

**ST. JOSEPH'S HOSPITAL AND
MEDICAL CENTER FOUNDATION, INC.
Financial Statements
December 31, 2019
With Independent Auditor's Report**

St. Joseph's Hospital and Medical Center Foundation, Inc.
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December 31, 2019

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INDEPENDENT AUDITOR'S REPORT

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

We have audited the accompanying financial statements of St. Joseph's Hospital and Medical Center Foundation, Inc., which comprise the statement of financial position as of December 31, 2019, and the related statements of activities and changes in net assets 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 accounting principles generally accepted in the United States of America; 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.

Auditor's 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 auditor's 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 entity'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 entity'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.

Opinion

In our opinion, the 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, 2019, and the changes in its net assets and its cash flows for the year then ended in accordance with accounting principles generally accepted in the United States of America.

Supplementary Information

Our audit was conducted for the purpose of forming an opinion on the financial statements as a whole. The accompanying supplementary schedules on pages 17 - 19 are presented for purposes of additional analysis and are not a required part of the financial statements. Such information is the responsibility of management and was derived from and relates directly to the underlying accounting and other records used to prepare the financial statements. The information has been subjected to the auditing procedures applied in the audit of the financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the financial statements or to the financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the information is fairly stated in all material respects in relation to the financial statements as a whole.

Withum Smith + Brown, PC

May 4, 2020

St. Joseph's Hospital and Medical Center Foundation, Inc.
Statement of Financial Position
December 31, 2019

Assets

Current assets	
Cash and cash equivalents	\$ 1,451,012
Investments	4,982,730
Unconditional promises to give, net	1,244,985
Prepaid expenses and other current assets	<u>57,783</u>
Total current assets	7,736,510
Assets whose use is limited	6,939,313
Investments - endowment	123,142
Unconditional promises to give, net	420,829
Cash surrender value of life insurance	20,503
Beneficial interests in trusts	<u>6,195,989</u>
Total assets	<u>\$ 21,436,286</u>

Liabilities and Net Assets

Current liabilities	
St. Joseph's Hospital and Medical Center payable	\$ 1,359,020
Accounts payable and accrued expenses	<u>272,321</u>
Total current liabilities	1,631,341
Annuities payable	<u>63,513</u>
Total liabilities	<u>1,694,854</u>
Commitments and contingencies	
Net assets	
Without donor restrictions	6,482,988
With donor restrictions	<u>13,258,444</u>
Total net assets	<u>19,741,432</u>
Total liabilities and net assets	<u>\$ 21,436,286</u>

The Notes to Financial Statements are an integral part of this statement.

St. Joseph's Hospital and Medical Center Foundation, Inc.
Statement of Activities and Changes in Net Assets
Year Ended December 31, 2019

	<u>Without Donor</u>	<u>With Donor Restrictions</u>	<u>Total</u>
Support and Revenue			
Pledges and contributions	\$ 496,956	\$ 3,743,442	\$ 4,240,398
Contributed service revenue	30,506	-	30,506
Special events	1,497,695	-	1,497,695
Interest and dividend income, net	412,663	2,465	415,128
Net realized and unrealized (loss) gain on investments	490,651	1,716	492,367
Net assets released from restriction	1,980,810	(1,980,810)	-
Total support and revenue	<u>4,909,281</u>	<u>1,766,813</u>	<u>6,676,094</u>
Expenses			
Program expenses			
Contributions - St. Joseph's Hospital and Medical Center	1,830,810	-	1,830,810
Contributions - other	3,939,680	-	3,939,680
General and fundraising expenses			
Special events	760,572	-	760,572
Fundraising expenses and management, administrative and general	1,710,896	-	1,710,896
Bad debts	195,182	-	195,182
Total expenses	<u>8,437,140</u>	<u>-</u>	<u>8,437,140</u>
Non-operating activity			
Change in beneficial interests in trusts	<u>-</u>	<u>665,697</u>	<u>665,697</u>
Changes in net assets	(3,527,859)	2,432,510	(1,095,349)
Net assets			
Beginning of year	<u>10,010,847</u>	<u>10,825,934</u>	<u>20,836,781</u>
End of year	<u>\$ 6,482,988</u>	<u>\$ 13,258,444</u>	<u>\$ 19,741,432</u>

The Notes to Financial Statements are an integral part of this statement.

