,003
Total assets	$ 155,522	$ 156,180

Liabilities and Net Assets		
Accounts payable and accrued expenses	$ 11,484	$ 11,242
Grants and awards payable - net (note 3)	21,421	22,317
Refundable advances and deferred revenue	1,408	1,426
Mortgage note payable (note 6)	-	800
Accrued pension and postretirement benefit obligation (note 10)	114,430	108,462
Total liabilities	148,743	144,247
Commitments and contingencies (notes 7, 9 and 10)		
Net assets:		
Unrestricted:		
Operating	106,677	106,846
Accrued pension and postretirement benefit obligation	(114,430)	(108,462)
Total unrestricted	(7,753)	(1,616)
Temporarily restricted (note 4)	2,711	2,204
Permanently restricted (note 4)	11,821	11,345
Total net assets	6,779	11,933
Total liabilities and net assets	$ 155,522	$ 156,180

See accompanying notes to financial statements.

MARCH OF DIMES FOUNDATION

Statement of Activities

Year ended December 31, 2012, with summarized totals for the year ended December 31, 2011

(amounts in thousands)

	Unrestricted	Temporarily Restricted	Permanently Restricted	2012 Total	2011 Total
Operating Activity					
Revenue:					
Campaign contributions and sponsorships	$ 200,854	$ 134	$ -	$ 200,988	$ 198,524
Less: direct benefits to donors and sponsors	(14,194)	-	-	(14,194)	(13,422)
Net campaign contributions and sponsorships	186,660	134	-	186,794	185,102
Bequests	1,862	881	-	2,743	5,809
Government, foundation and corporate grants	1,808	1,392	-	3,200	3,117
Major gifts and other contributions	4,263	1,960	12	6,235	6,329
Contributed materials and services	2,600	-	-	2,600	2,589
Investment return appropriated for operations (note 2)	4,751	449	-	5,200	5,000
Program service revenue	1,747	-	-	1,747	1,881
Other	1,462	-	-	1,462	1,315
Net assets released from restrictions	4,311	(4,311)	-	-	-
Total revenue	209,464	505	12	209,981	211,142
Expenses (note 8):					
Program services:					
Research and medical support	30,360	-	-	30,360	30,853
Public and professional education	83,608	-	-	83,608	79,030
Community services	53,109	-	-	53,109	49,252
Total program services	167,077	-	-	167,077	159,135
Supporting services:					
Management and general	22,701	-	-	22,701	22,646
Fund raising	30,631	-	-	30,631	28,098
Total supporting services	53,332	-	-	53,332	50,744
Total expenses	220,409	-	-	220,409	209,879
(Deficiency) excess of operating revenue over expenses	(10,945)	505	12	(10,428)	1,263
Non-operating Activity					
Investment return greater than (less than) amount appropriated for operations (note 2)	8,493	-	-	8,493	(9,091)
Net increase (decrease) in fair value of assets held in trust by others	-	2	464	466	(281)
Pension and postretirement costs other than net periodic benefit costs (note 10)	(3,685)	-	-	(3,685)	(33,654)
(Decrease) increase in net assets	(6,137)	507	476	(5,154)	(41,763)
Net assets at beginning of year	(1,616)	2,204	11,345	11,933	53,696
Net assets at end of year	$ (7,753)	$ 2,711	$ 11,821	$ 6,779	$ 11,933

See accompanying notes to financial statements.

MARCH OF DIMES FOUNDATION
Statement of Functional Expenses
Year ended December 31, 2012, with summarized totals for 2011

(amounts in thousands)

	Program Services				Supporting Services					Direct Benefits to Donors and Sponsors	
	Research and Medical Support	Public and Professional Education	Community Services	Total	Management and General	Fund Raising	Total	Total 2012	Total 2011	2012	2011
Grants and awards	$ 22,613	$ 4,253	$ 2,077	$ 28,943	-	-	-	$ 28,943	$ 29,904	-	-
Salaries and employee benefits	4,209	40,266	36,962	81,437	$ 12,178	$ 12,519	$ 24,697	106,134	96,095	-	-
Professional fees	1,831	9,319	3,444	14,594	2,936	6,723	9,659	24,253	21,786	-	-
Printing, supplies, postage and shipping	191	19,750	1,334	21,275	4,468	8,312	12,780	34,055	34,481	$ 3,984	$ 3,731
Occupancy and telephone	185	3,488	4,050	7,723	1,058	1,161	2,219	9,942	10,959	-	-
Travel, lodging, conferences and meetings	792	4,126	3,630	8,548	897	1,029	1,926	10,474	9,982	-	-
Equipment and maintenance	97	712	771	1,580	420	309	729	2,309	2,465	-	-
Facilities rental, catering, entertainment, etc	-	-	-	-	-	-	-	-	-	10,210	9,691
Other	76	283	141	500	136	101	237	737	1,117	-	-
Depreciation of building and equipment	366	1,411	700	2,477	608	477	1,085	3,562	3,090	-	-
Total expenses	$ 30,360	$ 83,608	$ 53,109	$ 167,077	$ 22,701	$ 30,631	$ 53,332	$ 220,409	$ 209,879	$ 14,194	$ 13,422

See accompanying notes to financial statements.

