

SALEM HEALTH AND
WELLNESS FOUNDATION, INC.

AUDIT REPORT

DECEMBER 31, 2003

SALEM HEALTH AND WELLNESS FOUNDATION, INC.

REPORT FOR
THE YEAR ENDED
DECEMBER 31, 2003

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EDWARD T. GHEYSENS, JR.

Certified Public Accountant

MEMBER:
AMERICAN INSTITUTE
OF CERTIFIED PUBLIC ACCOUNTANTS

NEW JERSEY SOCIETY
OF CERTIFIED PUBLIC ACCOUNTANTS

13 SOUTH MAIN STREET
WOODSTOWN, NEW JERSEY 08098

PHONE (856) 769-1166
FAX (856) 769-1383

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, 2003, 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, 2003, 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 17, 2004

SALEM HEALTH AND WELLNESS FOUNDATION, INC.

STATEMENT OF FINANCIAL POSITION

DECEMBER 31, 2003

ASSETS

CURRENT ASSETS

Cash and Cash Equivalents (Note 2)	\$ 594,625
Prepaid Insurance	2,283
Prepaid Rent	883
Prepaid Maintenance Contracts	1,186
Investment Income Receivable	123,067
Investments - SEI Trust Company (Note 5)	<u>18,684,890</u>

TOTAL CURRENT ASSETS \$ 19,406,934

NONCURRENT ASSETS

Escrow Account - Wachovia Bank (Note 6)	9,990,904
Assets Held in Perpetuity by Outside Trustees (Note 7)	11,908,083
Equipment, Net	<u>26,852</u>

TOTAL NONCURRENT ASSETS 21,925,839

TOTAL ASSETS \$ 41,332,773

LIABILITIES AND NET ASSETS

CURRENT LIABILITIES

Accounts Payable	\$ 213
Accrued Payroll Taxes	<u>4,408</u>

TOTAL LIABILITIES \$ 4,621

NET ASSETS

Unrestricted	19,429,165
Temporarily Restricted	9,990,904
Permanently Restricted	<u>11,908,083</u>

TOTAL NET ASSETS 41,328,152

TOTAL LIABILITIES AND NET ASSETS \$ 41,332,773

See accompanying notes and accountant's report.

SALEM HEALTH AND WELLNESS FOUNDATION, INC.

STATEMENT OF ACTIVITIES

FOR THE YEAR ENDED DECEMBER 31, 2003

	<u>Unrestricted</u>	<u>Temporarily Restricted</u>	<u>Permanently Restricted</u>	<u>Total</u>
<u>REVENUES, GAINS, AND OTHER SUPPORT</u>				
Contributions	\$ 126,727			\$ 126,727
Additional Proceeds-Sale of Hospital	1,000,000			1,000,000
Interest Income	247,086			247,086
Dividend Income	277,174			277,174
Income Distributions-Trust Funds	298,949			298,949
Change in Value of Assets Held in Perpetuity by Outside Trustees			\$ 1,512,795	1,512,795
Gain on Sale of Securities	67,741			67,741
Unrealized Gain on Investments	1,216,388	\$(27,817)		1,188,571
Capital Gain Distributions	29,054			29,054
Net Assets Released from Restrictions	91,122		(91,122)	-0-
	<u> </u>	<u> </u>	<u> </u>	<u> </u>
TOTAL REVENUES, GAINS, AND OTHER SUPPORT	\$ 3,354,241	\$(27,817)	\$ 1,421,673	\$ 4,748,097
 <u>EXPENSES</u>				
Supporting Services				
Management and General	149,727	-0-	-0-	149,727
	<u> </u>	<u> </u>	<u> </u>	<u> </u>
INCREASE (DECREASE) IN NET ASSETS	3,204,514	(27,817)	1,421,673	4,598,370
NET ASSETS - JANUARY 1, 2003	16,224,651	10,018,721	10,486,410	36,729,782
	<u> </u>	<u> </u>	<u> </u>	<u> </u>
NET ASSETS - DECEMBER 31, 2003	<u>\$ 19,429,165</u>	<u>\$ 9,990,904</u>	<u>\$ 11,908,083</u>	<u>\$ 41,328,152</u>

See accompanying notes and accountant's report.

SALEM HEALTH AND WELLNESS FOUNDATION, INC.

STATEMENT OF FUNCTIONAL EXPENSES

FOR THE YEAR ENDED DECEMBER 31, 2003

SUPPORTING SERVICES

MANAGEMENT AND GENERAL

Accounting/Audit Fees	\$ 5,875
Advertising/Legal Notices	800
Membership Dues	225
Equipment Maintenance	240
Insurance	2,428
Internet Access Fees	512
Legal Fees	45,000
Meetings and Conferences	75
Office Supplies/Expense	1,840
Postage	339
Rent	10,600
Software Maintenance	685
Staff Training	300
Subscriptions	68
Telephone	2,174
Wages	58,750
Payroll Taxes	5,845
NJ Filing Fees	150
Bank Service Charges	20
Brokerage Fees - SEI	12,410
Depreciation	<u>1,391</u>
TOTAL EXPENSES REPORTED BY FUNCTION	<u>\$ 149,727</u>

See accompanying notes and accountant's report.

SALEM HEALTH AND WELLNESS FOUNDATION, INC.

