

SALEM HEALTH AND
WELLNESS FOUNDATION, INC.

AUDIT REPORT

DECEMBER 31, 2005

SALEM HEALTH AND WELLNESS FOUNDATION, INC.

REPORT FOR

THE YEAR ENDED

DECEMBER 31, 2005

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EDWARD T. GHEYSENS, JR.

Certified Public Accountant

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INDEPENDENT AUDITOR'S REPORT

To the Board of Trustees of
Salem Health and Wellness Foundation, Inc.
P.O. Box 95
Salem, New Jersey 08079

I have audited the accompanying statement of financial position of Salem Health and Wellness Foundation, Inc., a nonprofit organization, as of December 31, 2005, and the related statements of activities, functional expenses, and cash flows for the year then ended. These financial statements are the responsibility of the organization's management. My responsibility is to express an opinion on these financial statements based on my audit.

I conducted my audit in accordance with auditing standards generally accepted in the United States of America. Those standards require that I plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatements. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. I believe that my audit provides a reasonable basis for my opinion.

In my opinion, the financial statements referred to above present fairly, in all material respects, the financial position of Salem Health and Wellness Foundation, Inc. as of December 31, 2005, and the changes in its net assets and its cash flows for the year then ended in conformity with generally accepted accounting principles generally accepted in the United States of America.



EDWARD T. GHEYSENS, JR.
Certified Public Accountant

May 12, 2006

SALEM HEALTH AND WELLNESS FOUNDATION, INC.

STATEMENT OF FINANCIAL POSITION

DECEMBER 31, 2005

ASSETS

CURRENT ASSETS

Cash and Cash Equivalents (Note 2)	\$ 274,140
Prepaid Expenses	4,986
Investment Income Receivable	41,728
Investments - SEI Trust Company (Note 5)	26,729,711
Cash Surrender Value - AIG Insurance Policy	<u>83,232</u>

TOTAL CURRENT ASSETS \$ 27,133,797

NONCURRENT ASSETS

Escrow Account - Wachovia Bank (Note 6)	\$ 9,998,880
Assets Held in Perpetuity By Outside Trustees (Note 7)	12,059,200
Equipment, Net (Note 8)	<u>25,170</u>

TOTAL NONCURRENT ASSETS 22,083,250

TOTAL ASSETS \$ 49,217,047

LIABILITIES AND NET ASSETS

CURRENT LIABILITIES

Accounts Payable	\$ 36
Grants Payable (Note 9)	460,132
Accrued Payroll Taxes	<u>537</u>

TOTAL LIABILITIES \$ 460,705

NET ASSETS

Unrestricted	\$ 26,698,262
Temporarily Restricted	9,998,880
Permanently Restricted	<u>12,059,200</u>

TOTAL NET ASSETS 48,756,342

TOTAL LIABILITIES AND NET ASSETS \$ 49,217,047

See accompanying notes and accountant's report.

SALEM HEALTH AND WELLNESS FOUNDATION, INC.

STATEMENT OF ACTIVITIES

FOR THE YEAR ENDED DECEMBER 31, 2005

	<u>Unrestricted</u>	<u>Temporarily Restricted</u>	<u>Permanently Restricted</u>	<u>Total</u>
<u>REVENUES, GAINS, AND OTHER SUPPORT</u>				
Contributions	\$ 60,755			\$ 60,755
Additional Proceeds-Sale of Hospital	1,500,000			1,500,000
Distributions-Perpetual Trusts	604,386			604,386
Interest Income	212,805	\$ 88,922		301,727
Dividend Income	739,133			739,133
Change in Value of Assets Held in Perpetuity By Outside Trustees			\$(93,346)	(93,346)
Change in Cash Surrender Value of Insurance Policy	3,073			3,073
Gain on Sale of Securities	415,331			415,331
Capital Gain Distributions	177,339			177,339
Unrealized Gain on Securities	263,232	(80,170)		183,062
	<u>\$ 3,976,054</u>	<u>\$ 8,752</u>	<u>\$(93,346)</u>	<u>\$ 3,891,460</u>
TOTAL REVENUES, GAINS AND OTHER SUPPORT				
 <u>EXPENSES</u>				
Program Services	\$ 796,934			\$ 796,934
Supporting Services:				
Management and General	346,507			346,507
Fundraising	8,037			8,037
	<u>\$ 1,151,478</u>	<u>\$ -0-</u>	<u>\$ -0-</u>	<u>\$ 1,151,478</u>
TOTAL EXPENSES				
INCREASE (DECREASE) IN NET ASSETS	\$ 2,824,576	\$ 8,752	\$(93,346)	\$ 2,739,982
NET ASSETS - JANUARY 1, 2005	<u>23,873,686</u>	<u>9,990,128</u>	<u>12,152,546</u>	<u>46,016,360</u>
NET ASSETS - DECEMBER 31, 2005	<u>\$ 26,698,262</u>	<u>\$ 9,998,880</u>	<u>\$ 12,059,200</u>	<u>\$ 48,756,342</u>

See accompanying notes and accountant's report.

