

**St. Joseph's Hospital and Medical
Center Foundation, Inc.**

Financial Statements

December 31, 2010



Independent Auditors' Report

**To the Board of Directors of
St. Joseph's Hospital and Medical Center Foundation, Inc.**

We have audited the accompanying statement of financial position of St. Joseph's Hospital and Medical Center Foundation, Inc. (the Foundation) as of December 31, 2010, and the related statements of activities and cash flows for the year then ended. These financial statements are the responsibility of the Foundation's management. Our responsibility is to express an opinion on these financial statements based on our audit. The prior year summarized comparative information has been derived from the Foundation's 2009 financial statements and, in our report dated March 12, 2010 we expressed an unqualified opinion on those financial statements.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes consideration of internal control over financial reporting as a basis for designing audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Foundation's internal control over financial reporting. Accordingly, we express no such opinion. An audit also includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements, assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinion.

In our opinion, the 2010 financial statements referred to above present fairly, in all material respects, the financial position of St. Joseph's Hospital and Medical Center Foundation, Inc. as of December 31, 2010, 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.

O'Connor Davies Munns & Dobbins, LLP

Paramus, New Jersey
March 7, 2011

St. Joseph's Hospital and Medical Center Foundation, Inc.

Statement of Financial Position

December 31, 2010

(with comparative amounts at December 31, 2009)

	<u>2010</u>	<u>2009</u>
ASSETS		
Current Assets		
Cash and cash equivalents	\$ 4,993,042	\$ 3,165,624
Investments	2,204,062	10,591,926
Unconditional promises to give	2,607,964	1,466,913
Rents receivable and prepaid expenses	34,743	54,276
Notes receivable	<u>75,051</u>	<u>69,454</u>
Total Current Assets	<u>9,914,862</u>	<u>15,348,193</u>
Assets whose use is limited	6,159,221	5,938,172
Unconditional promises to give, net	6,688,858	3,664,382
Notes receivable	1,822,307	1,896,431
Investment property, net of accumulated depreciation of \$394,938 and \$363,910	545,167	576,195
Beneficial interests in trust	<u>1,960,250</u>	<u>1,793,460</u>
	<u>\$ 27,090,665</u>	<u>\$ 29,216,833</u>
LIABILITIES AND NET ASSETS		
Liabilities		
St. Joseph's Hospital and Medical Center payable	\$ 5,733,058	\$ 8,252,206
Accounts payable and accrued expenses	<u>122,691</u>	<u>34,629</u>
Total Current Liabilities	<u>5,855,749</u>	<u>8,286,835</u>
St. Joseph's Hospital and Medical Center payable	-	4,901,000
Annuities payable	<u>49,060</u>	<u>52,724</u>
Total Liabilities	<u>5,904,809</u>	<u>13,240,559</u>
Commitments and contingencies		
Net Assets		
Unrestricted	3,588,846	3,412,334
Temporarily restricted	15,636,760	10,770,480
Permanently restricted	<u>1,960,250</u>	<u>1,793,460</u>
Total Net Assets	<u>21,185,856</u>	<u>15,976,274</u>
	<u>\$ 27,090,665</u>	<u>\$ 29,216,833</u>

See notes to financial statements

St. Joseph's Hospital and Medical Center Foundation, Inc.

Statement of Activities

Year Ended December 31, 2010
(with summarized totals for 2009)