MARCH OF DIMES FOUNDATION

Statement of Cash Flows

Year ended December 31, 2012, with comparative amounts for the year ended December 31, 2011

(amounts in thousands)

Cash flows from operating activities:	2012	2011
Decrease in net assets	$ (5,154)	$ (41,763)
Adjustments to reconcile decrease in net assets		
to net cash used in operating activities:		
Depreciation	3,562	3,090
Net (appreciation) depreciation in fair value of investments	(11,136)	7,561
Net (increase) decrease in fair value of assets held in trust by others	(466)	281
(Increase) decrease in sponsorships and other receivables	(1,595)	1,463
Increase in assets held in trust by others attributable to contributions	(450)	(499)
Decrease in inventory and other assets	164	588
Increase (decrease) in accounts payable and accrued expenses	242	(1,726)
Decrease in grants and awards payable	(896)	(1,016)
Decrease in refundable advances and deferred revenue	(18)	(1,685)
Increase in accrued postretirement and pension benefit obligation	5,968	33,482
Net cash used in operating activities	(9,779)	(224)
Cash flows from investing activities:		
Purchase of fixed assets	(3,630)	(2,886)
Purchase of investments	(11,684)	(28,538)
Proceeds from sale of investments	28,274	25,840
Net cash provided by (used in) investing activities	12,960	(5,584)
Cash flows from financing activities:		
Proceeds from line of credit	10,000	5,000
Payments on line of credit	(10,000)	(5,000)
Payments on mortgage note	(800)	(760)
Net cash used in financing activities	(800)	(760)
Net increase (decrease) in cash and cash equivalents	2,381	(6,568)
Cash and cash equivalents at beginning of year	13,501	20,069
Cash and cash equivalents at end of year	$ 15,882	$ 13,501
Supplemental disclosures: Interest paid	$ 67	$ 97

See accompanying notes to financial statements.

1. ORGANIZATION AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Organization

The mission of the March of Dimes Foundation (the Foundation) is to improve the health of babies by preventing birth defects and infant mortality. The Foundation carries out this mission through programs of research and medical support, community services, education, and advocacy.

The Foundation has been classified as an organization that is not a private foundation under Section 509(a)(1) and has been designated as a "publicly supported" organization under Section 170(b)(1)(A)(vi) of the U.S. Internal Revenue Code (the Code) and as such is exempt from federal income tax under Section 501(c)(3) of the Code.

The Foundation (including its National Office and Chapters) is a not-for-profit voluntary health agency and contributions to it are tax deductible as prescribed by the Code.

Basis of Presentation

The financial statements include the accounts of the Foundation's National Office and its 51 Chapters. All significant intra-Foundation accounts and transactions have been eliminated.

The accompanying financial statements have been prepared to focus on the Foundation as a whole and to present balances and transactions according to the existence or absence of donor-imposed restrictions. Accordingly, the net assets of the Foundation and changes therein are classified and reported as follows:

> Unrestricted Net Assets - Net assets resulting from revenue whose use by the Foundation is not subject to donor-imposed restrictions.
>
> Temporarily Restricted Net Assets - Net assets resulting from revenue whose use by the Foundation is limited by donor-imposed stipulations that either expire by passage of time or can be fulfilled and removed by actions of the Foundation pursuant to those donor-imposed stipulations.
>
> Permanently Restricted Net Assets - Net assets resulting from revenue whose use by the Foundation is limited by donor-imposed stipulations that neither expire by passage of time nor can be fulfilled or otherwise removed by actions of the Foundation.

Revenues are reported as increases in unrestricted net assets unless their use is limited by donor-imposed restrictions. Expenses are reported as decreases in unrestricted net assets. Gains and losses on investments are reported as increases or decreases in unrestricted net assets unless their use is restricted by donors or state law. Expirations of temporary restrictions on net assets (i.e., the donor-stipulated purpose has been fulfilled and/or the required time period has elapsed) are reported as net assets released from restrictions.

The Foundation excludes from operating activities investment return in excess of or less than the amount appropriated by the Board of Trustees for spending (see note 2), the change in fair value of

1. continued

assets held in trust by others, pension and postretirement costs other than net periodic benefit costs, and non recurring items.