SALEM HEALTH AND WELLNESS FOUNDATION, INC.

STATEMENT OF FUNCTIONAL EXPENSES

FOR THE YEAR ENDED DECEMBER 31, 2005

	<u>Program Services</u>	<u>Management and General</u>	<u>Fundraising/ Donor Development</u>	<u>Total</u>
Grants Awarded (Note 9)	\$ 794,934			\$ 794,934
Direct Mail/Printing		\$ 22	\$ 6,850	6,872
Postage		620	1,187	1,807
Accounting/Audit Fees		12,010		12,010
Advertising		248		248
NJ Filing Fees		250		250
Equipment Maintenance		2,737		2,737
Insurance		2,870		2,870
Dues and Memberships		882		882
Internet Access Fees		1,142		1,142
Legal Fees		1,715		1,715
Meetings and Conferences		856		856
Office Supplies		1,958		1,958
On-Site Telephone and Remote Support		2,183		2,183
P.O. Box Rental		38		38
Office Rent		10,656		10,656
Brokerage Fees - SEI		121,598		121,598
Telephone		1,705		1,705
Travel		908		908
Wages		156,567		156,567
Payroll Taxes		12,674		12,674
Subscriptions		8		8
Contributions	2,000			2,000
Insurance Premiums - AIG (Net)		9,015		9,015
Depreciation		5,845		5,845
	<u>\$ 796,934</u>	<u>\$ 346,507</u>	<u>\$ 8,037</u>	<u>\$ 1,151,478</u>

See accompanying notes and accountant's report.

SALEM HEALTH AND WELLNESS FOUNDATION, INC.

STATEMENT OF CASH FLOWS

FOR THE YEAR ENDED DECEMBER 31, 2005

CASH FLOWS FROM OPERATING ACTIVITIES:

Increase in Net Assets	\$ 2,739,982
Adjustments to Reconcile Increase in Net Assets to Net Cash Provided by Operating Activities:	
Depreciation	5,845
Gain on Sale of Securities	(415,331)
Unrealized Gain on Investments	(183,062)
Change in Assets and Liabilities:	
Increase in Prepaid Expenses	(96)
Increase in Investment Income Receivable	(14,710)
Decrease in Unconditional Promise to Give	79,656
Decrease in Cash Surrender Value - Insurance	5,942
Decrease in Assets Held in Perpetuity by Outside Trustees	93,346
Decrease in Accounts Payable	(937)
Increase in Accrued Payroll Taxes	21
Increase in Grants Payable	<u>344,632</u>

CASH PROVIDED BY OPERATING ACTIVITIES \$ 2,655,288

CASH FLOWS FROM INVESTING ACTIVITIES:

Equipment Acquisitions	\$(9,004)
Proceeds - Sales of Investments	8,674,789
Purchases of Investments	<u>(11,217,198)</u>

CASH USED IN INVESTING ACTIVITIES (2,551,413)

NET INCREASE IN CASH AND CASH EQUIVALENTS \$ 103,875

CASH AND CASH EQUIVALENTS - JANUARY 1, 2005 170,265

CASH AND CASH EQUIVALENTS - DECEMBER 31, 2005 \$ 274,140

See accompanying notes and accountant's report.

SALEM HEALTH AND WELLNESS FOUNDATION, INC.

NOTES TO THE FINANCIAL STATEMENTS

DECEMBER 31, 2005

NOTE 1 NATURE OF ACTIVITIES AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Nature of Activities

The Foundation was formed to receive the proceeds of the sale of Memorial Hospital of Salem County.

The Foundation's mission is to promote the health and wellness of Salem County residents through investing in programs and services that improve community health, well being and access to health care delivery for all.

Basis of Presentation

The financial statements are prepared on the accrual basis of accounting and are in conformity with Statement of Financial Accounting Standards (SFAS) No. 117, Financial Statements of Not-For-Profit Organizations. Under SFAS No. 117, the Foundation is required to report information regarding its financial position and activities according to three classes of net assets: unrestricted net assets, temporarily restricted net assets, and permanently restricted net assets.

Use of Estimates

The preparation of financial statements in conformity with generally accepted accounting principles requires management to make estimates and assumptions that affect certain reported amounts and disclosures. Accordingly, actual results could differ from those estimates.

Promises to Give

Unconditional promises to give, are recognized as revenue in the period received. Conditional promises to give are recognized when the conditions on which they depend are substantially met.

Contributed Services

No amounts have been reflected in the accompanying financial statements for donated services since they do not meet the criteria for recognition under Statement of Financial Accounting Standard No. 116.

