

**SALEM HEALTH AND
WELLNESS FOUNDATION, INC.**

AUDIT REPORT

DECEMBER 31, 2008

SALEM HEALTH AND WELLNESS FOUNDATION, INC.
REPORT FOR
THE YEAR ENDED
DECEMBER 31, 2008

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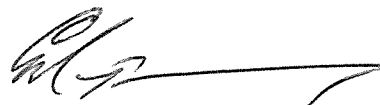
INDEPENDENT AUDITOR'S REPORT

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. as of December 31, 2008, 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 also 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, 2008, and the changes in its net assets and its cash flows for the year then ended in conformity with accounting principles generally accepted in the United States of America.



EDWARD T. GHEYSENS, JR.
Certified Public Accountant

April 30, 2009

SALEM HEALTH AND WELLNESS FOUNDATION, INC.
STATEMENT OF FINANCIAL POSITION
DECEMBER 31, 2008

ASSETS

CURRENT ASSETS

| | | | |
|---|----|------------|----------------------|
| Cash and Cash Equivalents (Note 2) | \$ | 342,491 | |
| Prepaid Expenses | | 10,043 | |
| Investment Income Receivable | | 76,174 | |
| Cash Surrender Value - AIG Insurance Policy | | 62,112 | |
| Investments - SEI Trust company (Note 5) | | 28,797,650 | |
| TOTAL CURRENT ASSETS | | | \$ 29,288,470 |

NONCURRENT ASSETS

| | | | |
|--|----|-----------|-------------------|
| Escrow Account - US Bank (Note 6) | \$ | 5,010,876 | |
| Assets Held in Perpetuity By Outside Trustees (Note 7) | | 8,152,123 | |
| Equipment, Net (Note 8) | | 18,420 | |
| TOTAL NONCURRENT ASSETS | | | 13,181,419 |

| | | | |
|---------------------|--|--|----------------------|
| TOTAL ASSETS | | | \$ 42,469,889 |
|---------------------|--|--|----------------------|

LIABILITIES AND NET ASSETS

LIABILITIES

| | | | |
|--------------------------|----|-----------|---------------------|
| Accounts Payable | \$ | 913 | |
| Accrued Wages | | 5,856 | |
| Accrued Payroll Taxes | | 926 | |
| Grants Payable (Note 9) | | 4,974,416 | |
| TOTAL LIABILITIES | | | \$ 4,982,111 |

NET ASSETS

| | | | |
|-------------------------|----|------------|-------------------|
| Unrestricted | \$ | 24,324,393 | |
| Temporarily Restricted | | 5,011,262 | |
| Permanently Restricted | | 8,152,123 | |
| TOTAL NET ASSETS | | | 37,487,778 |

| | | | |
|---|--|--|----------------------|
| TOTAL LIABILITIES AND NET ASSETS | | | \$ 42,469,889 |
|---|--|--|----------------------|

See accompanying notes and accountant's report.

SALEM HEALTH AND WELLNESS FOUNDATION, INC.
STATEMENT OF ACTIVITIES
FOR THE YEAR ENDED DECEMBER 31, 2008

| | <u>Unrestricted</u> | <u>Temporarily Restricted</u> | <u>Permanently Restricted</u> | <u>Total</u> |
|---|------------------------|-----------------------------------|-----------------------------------|------------------------|
| <u>REVENUES, GAINS, AND OTHER SUPPORT</u> | | | | |
| Contributions | \$ 63,895 | | | \$ 63,895 |
| Additional Proceeds-Sale of Hospital | 500,000 | | | 500,000 |
| Distributions-Perpetual Trusts | 814,205 | | | 814,205 |
| Interest Income | 2,038 | \$ 158,430 | | 160,468 |
| Dividend Income | 1,345,519 | | | 1,345,519 |
| Capital Gain Distributions | 61,288 | | | 61,288 |
| Realized Loss on Sale of Securities | (806,873) | | | (806,873) |
| Net Assets Released from Restrictions | 187,961 | (187,961) | | - |
| | <hr/> | <hr/> | <hr/> | <hr/> |
| TOTAL REVENUES, GAINS AND OTHER SUPPORT | \$ 2,168,033 | \$ (29,531) | \$ - | \$ 2,138,502 |
| | <hr/> | <hr/> | <hr/> | <hr/> |
| <u>EXPENSES AND LOSSES</u> | | | | |
| Program Services | \$ 4,349,775 | | | \$ 4,349,775 |
| Supporting Services: | | | | |
| Management and General | 393,564 | | | 393,564 |
| Fundraising | 8,702 | | | 8,702 |
| | <hr/> | <hr/> | <hr/> | <hr/> |
| TOTAL EXPENSES | \$ 4,752,041 | \$ - | \$ - | \$ 4,752,041 |
| | <hr/> | <hr/> | <hr/> | <hr/> |
| Change in Value of Assets Held in Perpetuity by Outside Trustees | | | \$ 4,317,266 | \$ 4,317,266 |
| Unrealized Loss on Investments | \$ 10,963,837 | | | 10,963,837 |
| | <hr/> | <hr/> | <hr/> | <hr/> |
| TOTAL EXPENSES AND LOSSES | \$ 15,715,878 | \$ - | \$ 4,317,266 | \$ 20,033,144 |
| | <hr/> | <hr/> | <hr/> | <hr/> |
| (DECREASE) IN NET ASSETS | \$ (13,547,845) | \$ (29,531) | \$ (4,317,266) | \$ (17,894,642) |
| | <hr/> | <hr/> | <hr/> | <hr/> |
| NET ASSETS - JANUARY 1, 2008 | 37,872,238 | 5,040,793 | 12,469,389 | 55,382,420 |
| | <hr/> | <hr/> | <hr/> | <hr/> |
| NET ASSETS - DECEMBER 31, 2008 | <u>\$ 24,324,393</u> | <u>\$ 5,011,262</u> | <u>\$ 8,152,123</u> | <u>\$ 37,487,778</u> |