	<u>Unrestricted</u>	<u>Temporarily Restricted</u>	<u>Permanently Restricted</u>	<u>2010 Total</u>	<u>2009 Total</u>
REVENUES					
Annual fund	\$ 478,381	\$ 7,263,693	\$ -	\$ 7,742,074	4,221,862
Special events	1,485,330	-	-	1,485,330	1,243,428
Net rental income - 57 Willowbrook	163,501	-	-	163,501	158,664
Interest and dividend income, net of investment fees of \$26,376 and \$65,732	318,605	460	-	319,065	474,067
Net gain (loss) on investments	(107,266)	-	-	(107,266)	7,907
Net assets released from restrictions	<u>2,397,873</u>	<u>(2,397,873)</u>	<u>-</u>	<u>-</u>	<u>-</u>
	<u>4,736,424</u>	<u>4,866,280</u>	<u>-</u>	<u>9,602,704</u>	<u>6,105,928</u>
EXPENSES					
Program Expense					
Contribution - St. Joseph Hospital and Medical Center	1,833,408	-	-	1,833,408	1,209,445
Contributions - other	32,537	-	-	32,537	85,335
Fundraising Expense					
Special events	609,080	-	-	609,080	622,389
Fundraising expenses and other costs	1,421,423	-	-	1,421,423	1,342,881
Bad debts	<u>663,464</u>	<u>-</u>	<u>-</u>	<u>663,464</u>	<u>390,238</u>
	<u>4,559,912</u>	<u>-</u>	<u>-</u>	<u>4,559,912</u>	<u>3,650,288</u>
NON-OPERATING ACTIVITY					
Change in beneficial interests in trust	<u>-</u>	<u>-</u>	<u>166,790</u>	<u>166,790</u>	<u>345,510</u>
Change in Net Assets	176,512	4,866,280	166,790	5,209,582	2,801,150
NET ASSETS					
Beginning of year	<u>3,412,334</u>	<u>10,770,480</u>	<u>1,793,460</u>	<u>15,976,274</u>	<u>13,175,124</u>
End of year	<u>\$ 3,588,846</u>	<u>\$ 15,636,760</u>	<u>\$ 1,960,250</u>	<u>\$ 21,185,856</u>	<u>\$ 15,976,274</u>

See notes to financial statements

St. Joseph's Hospital and Medical Center Foundation, Inc.

Statement of Cash Flows

Year Ended December 31, 2010
(with comparative amounts for 2009)

	<u>2010</u>	<u>2009</u>
CASH FLOWS FROM OPERATING ACTIVITIES		
Change in net assets	\$ 5,209,582	\$ 2,801,150
Adjustments to reconcile change in net assets to net cash from operating activities		
Depreciation	31,028	27,258
Net (gain) loss on investments	107,266	(7,907)
Change in beneficial interests in trusts	(166,790)	(345,510)
Bad debts	663,464	390,238
Net change in operating assets and liabilities		
Unconditional promises to give	(4,828,991)	(2,410,452)
Rents receivable	19,533	24,741
Accounts payable and accrued expenses	88,062	(21,236)
Annuities payable	(3,664)	16,976
St. Joseph's Hospital and Medical Center payable	<u>(7,420,148)</u>	<u>(2,249,398)</u>
Net Cash from Operating Activities	<u>(6,300,658)</u>	<u>(1,774,140)</u>
CASH FLOWS FROM INVESTING ACTIVITIES		
Purchase of investments	(1,482,181)	(13,624,877)
Proceeds from investments sold	<u>9,541,730</u>	<u>15,838,741</u>
Net Cash from Investing Activities	<u>8,059,549</u>	<u>2,213,864</u>
CASH FLOWS FROM FINANCING ACTIVITIES		
Collection on note receivable	<u>68,527</u>	<u>64,270</u>
Change in cash	1,827,418	503,994
CASH AND CASH EQUIVALENTS		
Beginning of year	<u>3,165,624</u>	<u>2,661,630</u>
End of year	<u>\$ 4,993,042</u>	<u>\$ 3,165,624</u>

See notes to financial statements

**St. Joseph's Hospital and Medical
Center Foundation, Inc.**

Notes to Financial Statements

1. History of St. Joseph's Hospital and Medical Center Foundation, Inc.

St. Joseph's Hospital and Medical Center Foundation, Inc. ("the Foundation") is a public charity incorporated in 1982. The Foundation raises funds for St. Joseph's Hospital and Medical Center (the Medical Center), its affiliated organizations, as well as other area charitable organizations.

2. Summary of Significant Accounting Policies

Financial Statement Presentation

The Foundation reports information regarding its financial position and activities according to the following three classes of net assets based on donor imposed restrictions: unrestricted net assets, temporarily restricted net assets, and permanently restricted net assets.

Use of Estimates

The presentation of financial statements in conformity with accounting principles generally accepted in the United States of America requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates.

Cash and Cash Equivalents

For cash flows presentation purposes, cash includes highly liquid cash investments with a maturity of ninety days or less at the time of purchase, however, cash included as investments are not included in cash.

Fair Value Measurements

The Foundation follows Financial Accounting Standards Board ("FASB") guidance on *Fair Value Measurements* which defines fair value and establishes a fair value hierarchy organized into three levels based upon the input assumptions used in pricing assets. Level 1 inputs have the highest reliability and are related to assets with unadjusted quoted prices in active markets. Level 2 inputs relate to assets with other than quoted prices in active markets which may include quoted prices for similar assets or liabilities or other inputs which can be corroborated by observable market data. Level 3 inputs are unobservable inputs and are used to the extent that observable inputs do not exist.