Use of Estimates

The preparation of the financial statements in conformity with U.S. generally accepted accounting principles requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosures of contingencies at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. Significant estimates made in the preparation of the financial statements include the fair value of alternative investments, net realizable value of receivables, pension and postretirement benefit costs and liabilities, and functional expense allocations. Actual results may differ from those estimates.

Cash Equivalents

Cash equivalents consist of money market accounts and short-term investments with original maturities of three months or less from date of purchase, except for such investments purchased by the Foundation and its investment manager as part of a long-term investment strategy.

Inventory

Inventory is stated at the lower of cost or market.

Fair Value of Financial Instruments

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 at the measurement date. It prioritizes the inputs to the valuation techniques used to measure fair value by giving the highest priority to unadjusted quoted prices in active markets for identical assets or liabilities (Level 1 measurements) and the lowest priority to measurements involving significant unobservable inputs (Level 3 measurements).

The three levels of the fair value hierarchy are as follows:

Level 1 Inputs that reflect unadjusted quoted prices in active markets for identical assets or liabilities that the Foundation has the ability to access at the measurement date;

Level 2 Inputs other than quoted prices that are observable for the asset or liability either directly or indirectly, including inputs in markets that are not considered to be active;

Level 3 Inputs that are unobservable.

1. continued

The Foundation follows the accounting standards of *Fair Value Measurements and Disclosures – Investments in Certain Entities That Calculate Net Asset Value per Share (or its Equivalent).* This guidance allows, as a practical expedient, for the estimation of fair value of investments in investment companies for which the investment does not have a readily determinable fair value using net asset value per share or its equivalent as reported by the investment managers.

Most investments classified in Levels 2 and 3 consist of shares or units in investment funds as opposed to direct interests in the funds' underlying holdings, which may be marketable. Because the net asset value reported by each fund is used as a practical expedient to estimate fair value of the Foundation's interest therein, its classification in Level 2 or 3 is based on the Foundation's ability to redeem its interest at or near the date of the balance sheet. If the interest can be redeemed in the near term, the investment is classified in Level 2. If the interest cannot be redeemed in the near term, the investment is classified in Level 3. The classification of investments in the fair value hierarchy is not necessarily an indication of the risks, liquidity, or degree of difficulty in estimating the fair value of each investment's underlying assets and liabilities.

Investments

Investments are stated at fair value based upon quoted market prices except for the fair values of institutional mutual funds and alternative investments, which are based on net asset values provided by the fund managers and general partners, respectively, based upon the underlying net assets of the funds. These values are reviewed and evaluated by management. Investments in alternative investments are generally less liquid than other investments and the reported fair value may differ from the values that would have been reported had a ready market for these securities existed. The Foundation's institutional mutual funds and alternative investments, including those held in the pension plan, follow these basic strategies, as follows:

Fixed income – include investments in funds with the objective to achieve performance consistent with major bond index funds.

Domestic equity – represent investments in actively managed portfolios seeking to outperform market indices while focusing on risk reduction, cost minimization and trade effectiveness.

Long/short equity – primarily investments in marketable securities, attempting to realize gains through the identification of under or over valued securities.

International – primarily include investments in publicly traded international equity securities.

Multi-strategy hedge funds – represent investments through fund of funds with individual managers who employ a broad range of investment strategies that seek to benefit from opportunities as they occur in the markets due to temporary dislocations or structural inefficiencies and include event-driven strategies, distressed debt, merger and other arbitrage, and value investing.

1. continued

Real estate – comprise limited liability company interests that focus on the purchase and development, improvement, and management of residential, commercial, and industrial real estate with value attempted to be realized through both rental income and gains in eventual property sale through publicly traded real estate investment trusts (REITS) and privately held properties.

Assets Held in Trusts by Others

The Foundation is named as beneficiary of several perpetual trusts and charitable remainder trusts that are administered by third parties. The perpetual trusts are reported in the permanently restricted net asset class at fair value based on quoted market prices of the underlying trust assets as provided by trustees. Distributions from these trusts are unrestricted and are reported as investment return. Those trusts in which the Foundation has a remainder interest are reported in the temporarily restricted net asset class at the present value of the estimated future benefit to be received when the trust assets are distributed.

Land, Building and Equipment

Land is reported at cost. Building, building and leasehold improvements, furniture and equipment are reported at cost less accumulated depreciation. Depreciation is provided on a straight-line basis over the estimated useful lives of the assets or the life of the lease, whichever is shorter, ranging from three to twenty-five years.

Grants Payable

Grants awarded by the Foundation usually cover a period of one to three years. The Foundation accrues grants and awards, not disbursed at year-end but specifically committed to designated grantees, at the discounted present value for those grants payable beyond one year using a risk adjusted rate.

Contributions, Bequests and Grants

Contributions, including unconditional promises to give, are recognized as revenue in the period received or pledged. Bequests are recognized as revenue when the Foundation has an irrevocable right to the gift, such as when the bequest has been through probate and declared valid. Related receivables are generally due within one year.