See accompanying notes and accountant's report.

SALEM HEALTH AND WELLNESS FOUNDATION, INC.
STATEMENT OF FUNCTIONAL EXPENSES
FOR THE YEAR ENDED DECEMBER 31, 2008

| | <u>Program Services</u> | <u>Management and General</u> | <u>Fundraising/ Donor Development</u> | <u>Total</u> |
|--------------------------------|-----------------------------|-----------------------------------|---|---------------------|
| Grants Awarded (Note 9) | \$ 4,343,560 | | | \$ 4,343,560 |
| Direct Mail/Printing | | | \$ 4,400 | 4,400 |
| Postage | | \$ 1,355 | 2,369 | 3,724 |
| Accounting/Audit Fees | | 20,995 | | 20,995 |
| Advertising | | 1,732 | 1,933 | 3,665 |
| NJ Filing Fees | | 250 | | 250 |
| Equipment Maintenance | | 686 | | 686 |
| Insurance | | 2,897 | | 2,897 |
| Dues & Membership | | 1,920 | | 1,920 |
| Internet Access Fees | | 998 | | 998 |
| Legal Fees | | 14,906 | | 14,906 |
| Meetings and Conferences | | 1,478 | | 1,478 |
| Miscellaneous | | 390 | | 390 |
| Office Cleaning | | 593 | | 593 |
| Office Supplies | | 2,389 | | 2,389 |
| On-Site and Remote Support | | 753 | | 753 |
| P.O. Box Rental | | 93 | | 93 |
| Office Rent | | 12,973 | | 12,973 |
| Brokerage Fees - SEI | | 183,438 | | 183,438 |
| Telephone | | 1,560 | | 1,560 |
| Travel | | 2,990 | | 2,990 |
| Wages | | 110,551 | | 110,551 |
| Payroll Taxes | | 9,469 | | 9,469 |
| Staff Training | | 1,935 | | 1,935 |
| Software Licenses | | 2,803 | | 2,803 |
| Subscriptions | | 122 | | 122 |
| Contributions | 6,215 | | | 6,215 |
| Insurance Premiums - AIG (Net) | | 11,216 | | 11,216 |
| Depreciation | | 5,072 | | 5,072 |
| | <u>\$ 4,349,775</u> | <u>\$ 393,564</u> | <u>\$ 8,702</u> | <u>\$ 4,752,041</u> |

See accompanying notes and accountant's report.

SALEM HEALTH AND WELLNESS FOUNDATION, INC
STATEMENT OF CASH FLOWS
FOR THE YEAR ENDED DECEMBER 31, 2008

CASH FLOWS FROM OPERATING ACTIVITIES:

| | | |
|--|-----------|------------------|
| Decrease in Net Assets | \$ | (17,894,642) |
| Adjustments to Reconcile decrease in Net assets to Net Cash Provided by Operating Activities: | | |
| Depreciation | | 5,072 |
| Realized Loss on Sale of Securities | | 806,873 |
| Unrealized Loss on Investments | | 10,963,837 |
| Change in Assets and Liabilities: | | |
| Increase in Prepaid Expenses | | (3,072) |
| Decrease in Investment Income Receivable | | 1,159 |
| Decrease in Cash Surrender Value - Insurance | | 11,215 |
| Decrease in Assets Held in Perpetuity by Outside Trustees | | 4,317,266 |
| Decrease in Accounts Payable | | (2,339) |
| Increase in Accrued Wages | | 5,856 |
| Increase in Accrued Payroll Taxes | | 2 |
| Increase in Grants Payable | | <u>3,662,279</u> |
| NET CASH PROVIDED BY OPERATING ACTIVITIES | \$ | 1,873,506 |