SALEM HEALTH AND WELLNESS FOUNDATION, INC.

NOTES TO THE FINANCIAL STATEMENTS

DECEMBER 31, 2005

NOTE 1 NATURE OF ACTIVITIES AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES
(continued)

Income Taxes

The Foundation is exempt from federal and state income taxes under Internal Revenue Code Section 501(c)(3).

Equipment

Equipment is stated at cost. Expenditures which substantially increase the economic useful lives of the assets are capitalized. Expenditures for maintenance and repairs necessary to maintain the assets in efficient operating condition are expensed currently. Assets retired, or otherwise disposed of, are eliminated from their respective asset accounts. Any gains or losses from dispositions, other than trade-ins on like property, are included in income.

Depreciation

Depreciation is computed by using the straight line method over the economic useful lives of the assets. Depreciation rates are based on the following range of lives:

Equipment 4 to 10 Years

Depreciation expense for the year ended December 31, 2005, is \$ 5,845.

NOTE 2 CASH AND CASH EQUIVALENTS

Cash and cash equivalents include all monies in banks and highly liquid investments with maturity dates of less than three months. The carrying value of cash and cash equivalents approximates fair value because of the short maturities of those financial instruments.

Hudson United Bank - Business Checking	\$ 17,466
SEI Checking Account (CCA)	8,655
SEI Cash - Investment Account	56,026
SEI Liquid Asset Prime Obligation Fund	112,949
SEI Daily Income Prime Obligation Fund	<u>79,044</u>
Total	<u>\$ 274,140</u>

SALEM HEALTH AND WELLNESS FOUNDATION, INC.

NOTES TO THE FINANCIAL STATEMENTS

DECEMBER 31, 2005

NOTE 3 CONCENTRATION OF CREDIT RISK

The Foundation maintains its cash balances and investments in various financial institutions. These deposits exceed the FDIC Insurance limit. However, the Foundation has not experienced any losses in these accounts. The management of the Foundation believes that the financial institutions have strong credit ratings and that the credit risk related to these deposits is minimal.

NOTE 4 PROCEEDS - SALE OF MEMORIAL HOSPITAL OF SALEM COUNTY (9/30/2002)

The net proceeds from the sale of Memorial Hospital of Salem County on 9/30/2002 was \$ 32,207,639. The disposition of said funds was as follows:

To Salem Health and Wellness Foundation	\$ 14,600,000
To Wachovia Escrow Account for the Benefit of Salem Health and Wellness Foundation	10,000,000
To Memorial Hospital of Salem County (seller)	<u>7,607,639</u>
Total Proceeds	<u>\$ 32,207,639</u>

The amount of the proceeds received by Memorial Hospital of Salem County (seller), \$ 7,607,639, was set aside at settlement in order to meet any outstanding liabilities of Memorial Hospital of Salem County. These funds were transferred to the Fenwick Corporation/Salem Memorial Corporation, that is responsible for the administration of said funds. The balance being administered by the Fenwick Corporation/Salem Memorial Corporation, net of estimated liabilities, as of December 31, 2005, is \$ 3,626,763. Because of the uncertainty relating to the disposition of the funds being administered by the Fenwick Corporation/Salem Memorial Corporation, amounts are not recorded by Salem Health and Wellness Foundation, Inc., until they are deemed designated for distribution to the Foundation.

NOTE 5 INVESTMENTS - SEI TRUST COMPANY

Investments are stated at fair value and are summarized as follows, as of December 31, 2005:

	<u>Cost</u>	<u>Fair Value</u>
SEI Core Fixed Income Fund	\$ 9,368,733	\$ 9,285,708
Domestic Stocks	10,707,103	12,798,376
SEI International Equity Fund	1,486,488	2,027,656
SEI Small Cap Fund	<u>2,443,876</u>	<u>2,617,971</u>
Total	<u>\$ 24,006,200</u>	<u>\$ 26,729,711</u>

SALEM HEALTH AND WELLNESS FOUNDATION, INC.

NOTES TO THE FINANCIAL STATEMENTS

DECEMBER 31, 2005

NOTE 6 ESCROW ACCOUNT - WACHOVIA BANK

An escrow agreement was entered into and effective as of September 30, 2002, by and among the Memorial Hospital of Salem County, Inc. ("seller"), Salem Hospital Corporation ("buyer"), and Wachovia Bank ("escrow agent").

The escrow account is being held for the benefit of Salem Health and Wellness Foundation to the extent it is not used to satisfy certain indemnification obligations of the seller. Income earned on the account is distributed quarterly to Salem Health and Wellness Foundation.

The buyer and the seller agree that on the five year anniversary of the sale date, the escrow agent shall disburse the escrow funds exceeding \$ 5,000,000 to Salem Health and Wellness Foundation. The buyer and seller agree that on the ten year anniversary of the sale, the escrow agent shall disburse the remaining escrow funds to Salem Health and Wellness Foundation.