Government and certain foundation and corporate grants are accounted for as exchange transactions whereby revenue is recognized when related expenses are incurred. Amounts received but not yet expended are reported as refundable advances.

The Foundation receives corporate sponsorships in connection with March for Babies and other special events. Although most of these sponsorship arrangements are considered exchange transactions under which sponsors receive direct benefits, the revenue earned is reported with campaign contributions.

1. continued

In 2012 and 2011, the Foundation recognized $2,600 and $2,589, respectively, of contributed services and materials revenue (related expenses are included in professional fees, printing and travel) provided by doctors, nurses and other healthcare professionals who serve on its Research and Program Service Committees. Many other volunteers have made significant contributions of time to the Foundation's program and supporting functions. The value of these contributed services does not meet the criteria for recognition and, accordingly, is not recognized in the accompanying financial statements.

Taxes

The Foundation recognizes the benefit of tax positions when it is more likely than not that the position will be sustainable based on the merits of the position.

Comparative Information

The financial statements include certain 2011 comparative information. With respect to the statement of activities, such prior year information is not presented by net asset class and, in the statement of functional expenses, 2011 expenses by natural classification are presented in total rather than by functional category. Accordingly, such information should be read in conjunction with the Foundation's 2011 financial statements from which the summarized information was derived.

Subsequent Events

In conjunction with the preparation of the financial statements, the Foundation evaluated events subsequent to December 31, 2012 and through April 17, 2013, the date on which the financial statements were issued and determined that no additional disclosures were required.

(amounts in thousands)

2. INVESTMENTS

The following table presents the Foundation's fair value hierarchy for those assets measured at fair value as of December 31, 2012:

Investments:	Fair Value	Level 1	Level 2	Level 3
Short-term securities	$ 846	$ 846	$ -	$ -
Fixed income:				
Government securities	992	-	992	-
Domestic common stock	18,235	18,235	-	-
Publicly traded mutual funds:				
Domestic equity	6,369	6,369	-	-
Fixed income	16,517	16,517	-	-
Real estate	4,943	4,943	-	-
Commodity	4,249	4,249	-	-
International	493	493	-	-
Institutional mutual funds:				
Fixed income	6,738	-	6,738	-
International equity	13,164	-	13,164	-
Alternative investments:				
Multi-strategy hedge funds	15,654	-	15,654	-
International	12,041	-	12,041	-
Total investments	$ 100,241	$ 51,652	$ 48,589	$ -
Assets held in trust by others	$ 10,052	$ -	$ -	$ 10,052

(amounts in thousands)

2. continued

The following table presents the Foundation's fair value hierarchy for those assets measured at fair value as of December 31, 2011:

Investments:	Fair Value	Level 1	Level 2	Level 3
Short-term securities……………………………	$ 2,920	$ 2,920	$ -	$ -
Fixed income:				
Government securities………………………	1,029	-	1,029	-
Domestic common stock………………………	21,475	21,475	-	-
Publicly traded mutual funds:				
Domestic equity………………………………	3,775	3,775	-	-
Fixed income…………………………………	15,075	15,075	-	-
Real estate……………………………………	4,757	4,757	-	-
Commodity……………………………………	4,599	4,599	-	-
International…………………………………	6,908	6,908	-	-
Institutional mutual funds:				
Fixed income…………………………………	8,105	-	8,105	-
International equity…………………………	11,733	-	11,733	-
Alternative investments:				
Multi-strategy hedge funds…………………	14,393	-	14,393	-
International…………………………………	10,322	-	10,322	-
Real estate……………………………………	604	-	604	-
Total investments……………………………	$ 105,695	$ 59,509	$ 46,186	$ -
Assets held in trust by others……………………	$ 9,136	$ -	$ -	$ 9,136

(amounts in thousands)

2. continued

The following table presents a reconciliation for all Level 3 assets measured at fair value:

	Investments 2012	Investments 2011	Assets held in trust by others 2012	Assets held in trust by others 2011
Balance at January 1,	$ -	$ 7,531	$ 9,136	$ 8,918
Additions from bequests	-	-	450	499
Proceeds from sale of investments	-	(1,794)	-	-
Dividends and interest reinvestments	-	42	-	-
Net (depreciation) appreciation in fair value of investments	-	(164)	466	(281)
Transfers from Level 3 to Level 2	-	(5,615)	-	-
Balance at December 31,	$ -	$ -	$ 10,052	$ 9,136

Unrealized losses related to Level 3 assets still held at December 31 amounted to $408 for 2011 and is reflected in investment return in the accompanying statement of activities. The Foundation's policy is to record transfers from Level 3 to Level 2 on the actual date of the event or change in circumstances that caused the transfer. Transfers from Level 3 to Level 2 during fiscal 2011 were due to the expiration of lock-up requirements.