**St. Joseph's Hospital and Medical
Center Foundation, Inc,**

Notes to Financial Statements

2. Summary of Significant Accounting Policies (continued)

Investments

Investments in debt and equity securities are carried at fair value in the statement of financial position. Concentration of credit risk with respect to investments is reduced by diversification, professional management, and limited exposure to any single investment.

Investment Property and Equipment

The investment property relates to the Foundation's ownership in a condominium interest located at 57 Willowbrook, Wayne. Such investment is carried at cost. Depreciation is provided on the straight-line basis over the estimated useful life of 31.5 years.

Maintenance and repairs are charged to expense as incurred. Major renewals and betterments are capitalized. Upon sale or other disposition of assets, the cost and related accumulated depreciation are removed from the accounts and any resulting gain or loss is reflected in the statement of activities.

Contributions and Pledges Receivable

The Foundation recognizes revenue from charitable donations at the time the unconditional promise to give is made, at estimated net realizable value. Contributions receivable over a period of time beyond one year are discounted to present value using a credit adjusted discount rate and the discount is amortized into contribution income over the discount period.

Allowance for Uncollectible Receivables

An allowance for uncollectible receivables is estimated based on a combination of write-off history, aging analysis and any specific known troubled accounts.

Tax Status

The Foundation is a not-for-profit corporation as described in Section 501(c)(3) of the Internal Revenue Code and is exempt from federal and state income taxes on related income pursuant to Section 501(a) of the Code. The Foundation recognizes the effect of tax positions when they are more likely than not of being sustained. Management has determined that the Foundation had no uncertain tax positions that would require financial statement recognition. The Foundation is no longer subject to audits by the applicable taxing jurisdictions for periods prior to January 1, 2007.

**St. Joseph's Hospital and Medical
Center Foundation, Inc,**

Notes to Financial Statements

2. Summary of Significant Accounting Policies (continued)

Assets Whose Use is Limited

Assets whose use is limited include assets held to be used for temporarily restricted purposes.

Annuities Payable

Included in the investments held by the Foundation are investments in annuity income funds arising from contributions which are subject to agreements to pay donors a fixed annuity over the remainder of their lives. The net present value of the actuarially expected annuity payments is recorded as a liability. The liabilities are adjusted annually for accretion of the discount and changes in actuarial assumptions.

Subsequent Events Evaluation by Management

Management has evaluated subsequent events for disclosure and/or recognition in the financial statements through the date that the financial statements were available to be issued, which date is March 7, 2011.

3. Prior Year Information

The statement of activities includes certain prior-year summarized comparative information in total but not by net asset class. Such information does not include sufficient detail to constitute a presentation in conformity with generally accepted accounting principles. Accordingly, such information should be read in conjunction with the Foundation's financial statements for the year ended December 31, 2009 from which the summarized information was derived.

4. Beneficial Interests in Trust

The Foundation is a beneficiary of a Caspers Memorial Fund trust established by donors. As such the Foundation receives annual distributions which are included in unrestricted income for the year. Future distributions from the trust are subject to the Foundation continuing to exist and function. The trust is held and managed by independent trustees.

**St. Joseph's Hospital and Medical
Center Foundation, Inc,**

Notes to Financial Statements

5. Fair Value and Investment Income

Amounts included in the accompanying statement of financial position categorized by the fair value hierarchy, are as follows at December 31, 2010:

	Quoted Prices in Active Markets for Identical Assets (Level 1)	<u>Total</u>
Investments		
U.S. Government Securities	\$ 4,990,370	\$ 4,990,370
Equity Securities		
Financial industry	619,613	619,613
Technology industry	101,151	101,151
Retail industry	<u>42,612</u>	<u>42,612</u>
Total at Fair Value	<u>5,753,746</u>	5,753,746
Cash equivalents		<u>2,609,537</u>
Total Investments		<u>\$ 8,363,283</u>

Classification in statement of financial position:

Investments	\$ 2,204,062
Assets Whose use is Limited	<u>6,159,221</u>
	<u>\$ 8,363,283</u>

Beneficial interest in trust of \$1,960,250 were valued using level 3 inputs.