CASH FLOWS FROM INVESTING ACTIVITIES:

| | | |
|--|----|---------------------|
| Equipment Acquisitions | \$ | (622) |
| Proceeds - Sales of Investments | | 13,573,164 |
| Purchases of Investments | | <u>(15,420,224)</u> |
| NET CASH USED IN INVESTING ACTIVITIES | | <u>(1,847,682)</u> |

| | | |
|--|-----------|-----------------------|
| NET INCREASE IN CASH AND CASH EQUIVALENTS | | 25,824 |
| CASH AND CASH EQUIVALENTS - JANUARY 1, 2008 | | <u>316,667</u> |
| CASH AND CASH EQUIVALENTS - DECEMBER 31, 2008 | \$ | <u><u>342,491</u></u> |

See accompanying notes and accountant's report.

SALEM HEALTH AND WELLNESS FOUNDATION, INC
NOTES TO THE FINANCIAL STATEMENTS
DECEMBER 31, 2008

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 Accounting

The financial statements have been prepared on the accrual basis of accounting and accordingly reflect all significant receivables, payables, and other liabilities.

Basis of Presentation

Financial statement presentation follows the recommendations of the Financial Accounting Standards Board in its Statement of Financial Accounting Standards (SFAS) No. 117, Financial Statements of Not-for-Profit Organizations. Under SFAS No. 117, the Organization 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 revenues or gains in the period received and as assets, decreases of liabilities, or expenses depending on the form of the benefits received. Conditional promises to give are recognized only when the conditions on which they depend are substantially met and promises become unconditional.

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, 2008

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).

Property and Equipment

Property and equipment is stated at cost or at their estimated fair value at date of donation. 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 operation condition are expensed currently. Assets retired, or otherwise disposed of, are eliminated from their respective assets accounts. Any gains or losses from dispositions, other than trade-ins on like property, are include 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 | 3 to 10 Years |
| Leasehold Improvements | 39 Years |

Depreciation expense for the year ended December 31, 2008, is \$5,072.

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.

| | |
|--|-------------------|
| TD, Banknorth – Business Checking | \$ 35,418 |
| SEI Checking Account (CCA) | 66,755 |
| SEI Cash – Investment Account | 94,280 |
| SEI Daily Income Prime Obligation Fund | 100,612 |
| SEI Liquid Asset Prime Obligation Fund | <u>45,426</u> |
| | <u>\$ 342,491</u> |

SALEM HEALTH AND WELLNESS FOUNDATION, INC
NOTES TO THE FINANCIAL STATEMENTS
DECEMBER 31, 2008

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 9/30/02 was \$ 32,207,639. The disposition of said funds was as follows:

| | |
|--|----------------------|
| To Salem Health and Wellness Foundation | \$ 14,600,000 |
| To US Bank 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, 2008, is \$ 1,477,605. 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. During the year ended December 31, 2008 The Fenwick Corporation/Salem Memorial Corporation distributed \$ 500,000 to Salem Health and Wellness Foundation.

NOTE 5 INVESTMENTS – SEI TRUST COMPANY

Investments are stated at fair value and are summarized as follows, as of December 31, 2008:

| | <u>Cost</u> | <u>Fair Value</u> |
|-------------------------------|----------------------|----------------------|
| SEI Core Fixed Income Fund | \$ 12,126,668 | \$ 11,013,324 |
| Domestic Equities | 20,784,486 | 16,031,411 |
| SEI International Equity Fund | <u>3,112,736</u> | <u>1,752,915</u> |
| Total | <u>\$ 36,023,890</u> | <u>\$ 28,797,650</u> |

SALEM HEALTH AND WELLNESS FOUNDATION, INC
NOTES TO THE FINANCIAL STATEMENTS
DECEMBER 31, 2008

NOTE 6 ESCROW ACCOUNT – US 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 US 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>1/1/08</u> | <u>Value</u> <u>12/31/08</u> | <u>Change</u> <u>In Value</u> | <u>Distributions</u> <u>12/31/08</u> |
|------------------------|-------------------------------|---------------------------------|----------------------------------|---|
| Fox Trust | \$ 724,189 | \$ 477,741 | \$ (246,448) | \$ 32,000 |
| Huber Trust | 142,582 | 98,058 | (44,524) | 4,666 |
| Huber Scholarship | 105,032 | 70,406 | (34,626) | 2,805 |
| Rumsey Trust | 233,335 | 152,314 | (81,021) | 12,462 |
| Hitchner Trust | 11,012,427 | 7,190,749 | (3,821,678) | 754,400 |
| Parvin Trust | 251,824 | 162,855 | (88,969) | 7,872 |
| | <u>\$ 12,469,389</u> | <u>\$ 8,152,123</u> | <u>\$ (4,317,266)</u> | <u>\$ 814,205</u> |