As of December 31, 2012, the following table summarizes the composition of institutional mutual funds and alternative investments at fair value by the various redemption provisions:

Redemption Period	Amount	Days notice for redemption
Daily:		
Institutional - Fixed income	$ 6,738	1
Monthly:		
Institutional - International equity	13,164	6
Alternative - International	12,041	5
Quarterly:		
Alternative - Multi-strategy	15,654	65 - 90
Total	$ 47,597	

(amounts in thousands)

2. continued

The Foundation reports as operating revenue the amount of investment return appropriated by the Board of Trustees for spending. This amount includes return on investments held as part of a long-term investment strategy as well as return on cash and cash equivalents. The difference between the actual return and the authorized spending level is reported as non-operating activity. The components of investment return are as follows:

	2012	2011
Interest and dividends	$ 2,557	$ 3,470
Net appreciation (depreciation) in fair value of investments	11,136	(7,561)
Total investment return	13,693	(4,091)
Amount appropriated for operations	(5,200)	(5,000)
Investment return greater than (less than) amount appropriated for operations	$ 8,493	$ (9,091)

3. GRANTS AND AWARDS PAYABLE

Grants and awards payable at December 31, 2012 are scheduled to be paid as follows:

Year ending December 31,	Amounts
2013	$ 16,841
2014	4,754
Discount to present value (at 3.67%)	(174)
Grants and awards payable, net	$ 21,421

The Foundation has recorded grant expense of $1,000 in both 2012 and 2011 for grants to the Salk Institute for Biological Studies. On April 12, 2011, an agreement was signed between the Foundation and the Salk Institute for an annual $1,000 conditional grant. The agreement supports research at the Salk Institute from 2011 through 2025 based upon conditions included in the agreement. The grant expense is recognized annually as the conditions are assessed and determined to have been met. The President of the Foundation is a volunteer board member of the Salk Institute.

(amounts in thousands)

4. TEMPORARILY AND PERMANENTLY RESTRICTED NET ASSETS

Temporarily restricted net assets at December 31, 2012 and 2011 were available for the following purposes:

	2012	2011
Remainder trusts in the custody of others	$ 1,841	$ 1,389
Chapter programs and other	870	815
Total	$ 2,711	$ 2,204

Permanently restricted net assets at December 31, 2012 and 2011 consist of perpetual trusts held by others of $8,211 and $7,747, respectively, and donor-restricted endowments of $3,610 and $3,598, respectively.

Endowment

The Foundation's endowments consist of 21 individual donor-restricted funds established for a variety of purposes, principally research. As required by generally accepted accounting principles (GAAP), net assets associated with endowment funds are classified and reported based on the existence or absence of donor-imposed restrictions. The Foundation has no board designated endowment funds.

Interpretation of Relevant Law

The Foundation's endowment is subject to the provisions of the New York Prudent Management of Institutional Funds Act (NYPMIFA), which imposes guidelines on the management and investment of endowment funds. The Foundation classifies as permanently restricted net assets (a) the original value of gifts to the permanent endowment, (b) the original value of subsequent gifts to the permanent endowment, and (c) accumulations of investment returns on the permanent endowment made in accordance with the direction of the applicable donor gift instrument, when applicable. The remaining portion of the donor-restricted endowment fund that is not classified in permanently restricted net assets is classified in temporarily restricted net assets until those amounts are appropriated for expenditures. Such amounts recorded in temporarily restricted net assets are released from restriction when the donor stipulated purpose has been fulfilled and/or the amount has been appropriated in compliance with the Board of Trustees approved spending policy.

(amounts in thousands)

4. continued

The following table presents changes in endowments for the year ended December 31, 2012:

	Unrestricted	Temporarily restricted	Permanently restricted	Total
Endowment net assets at January 1, 2012	$ (54)	$ -	$ 3,598	$ 3,544
Investment income	-	103	-	103
Net appreciation (realized and unrealized)	54	433	-	487
Contributions	-	-	12	12
Appropriation of endowment assets for expenditure	-	(205)	-	(205)
Endowment net assets at December 31, 2012	$ -	$ 331	$ 3,610	$ 3,941

The following table presents changes in endowments for the year ended December 31, 2011:

	Unrestricted	Temporarily restricted	Permanently restricted	Total
Endowment net assets at January 1, 2011	$ -	$ -	$ 3,586	$ 3,586
Investment income	-	96	-	96
Net depreciation (realized and unrealized)	(54)	(96)	-	(150)
Contributions	-	-	12	12
Appropriation of endowment assets for expenditure	-	-	-	-
Endowment net assets at December 31, 2011	$ (54)	$ -	$ 3,598	$ 3,544

Funds with Deficiencies

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 relevant law requires the Foundation to retain as a fund for perpetual duration. As of December 31, 2011, the deficiency was $54. There was no such deficiency as of December 31, 2012.