St. Joseph's Hospital and Medical Center Foundation, Inc.
Statement of Cash Flows
Year Ended December 31, 2019

Operating activities

Change in net assets	\$ (1,095,349)
Adjustments to reconcile change in net assets to net cash used in operating activities	
Net realized and unrealized loss (gain) on investments and assets whose use is limited	(492,367)
Change in beneficial interests in trusts	(665,697)
Discount on unconditional promises to give	106,200
Bad debts	195,182
Changes in operating assets and liabilities	
Unconditional promises to give	117,826
Prepaid expenses and other current assets	(14,960)
Cash surrender value of life insurance	(3,576)
St. Joseph's Hospital and Medical Center payable	1,157,124
St. Joseph's Wayne Hospital payable	(58,702)
Accounts payable and accrued expenses	116,413
Annuities payable	<u>(15,611)</u>
Net cash used in operating activities	<u>(653,517)</u>

Investing activities

Purchase of investments and assets whose use is limited	(5,051,438)
Sale of investments and assets whose use is limited	<u>3,207,130</u>
Net cash used in investing activities	<u>(1,844,308)</u>

Net change in cash, cash equivalents and restricted cash (2,497,825)

Cash, cash equivalents and restricted cash

Beginning of year	<u>4,514,538</u>
End of year	<u>\$ 2,016,713</u>

Supplemental disclosures of cash flow information

Cash paid for interest	<u>\$ -</u>
Cash paid for income taxes	<u>\$ -</u>

Cash, cash equivalents and restricted cash as reported within the statement of financial position

Cash and cash equivalents	\$ 1,451,012
Cash, cash equivalents and restricted cash included in investments and assets whose use is limited	<u>565,701</u>
Total cash, cash equivalents, and restricted cash as shown in the statement of cash flows	<u>\$ 2,016,713</u>

The Notes to Financial Statements are an integral part of this statement.

St. Joseph's Hospital and Medical Center Foundation, Inc.
Notes to Financial Statements
December 31, 2019

1. ORGANIZATION

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

The Foundation is the result of a merger on January 1, 2019 of St. Joseph's Wayne Hospital Foundation, Inc. and St. Joseph's Hospital and Medical Center Foundation, Inc. The purpose of the merger was to combine the resources and functions into a single foundation supporting the entire St. Joseph's Healthcare System. Effective January 1, 2019, St. Joseph's Hospital and Medical Center Foundation, Inc. took possession of all assets and assumed all obligations of the two organizations as follows:

	St. Joseph's Hospital and Medical Center Foundation	St. Joseph's Wayne Hospital Foundation	Total
Assets			
Current assets			
Cash and cash equivalents	\$ 1,633,663	\$ 689,179	\$ 2,322,842
Investments	3,170,244	2,991,762	6,162,006
Unconditional promises to give, net	992,093	43,775	1,035,868
Due from St. Joseph's Hospital and Medical Center Foundation	-	135,097	135,097
Prepaid expenses and other current assets	<u>35,648</u>	<u>7,175</u>	<u>42,823</u>
Total current assets	5,831,648	3,866,988	9,698,636
Assets whose use is limited	4,264,067	908,432	5,172,499
Unconditional promises to give, net	961,938	87,216	1,049,154
Cash surrender value of life insurance	16,927	-	16,927
Beneficial interests in trusts	<u>4,767,340</u>	<u>762,952</u>	<u>5,530,292</u>
Total assets	<u>\$ 15,841,920</u>	<u>\$ 5,625,588</u>	<u>\$ 21,467,508</u>
Liabilities and Net Assets			
Current liabilities			
St. Joseph's Hospital and Medical Center payable	\$ 201,896	\$ -	\$ 201,896
Due to St. Joseph's Wayne Hospital	-	58,702	58,702
Due to St. Joseph's Wayne Hospital Foundation	135,097	-	135,097
Accounts payable and accrued expenses	<u>129,941</u>	<u>25,967</u>	<u>155,908</u>
Total current liabilities	466,934	84,669	551,603
Annuities payable	<u>79,124</u>	<u>-</u>	<u>79,124</u>
Total liabilities	<u>546,058</u>	<u>84,669</u>	<u>630,727</u>
Commitments and contingencies			
Net assets			
Without donor restrictions	6,264,455	3,746,392	10,010,847
With donor restrictions	<u>9,031,407</u>	<u>1,794,527</u>	<u>10,825,934</u>
Total net assets	<u>15,295,862</u>	<u>5,540,919</u>	<u>20,836,781</u>
Total liabilities and net assets	<u>\$ 15,841,920</u>	<u>\$ 5,625,588</u>	<u>\$ 21,467,508</u>

St. Joseph's Hospital and Medical Center Foundation, Inc.
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On January 1, 2019, the intercompany transaction balance was eliminated as a result of the merger and is not included in the table above. As a result of this elimination, St. Joseph's Hospital and Medical Center Foundation's net assets without donor restrictions were increased by \$135,097 and St. Joseph's Wayne Hospital Foundation's net assets without donor restrictions were decreased by \$135,097.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Basis of Accounting

The accompanying financial statements have been prepared in accordance with accounting principles generally accepted in the United States of America on the accrual basis of accounting. Assets and liabilities are recognized when the assets are acquired or the liability incurred. Revenues and gains are recognized when earned, and expenses and losses are recognized when incurred.

Financial Statement Presentation

The Foundation separately accounts for its net assets and its revenues, gains and expenses based on the existence or absence of donor or other imposed restrictions as follows:

Net assets without donor restrictions: Consist of resources available for the general support of the Foundation's operations. Net assets without donor restrictions may be used at the discretion of the Foundation's management and Board of Trustees.

Net assets with donor restrictions: Represent amounts restricted by donors for specific activities of the Foundation or to be used at some future date. The Foundation records contributions with donor restrictions if they are received with donor stipulations that limit their use either through purpose or time restrictions. When a donor restriction expires, that is, when a time restriction ends or a purpose restriction is fulfilled, net assets with donor restrictions are reclassified to net assets without donor restrictions and reported in the statement of activities and changes in net assets as net assets released from restriction. However, when restrictions on donor-restricted contributions and investment returns are met in the same accounting period, such amounts of contribution or investment income are reported as increases in net assets without donor restrictions. In addition, net assets with donor restrictions consist of funds that are subject to restrictions of gift instruments requiring that the principal be invested in perpetuity and the income be used for specific or general purposes. Income and gains earned on endowment fund investments with donor restrictions are available to be used based upon stipulations by the donors.

Use of Estimates

The preparation of these financial statements in accordance 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. Accordingly, actual results could differ from those estimates.

Contributed Services

The Foundation adopted guidance for recognizing and measuring services received from personnel of an affiliate that directly benefit a recipient not-for-profit entity and for which the affiliate does not charge the recipient not-for-profit entity. As such, the Foundation has recognized in-kind revenue and a corresponding expense for such contributed services associated with accounting personnel who are paid directly by the Medical Center and are not subject to reimbursement by the Foundation.

Cash and Cash Equivalents

For the accompanying statement of cash flows, cash and cash equivalents include all cash balances and any highly liquid investments with a maturity date of three months or less at the time of purchase.