Investment income is composed of the following for the year ended December 31, 2010:

Interest and dividend income	\$ 345,441
Less investment fees	(26,376)
Net realized and unrealized gain and loss	(107,266)
Rental income, net	<u>163,501</u>
	<u>\$ 375,300</u>

**St. Joseph's Hospital and Medical
Center Foundation, Inc,**

Notes to Financial Statements

6. Note Receivable

During 2007 the Foundation converted its property at 57 Willowbrook, Wayne, into a condominium entity containing three units and sold a portion of the condominium space to unrelated parties. As of December 31, 2010 the Foundation owns approximately one and one third of the original three units. The following table lists the notes receivable that are due from the sale:

Note secured by a condominium interest. The note will amortize over 20 years. Interest is set at 6.25% and will adjust every five years to 2.5% over the five year Treasury bill rate	\$ 1,087,251
Note secured by a condominium interest. The note will amortize over 20 years with interest at 7%. Interest will adjust in 2012 and every 5 years thereafter to 2.5% above the five year Treasury bill rate	471,735
Note secured by a condominium interest. The note will amortize over 20 years with interest at 7%. Interest will adjust in 2012 every five years thereafter to 2.5% above the five year Treasury bill rate	<u>338,372</u>
	1,897,358
Less current portion	<u>75,051</u>
	<u><u>\$ 1,822,307</u></u>

The annual principal payments for the next five years and thereafter are as follows:

<u>Year Ended</u> <u>December 31,</u>	<u>Amount</u>
2011	\$ 75,051
2012	79,105
2013	84,423
2014	90,100
2015	94,760
Thereafter	<u>1,473,919</u>
	<u><u>\$ 1,897,358</u></u>

**St. Joseph's Hospital and Medical
Center Foundation, Inc,**

Notes to Financial Statements

7. Unconditional Promises to Give

Unconditional promises to give by donors are considered contributions by the Foundation and are recognized as revenue and receivables in the period the promises are received. The unconditional promises to give which extend beyond one year are discounted at 4.5% to their fair value as of December 31, 2010. Unconditional promises to give are expected to be collected as follows:

One year	\$ 2,607,964
Two years to five years	7,058,365
More than five years	<u>2,062,493</u>
	11,728,822
Present value discount	(1,206,000)
Allowance for uncollectibles	<u>(1,226,000)</u>
	<u>\$ 9,296,822</u>

The unconditional promises to give from one donor accounted for approximately 40% of the total receivable before present value discount and allowance.

8. Payable to St. Joseph Hospital and Medical Center

In 2008, the Foundation made a pledge for \$20,000,000 to fund the new capital projects at the hospital. The final payment of \$5,000,000 will be paid in 2011.

9. Temporarily Restricted Net Assets

Temporarily restricted net assets are available for future periods or for specific purposes. Net assets during the year were released from donor restrictions by incurring expenditures satisfying the restricted purpose.

Temporarily restricted net assets as of December 31, 2010 are available for the following purposes:

Restricted As To Purpose:	
Capital campaign	\$ 10,380,976
Medical equipment and programs	1,173,234
Adult and Children Services	4,011,710
Other health care programs	<u>70,840</u>
	<u>\$ 15,636,760</u>

**St. Joseph's Hospital and Medical
Center Foundation, Inc,**

Notes to Financial Statements

9. Temporarily Restricted Net Assets (continued)

Net assets released from restrictions during the year ended December 31, 2010, represent revenue from various restricted net assets expended as follows:

Capital campaign	\$ 1,601,863
Medical equipment and programs	152,784
Adult and Children Services	634,402
Other health care programs	<u>8,824</u>
Total Net Assets Released from Restrictions	<u>\$ 2,397,873</u>

10. Rental Income

As of the end of 2010, the Foundation owns and rents one and one third out of the three condominium units in an office complex in Wayne, New Jersey. An unrelated company leases one unit and the Medical Center leases the remaining one third of the unit on a month-to-month basis.

11. Related Party Transactions

The Foundation receives certain services from the Medical Center. These services include various operating expenses such as salaries, rent, utilities and other administrative expenses. During 2010 and 2009, the Foundation paid the Medical Center \$1,107,092 and \$976,771, respectively for these services.

12. Concentration of Credit Risk

Financial instruments that potentially subject the Foundation to concentrations of credit risk consist principally of cash and investments. The Foundation maintains its cash in bank deposit accounts, the balances of which, at times, may exceed Federally insured limits. Exposure to credit risk is reduced by placing deposits and investments in highly regarded financial institutions.

13. Commitments and Contingencies

At December 31, 2010 and 2009, the Foundation is part of the obligated group for the outstanding 2008 bonds payable by the Hospital. The bond payable by the Hospital amounted to \$241,685,000 at December 31, 2010.