(amounts in thousands)

4. continued

Return Objectives and Risk Parameters

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 while seeking to protect the original value of the gift. Under this policy, as approved by the Board of Trustees, the endowment assets are invested in a manner that is intended to produce results that match the price and yield results of the S&P 500 index. The Foundation expects its endowment funds, over time, to provide an average rate of return of approximately 8% annually. Actual returns in any given year may vary from this amount.

Spending Policy

In 2011, the Foundation adopted new investment policies that specifically address appropriation from endowment funds in accordance with NYPMIFA. In years where the endowment fund experiences a gain, 5% of the market value of the endowment funds will be appropriated for expenditure. In years where the endowment portfolio suffers a loss, no amounts will be appropriated, unless it is considered reasonable to do so due to accumulated gains.

5. LAND, BUILDING AND EQUIPMENT

Land, building, and equipment as of December 31, 2012 and 2011 consist of:

	2012	2011
Land	$ 918	$ 918
Building and building and leasehold improvements	27,807	25,233
Furniture and equipment	25,540	26,590
Total	54,265	52,741
Accumulated depreciation	(39,194)	(37,738)
Land, building and equipment, net	$ 15,071	$ 15,003

6. MORTGAGE NOTE PAYABLE

During 1993, the Foundation issued $9,950 Dormitory Authority of the State of New York/March of Dimes Birth Defects Foundation Insured Revenue Bonds, Series 1993 (Series 1993 Bonds) to retire the Series 1987 bonds, which financed the National Office construction project. The mortgage note payable was fully repaid in 2012.

The interest rate on the Series 1993 Bonds for the remaining maturity through July 1, 2012 was 5.6 percent. In 2012 and 2011, interest cost on the Series 1993 Bonds amounted to $22 and $66, respectively.

(amounts in thousands)

7. LINE OF CREDIT

Between February 1 and April 30 of each year, the Foundation had available an unsecured line of credit that provided for up to $30,000 of short-term financing. The line of credit was renewable annually and expired on May 15, 2012. Borrowings against this credit line bore interest at the British Banker's Association London InterBank Offered Rate (BBA LIBOR) Daily Floating Rate or 1.95% per annum. In 2012 and 2011, $10,000 and $5,000, respectively of the line was used during the available period and subsequently repaid. In 2012 and 2011, the interest cost amounted to $45 and $31, respectively. A new line of credit was established in 2013 that provides $10,000 throughout the year, increasing to $15,000 from February 1 to May 31.

8. ALLOCATION OF JOINT COSTS

In 2012 and 2011, the Foundation conducted activities, principally direct response, that included fund-raising appeals as well as program components. The joint costs incurred were allocated as follows:

	2012	2011
Public and professional education……	$ 20,723	$ 19,921
Management and general……………	4,972	6,781
Fund raising…………………………	8,140	6,989
Total…………………………………	$ 33,835	$ 33,691

9. COMMITMENTS

The following is a schedule of the approximate future minimum rental payments required under operating leases that have initial or remaining noncancelable lease terms in excess of one year as of December 31, 2012:

Year ending December 31,	Amounts
2013…………………………………………	$ 6,179
2014…………………………………………	5,304
2015…………………………………………	4,098
2016…………………………………………	3,150
2017…………………………………………	2,514
2018 and thereafter……………………………	1,867

Total rental expense was $6,711 and $6,405 in 2012 and 2011, respectively.

(amounts in thousands)

10. RETIREMENT PLANS

The Foundation has three retirement plans for employees who meet certain eligibility requirements - a noncontributory defined benefit pension plan, a defined contribution plan for which there could be an employer match for employees who elect to participate in the plan, and a noncontributory defined contribution plan. In 2012 and 2011, the defined contribution match has been temporarily suspended. Pension expense relating to the noncontributory defined contribution plan for 2012 and 2011 was $1,138 and $1,088, respectively. The Foundation's contributions are made in accordance with the Employee Retirement Income Security Act of 1974.

In addition to providing pension benefits, the Foundation sponsors an unfunded postretirement benefit plan that covers employees who meet certain eligibility requirements. The plan provides healthcare benefits and life insurance benefits. The healthcare plan is contributory with participants' contributions adjusted annually. In accordance with a 2009 plan amendment, life insurance benefits were reduced for current retirees and eliminated for all future retirees. The life insurance plan is noncontributory.

The following tables provide information with respect to the defined benefit pension and postretirement benefit plans as of and for the years ended December 31, 2012 and 2011.