SALEM HEALTH AND WELLNESS FOUNDATION, INC
NOTES TO THE FINANCIAL STATEMENTS
DECEMBER 31, 2008

NOTE 8 PROPERTY AND EQUIPMENT

Equipment Consists of the Following:

| | | |
|--------------------------------|----|-----------|
| Computer Equipment | \$ | 32,396 |
| Furniture and Fixtures | | 7,000 |
| Leasehold Improvements | | 11,065 |
| Total Cost | \$ | 50,461 |
| Less: Accumulated Depreciation | | (32,041) |
| | | \$ 18,420 |

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 2008 is as follows:

| <u>Grant Recipient</u> | <u>Commitment</u> As of <u>1/1/2008</u> | <u>Grant Pmts</u> Authorized <u>During 2008</u> | <u>Grant Pmts</u> Made <u>During 2008</u> | <u>Commitment</u> As of <u>12/31/2008</u> |
|--------------------------|---|---|---|---|
| Salem Community Col | \$ 307,472 | \$ 60,000 | \$ (165,736) | \$ 201,736 |
| Daytop Village of NJ | 7,500 | - | - | 7,500 |
| Alzheimer's Assoc. | 10,000 | - | (10,000) | - |
| Shadow Equestrian, Inc. | 8,000 | 18,000 | (11,200) | 14,800 |
| Mt. Pisgah Comm Imp. | 8,874 | - | (8,874) | - |
| United Way | 14,797 | - | (14,797) | - |
| Cooper Health System | 63,127 | 1,307,706 | (276,906) | 1,093,927 |
| Salem Cty Sheriff's Dep. | 67,348 | - | (18,058) | 49,290 |
| Puerto Rican Act. Com. | 10,440 | - | (10,440) | - |
| Community Healthcare | 32,500 | - | (16,250) | 16,250 |
| Maryville, Inc. | 5,000 | - | (5,000) | - |
| Caring Neighbors HC | 524,763 | - | 404,898 * | 929,661 |
| Friends Vil @ Woodstn | 5,801 | - | (5,801) | - |
| Salvation Army | 26,085 | - | (13,043) | 13,042 |
| S.C. Inter-Agcy Consl. | 175,165 | 357,041 | (246,573) | 285,633 |
| Salem County 2000 | 45,265 | - | (22,005) | 23,260 |
| Appel Farms | - | 162,000 | (54,000) | 108,000 |
| Salem Cty Prosecutor | - | 45,136 | (45,136) | - |
| S.J. Healthcare - Elmer | - | 150,000 | (37,500) | 112,500 |

SALEM HEALTH AND WELLNESS FOUNDATION, INC
NOTES TO THE FINANCIAL STATEMENTS
DECEMBER 31, 2007

NOTE 9 GRANTS/GRANTS PAYABLE (continued)

| <u>Grant Recipient</u> | <u>Commitment As of 1/1/2008</u> | <u>Grant Pmts Authorized During 2008</u> | <u>Grant Pmts Made During 2008</u> | <u>Commitmen As of 12/31/2008</u> |
|---------------------------|--|--|--|---|
| S.C. Center For Autism | - | 1,733,372 | (86,619) | 1,646,753 |
| Project New Start | - | 123,830 | (24,766) | 99,064 |
| Pennsville Police | - | 13,475 | (13,475) | - |
| Pennsville Visiting Nurse | - | 373,000 | - | 373,000 |
| | <u>\$ 1,312,137</u> | <u>\$ 4,343,560</u> | <u>\$ (681,281)</u> | <u>\$ 4,974,416</u> |

* Includes a refund of a previous year distribution in the amount of \$ 500,000.

Commitments at December 31, 2008 are payable as follows:

| | |
|-------------------------------|---------------------|
| Year Ending December 31, 2009 | \$ 1,765,499 |
| Year Ending December 31, 2010 | 1,067,952 |
| Year Ending December 31, 2011 | 1,010,352 |
| Year Ending December 31, 2012 | 720,011 |
| Year Ending December 31, 2013 | <u>410,602</u> |
| | <u>\$ 4,974,416</u> |

Grant commitments payable after December 31, 2008 were not discounted to fair value because the discount value would have an immaterial effect on the financial statements.

NOTE 10 DONATED FACILITIES

On September 8, 2006, the Foundation moved into new office space at 91 S. Virginia Ave., Carneys Point, NJ. This office space has been donated by Pennsville National Bank. The donated facilities will be include as a contribution and the corresponding rental expense at \$ 1,081.04 per month. The value of donated facilities included as contributions in the financial statements and the corresponding rental expense for the year ended December 31, 2008 is \$ 12,973.

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.