STATEMENT OF CASH FLOWS

FOR THE YEAR ENDED DECEMBER 31, 2003

CASH FLOWS FROM OPERATING ACTIVITIES

Increase in Net Assets	\$ 4,598,370
Adjustments to Reconcile Increase in Net Assets to Net Cash Provided by Operating Activities:	
Depreciation	1,391
Gain on Sale of Securities	(67,741)
Unrealized Gain on Investments	(1,188,571)
Non-Cash Donations	(22,907)
Changes in Assets and Liabilities:	
Increase in Prepaid Insurance	(329)
Increase in Prepaid Maintenance Contracts	(1,186)
Decrease in Due from TRG - Healthcare, LLC	1,252,000
Increase in Investment Income Receivable	(38,954)
Decrease in Unconditional Promises to Give	229,452
Increase in Assets Held in Perpetuity by Outside Trustees	(1,421,673)
Decrease in Accounts Payable	(8,911)
Increase in Accrued Payroll Taxes	<u>4,408</u>

CASH PROVIDED BY OPERATING ACTIVITIES \$ 3,335,349

CASH FLOWS FROM INVESTING ACTIVITIES:

Equipment Acquisitions	(27,693)
Proceeds - Sales of Investments	43,386,275
Purchases of Investments	<u>(60,764,679)</u>

CASH USED IN INVESTING ACTIVITIES (17,406,097)

NET DECREASE IN CASH AND CASH EQUIVALENTS (14,070,748)

CASH AND CASH EQUIVALENTS - JANUARY 1, 2003 14,665,373

CASH AND CASH EQUIVALENTS - DECEMBER 31, 2003 \$ 594,625

See accompanying notes and accountant's report.

SALEM HEALTH AND WELLNESS FOUNDATION, INC.

NOTES TO THE FINANCIAL STATEMENTS

DECEMBER 31, 2003

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, 2003

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 503 (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, 2003, is \$ 1,391.

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.

Business Checking - Hudson United Bank	\$ 22,637
Checking Account - SEI (CCA)	12,089
SEI Daily Income Prime Obligation Fund	19,360
SEI Liquid Asset Prime Obligation Fund	<u>540,539</u>
Total	<u>\$ 594,625</u>

SALEM HEALTH AND WELLNESS FOUNDATION, INC.

NOTES TO THE FINANCIAL STATEMENTS

DECEMBER 31, 2003

NOTE 3 CONCENTRATION OF CREDIT RISK

The Foundation maintains its cash balances in one financial institution located in Salem County, New Jersey. The balances are insured by the Federal Deposit Insurance Corporation up to \$ 100,000. At December 31, 2003, the Foundation's uninsured cash balances total \$ 394,625.

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 TRG - Healthcare, L.L.C., a management company, that is responsible for the administration of said funds. The balance being administered by TRG -Healthcare, L.L.C., net of estimated liabilities, as of December 31, 2003, is \$ 5,383,507. Because of the uncertainty relating to the disposition of the funds being administered by TRG - Healthcare, L.L.C., 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, 2003:

	<u>Cost</u>	<u>Fair Value</u>
SEI Core Fixed Income Fund	\$ 6,353,047	\$ 6,442,510
Domestic Stocks	9,826,983	10,794,891
SEI International Equity Fund	<u>1,266,315</u>	<u>1,447,489</u>
 Total	 <u>\$ 17,446,345</u>	 <u>\$ 18,684,890</u>

SALEM HEALTH AND WELLNESS FOUNDATION, INC.

NOTES TO THE FINANCIAL STATEMENTS

DECEMBER 31, 2003

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.

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>1/1/03</u>	<u>Value</u> <u>12/31/03</u>	<u>Change</u> <u>In Value</u>	<u>Income</u> <u>Distributions</u> <u>12/31/03</u>
Fox Trust	\$ 598,373	\$ 705,024	\$ 106,651	\$ 15,369
Huber Trust	115,627	136,426	20,799	2,287
Huber Scholarship Tr	106,014	121,471	15,457	-0-
Rumsey Trust	214,740	232,635	17,895	7,031
Hitchner Trust	9,152,783	10,467,191	1,314,408	267,602
Parvin Trust	180,166	205,982	25,816	5,683
Sherron Trust	27,888	32,074	4,186	911
Hiles Trust	8,379	7,280	(1,099)	66
Memorial Hosp. Endow.	82,440	91,122	8,682	-0-
Released from Restrictions		(91,122)		
	<u>\$ 10,486,410</u>	<u>\$ 11,908,083</u>	<u>\$ 1,512,795</u>	<u>\$ 298,949</u>

SALEM HEALTH AND WELLNESS FOUNDATION, INC.

NOTES TO THE FINANCIAL STATEMENTS

DECEMBER 31, 2003

NOTE 8 OPERATING LEASE COMMITMENT

The Foundation's lease agreement for office space with Salem County Board for Vocational Education, commencing December 1, 2002, was automatically extended on December 1, 2003 for one year, until November 30, 2004. The monthly rental amount due is \$ 883.31, including custodial services. The following is a schedule, by years, of future minimum rentals under the operating lease as of December 31, 2003:

Year Ending December 31, 2004	<u>\$ 9,716</u>
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