	Pension Benefits		**Other Benefits**	
	2012	**2011**	**2012**	**2011**
Change in projected benefit obligation				
Benefit obligation at January 1,	$ 171,668	$ 148,456	$ 48,523	$ 40,246
Service cost	2,492	2,222	1,109	1,021
Interest cost	8,288	8,471	2,160	2,292
Participant contributions	-	-	317	317
Actuarial loss (gain)	19,272	19,145	(1,584)	6,618
Federal retiree subsidy and reimbursements	-	-	188	231
Benefit payments	(8,384)	(6,626)	(2,156)	(2,202)
Benefit obligation at December 31,	$ 193,336	$ 171,668	$ 48,557	$ 48,523
Change in fair value of plan assets				
Fair value of plan assets at January 1,	$ 111,729	$ 113,722	$ -	$ -
Actual return (loss) on plan assets	15,618	(1,967)	-	-
Employer contributions	8,500	6,600	1,839	1,885
Participant contributions	-	-	317	317
Benefit payments	(8,384)	(6,626)	(2,156)	(2,202)
Fair value of plan assets at December 31,	$ 127,463	$ 111,729	$ -	$ -
Amounts recognized in the balance sheet				
Accrued benefit liability	$ (65,873)	$ (59,939)	$ (48,557)	$ (48,523)

(amounts in thousands)

10. continued

	Pension Benefits 2012	Pension Benefits 2011	Other Benefits 2012	Other Benefits 2011
Net periodic benefit costs				
Service cost	$ 2,492	$ 2,222	$ 1,109	$ 1,021
Interest cost	8,288	8,471	2,160	2,292
Expected return on plan assets	(9,126)	(9,702)	-	-
Amortization of prior service credit	-	-	(716)	(716)
Amortization of net loss	7,563	4,018	664	476
Total net periodic benefit cost	$ 9,217	$ 5,009	$ 3,217	$ 3,073

At December 31, 2012 and 2011, the accumulated benefit obligation on the defined benefit pension plan amounted to $181,570 and $159,331, respectively.

Amounts not yet recognized as a component of net periodic costs for the year ended December 31, 2012:

	Pension Benefits	Other Benefits	Total
Net actuarial loss	$ 73,545	$ 11,719	$ 85,264
Prior service credit	-	(2,295)	(2,295)
Total	$ 73,545	$ 9,424	$ 82,969

Amounts not yet recognized as a component of net periodic costs for the year ended December 31, 2011:

	Pension Benefits	Other Benefits	Total
Net actuarial loss	$ 68,328	$ 13,967	$ 82,295
Prior service credit	-	(3,011)	(3,011)
Total	$ 68,328	$ 10,956	$ 79,284

(amounts in thousands)

10. continued

The components of the pension and postretirement cost other than net periodic pension and postretirement benefit costs for the year ended December 31, 2012:

	Pension Benefits	Other Benefits	Total
Net actuarial loss (gain)	$ 12,780	$ (1,584)	$ 11,196
Recognized actuarial loss	(7,563)	(664)	(8,227)
Amortization of prior service credit	-	716	716
Total of other changes in unrestricted net assets	$ 5,217	$ (1,532)	$ 3,685

The components of the pension and postretirement cost other than net periodic pension and postretirement benefit costs for the year ended December 31, 2011:

	Pension Benefits	Other Benefits	Total
Net actuarial loss	$ 30,814	$ 6,618	$ 37,432
Recognized actuarial loss	(4,018)	(476)	(4,494)
Amortization of prior service credit	-	716	716
Total of other changes in unrestricted net assets	$ 26,796	$ 6,858	$ 33,654

Estimated amounts to be amortized into net periodic benefit cost over the next year are as follows:

	Pension Benefits	Other Benefits	Total
Net actuarial loss	$ 8,103	$ 837	$ 8,940
Prior service credit	-	(716)	(716)
Total	$ 8,103	$ 121	$ 8,224

(amounts in thousands)

10. continued

	Pension Benefits		Other Benefits	
	2012	**2011**	**2012**	**2011**
Weighted average assumptions for benefit obligations				
Discount rate	4.29%	4.95%	4.26%	4.96%
Rate of compensation increase	3.25%	3.50%	N/A	N/A
Weighted average assumptions for benefit costs				
Discount rate	4.95%	5.83%	4.96%	5.83%
Expected return on plan assets	8.00%	8.00%	N/A	N/A
Rate of compensation increase	3.50%	3.50%	N/A	N/A
Assumed healthcare cost trend rates				
Healthcare cost trend rate assumed for next year	N/A	N/A	7.00%	7.50%
Ultimate rate	N/A	N/A	5.00%	5.00%
Year that the ultimate rate is reached	N/A	N/A	2017	2017
Impact of one-percentage-point change in assumed healthcare cost trend rates	Increase	Decrease	Increase	Decrease
Effect on service cost and interest cost next for 2012	N/A	N/A	549	(437)
Effect on postretirement benefit obligation at December 31, 2012	N/A	N/A	7,537	(6,111)