NOTE 7 ASSETS HELD IN PERPETUITY BY OUTSIDE TRUSTEES

Assets held in perpetuity by outside trustees are perpetual trusts administered by independent trustees. The assets are recognized at the estimated fair value of the related trust assets, which are generally composed of mutual funds and cash and cash equivalents. Because the trusts are perpetual in nature and the corpus cannot be violated, they are reported as permanently restricted net assets.

<u>Perpetual Trust</u>	<u>Value</u> <u>1/1/05</u>	<u>Value</u> <u>12/31/05</u>	<u>Change</u> <u>In Value</u>	<u>Distributions</u> <u>12/31/05</u>
Fox Trust	\$ 699,211	\$ 701,362	\$ 2,151	\$ 32,000
Huber Trust	139,971	140,041	70	3,768
Huber Scholarship	119,384	97,524	(21,860)	23,821
Rumsey Trust	239,462	228,021	(11,441)	18,802
Hitchner Trust	10,696,389	10,629,996	(66,393)	518,824
Parvin Trust	217,959	221,308	3,349	5,380
Sherron Trust	33,777	34,477	700	1,506
Hiles Trust	6,393	6,471	78	285
	<u>\$ 12,152,546</u>	<u>\$ 12,059,200</u>	<u>\$(93,346)</u>	<u>\$ 604,386</u>

SALEM HEALTH AND WELLNESS FOUNDATION, INC.

NOTES TO THE FINANCIAL STATEMENTS

DECEMBER 31, 2005

NOTE 8 EQUIPMENT

Equipment Consists of the Following:

Computer Equipment	\$ 30,686
Furniture and Fixtures	<u>6,720</u>
Total Cost	\$ 37,406
Less: Accumulated Depreciation	<u>(12,236)</u>
Equipment, Net	<u>\$ 25,170</u>

NOTE 9 GRANTS/GRANTS PAYABLE

Grants are recognized as liabilities at the time the board of trustees authorizes the expenditures, regardless of the year in which the grant is paid. A summary of grants and grants payable for 2005 is as follows:

<u>Grant Recipient</u>	<u>Commitment As Of January 1, 2005</u>	<u>Grants Authorized During 2005</u>	<u>Grant Payments Made During 2005</u>	<u>Commitment As Of December 31, 2005</u>
YMCA of Salem County	\$ 5,000	\$ -0-	\$(5,000)	\$ -0-
Salem Community College	25,000	68,750	(65,000)	28,750
Daytop - NJ	15,500	-0-	(15,500)	-0-
Alzheimer's Assoc.	10,000	-0-	(10,000)	-0-
Shadow Equestrian, Inc.	-0-	15,000	-0-	15,000
Robin's Nest, Inc.	60,000	-0-	(40,000)	20,000
United Way	-0-	69,000	(57,700)	11,300
Emmanuel Cancer Foundation	-0-	10,000	(5,000)	5,000
Cooper University Hospital	-0-	382,762	(52,102)	330,660
S. J. Healthcare	-0-	54,750	(50,000)	4,750
American Cancer Society	-0-	79,240	(60,000)	19,240
Sodat of NJ, Inc.	-0-	50,000	(30,000)	20,000
Community Healthcare	<u>-0-</u>	<u>65,432</u>	<u>(60,000)</u>	<u>5,432</u>
	<u>\$ 115,500</u>	<u>\$ 794,934</u>	<u>\$(450,302)</u>	<u>\$ 460,132</u>

Commitments at December 31, 2005 are payable as follows:

Year Ending December 31, 2006	\$ 226,198
Year Ending December 31, 2007	139,244
Year Ending December 31, 2008	<u>94,690</u>
	<u>\$ 460,132</u>

Grant commitments payable after December 31, 2005 were not discounted to fair value because the discount value would have an immaterial effect on the financial statements.

SALEM HEALTH AND WELLNESS FOUNDATION, INC.

NOTES TO THE FINANCIAL STATEMENTS

DECEMBER 31, 2005

NOTE 10 OPERATING LEASE COMMITMENT

The Foundation's lease agreement for office space with Salem County Board for Vocational Education, commencing December 1, 2004, was renewed on December 1, 2005 for one year, until November 30, 2006. The monthly rental amount due is \$ 940.00, including custodial services. The following is a schedule, by years, of future minimum rentals under the operating lease as of December 31, 2005:

Year Ending December 31, 2006	<u>\$ 10,340</u>
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NOTE 11 403(B) PENSION PLAN

In May of 2004, the Foundation established a 403(B) custodial account for its employees with the American Funds Group. This plan is an employee contributory plan, only. The Foundation does not contribute to the plan and incurs no expenses in connection with the plan.