(amounts in thousands)

10. continued

Projected contributions and benefit payments for the defined benefit pension and postretirement plans are as follows:

	Pension Benefits	Other benefits reflecting Medicare Rx subsidy	Medicare Rx subsidy	Other benefits not reflecting Medicare Rx subsidy
Expected contributions for 2013:				
Employer……	$ 7,500	$ 1,821	$ 201	$ 2,022
Employee……	-	300	-	300
Estimated future benefit payments reflecting expected future service for the year(s) ending:				
December 31, 2013……	7,914	2,121	201	2,322
December 31, 2014……	8,312	2,112	218	2,330
December 31, 2015……	8,739	2,260	235	2,495
December 31, 2016……	9,184	2,387	253	2,640
December 31, 2017……	9,540	2,565	266	2,831
December 31, 2018 - December 31, 2022……	52,905	14,118	1,587	15,705

The Foundation has a Pension Investments Committee, which is comprised of staff, volunteers, and external consultants who meet on a quarterly basis to review asset performance and allocation. The committee has adopted a set of Investment Policies and Guidelines that was approved by the Foundation's Board of Trustees and serves as a guide for allocating plan assets among various asset classes and investment managers. Managers are evaluated against prevalent indices and changes are made when deemed necessary.

The following table presents information with respect to pension plan assets:

	Target Asset Allocation 2012	Actual Allocation at December 31, 2012	2011
Plan assets			
Equity securities……	45% - 75%	62%	60%
Debt securities……	15% - 25%	20%	22%
Real estate……	3% - 8%	5%	5%
Other……	7% - 23%	13%	13%

(amounts in thousands)

10. continued

Based upon historically indexed data, the assumed long-term rates of return for 2012 are: equity securities – 9.0%; debt securities - 5.5%; real estate - 7.5%; other assets including Absolute Return Fund and Commodity Index – 9.0% which produces an expected composite rate of return of 8.0%.

The following table presents the plan assets' fair value hierarchy as of December 31, 2012:

	Fair Value	Level 1	Level 2	Level 3
Short-term securities	$ 4,445	$ 4,445	$ -	$ -
Publicly traded mutual funds:				
Fixed income	14,197	14,197	-	-
Real estate	6,602	6,602	-	-
Commodity	3,835	3,835	-	-
International equity	5,326	5,326	-	-
Institutional mutual funds:				
Fixed income	11,397	-	11,397	-
Domestic equity	32,103	-	32,103	-
International equity	12,333	-	12,333	-
Alternative investments:				
Long/short equity	14,747	-	14,747	-
Multi-strategy	11,942	-	11,942	-
International	10,536	-	10,536	
Plan assets	$ 127,463	$ 34,405	$ 93,058	$ -

(amounts in thousands)

10. continued

The following table presents the plan assets' fair value hierarchy as of December 31, 2011:

	Fair Value	Level 1	Level 2	Level 3
Short-term securities	$ 3,642	$ 3,642	$ -	$ -
Domestic equities	10,842	10,842	-	-
Publicly traded mutual funds:				
Fixed income	13,712	13,712	-	-
Real estate	4,725	4,725	-	-
Commodity	3,777	3,777	-	-
International equity	4,598	4,598	-	-
Institutional mutual funds:				
Fixed income	10,929	-	10,929	-
Domestic equity	16,445	-	16,445	-
International equity	10,149	-	10,149	-
Alternative investments:				
Long/short equity	12,207	-	12,207	-
Multi-strategy	10,969	-	10,969	-
International	9,032	-	9,032	-
Real estate	702	-	-	702
Plan assets	$ 111,729	$ 41,296	$ 69,731	$ 702

The following table presents a reconciliation for all Level 3 assets measured at fair value:

	2012	2011
Balance at January 1,	$ 702	$ 2,314
Sales	(722)	(1,784)
Dividends and interest reinvestments	5	34
Net appreciation in fair value of investments	15	138
Balance at December 31,	$ -	$ 702

Unrealized gains related to Level 3 plan assets still held at December 31amounted to $189 for 2011 and is reflected in the actual return in the change in fair value of plan assets.

(amounts in thousands)

10. continued

As of December 31, 2012, the following table summarizes the composition of institutional mutual funds and alternative investments at fair value of such plan assets by the various redemption provisions:

Redemption Period	Amount	Days notice for redemption
Daily:		
Institutional - Domestic equity…………	$ 32,103	1
Institutional - Fixed income……………	11,397	1
Monthly:		
Institutional - International equity……..	12,333	6
Alternative - International………………	10,536	5
Quarterly:		
Alternative - Long/short equity…………	14,747	60
Alternative - Multi-strategy……………	11,942	90
Total……………………………………	$ 93,058	