St. Joseph's Hospital and Medical Center Foundation, Inc.
Notes to Financial Statements
December 31, 2019

Investments and Assets Whose Use is Limited

Investments and assets whose use is limited include marketable debt and equity securities and are measured at fair value based on quoted market prices, if available, or estimated quoted market prices for similar securities. Donated investments are recorded at fair market value on the date of receipt. Realized and unrealized gains and losses, and interest and dividends, net of investment fees, are reflected separately on the accompanying statements of activities and changes in net assets. Realized gains and losses for all investments are determined by the average cost method.

Assets whose use is limited are to be used for net assets with donor restriction purposes.

The Foundation's investments are managed by investment managers. Investment securities, in general, are exposed to various risks, such as interest rate, credit and overall market volatility. Due to the level of risk associated with certain investment securities, it is reasonably possible that changes in the values of investment securities will occur in the near term and that such change could materially affect the amounts reported in the financial statements.

Beneficial Interests in Trusts

On behalf of its affiliated hospitals, the Foundation is a beneficiary of several trusts established by donors or by New Jersey court order. The Foundation receives annual distributions from the trusts which are included in contributions without or with donor restrictions. Future distributions from these trusts are subject to the Foundation continuing to exist and function. The trusts are held and managed by independent trustees. The beneficial interests in trusts have been reflected at fair value, which approximates account value, in the accompanying statement of financial position.

Revenue and Support Recognition

The Foundation recognizes contributions as revenue when they are received or unconditionally pledged. The revenue from special events is recognized when the event occurs. The Foundation reports any gifts of cash and other assets as restricted support if they are received or unconditionally pledged with donor restrictions that limit the use of the donated assets. However, the receipt of any restricted contributions whose restrictions expire or are otherwise satisfied within the period of receipt are reported as support and revenue without donor restrictions in the statements of activities and changes in net assets. Gifts of long-lived assets with explicit restrictions that specify how the assets are to be used and gifts of cash or other assets that must be used to acquire long-lived assets are recorded at fair market value at the date of the gift and reported as net assets with donor restrictions. Absent explicit donor stipulations regarding the duration those long-lived assets must be maintained, the Foundation reports expirations of donor restrictions when the donated or acquired long-lived assets are placed in service.

In May 2014, the FASB issued ASU 2016-09, *Revenue from Contracts with Customers* (Topic 606) ("ASC 606"). ASC 606 supersedes the revenue recognition requirements in ASC 605, *Revenue Recognition*. ASC 606 established a core principle that an entity should recognize revenue to depict the transfer of promised goods or services to customers in an amount that reflects the consideration to which an entity expects to be entitled in exchange for those goods or services. The Foundation's income that is subject to ASC 606 is its special events revenue. The Foundation adopted this ASC 606 on January 1, 2019 using the modified retrospective method. Under this method, the guidance is applied to the most current period presented, recognizing the cumulative effect on the adoption change as an adjustment to beginning net assets. The Foundation concluded the adoption of ASC 606 had no effect on the statement of financial position and net assets.

St. Joseph's Hospital and Medical Center Foundation, Inc.
Notes to Financial Statements
December 31, 2019

Functional Allocation of Expenses

The costs of providing the Foundation's programs, fundraising and supporting services have been summarized on a functional basis in the statements of activities and changes in net assets. Costs that can be identified with a specific program, fundraising event or support service are charged directly to that program, event or support service. Staff costs are allocated based on time and effort. Management, administrative and general expenses include costs not identifiable with any specific program or fundraising event, but which provide overall support and direction of the Foundation.

Unconditional Promises to Give

Unconditional promises to give that are expected to be collected within one year are recorded at their net realizable value. Unconditional promises to give that are expected to be collected in future years are recorded at the present value of estimated future cash flows. The discounts on those amounts are computed using a risk-adjusted interest rate applicable to the year in which the promise is received. Amortization of the discount is included in revenue. These unconditional promises to give are reported as support without or with donor restrictions in the year of the promise as stipulated by the donor or made clear by the donor's intention. Conditional promises to give are not included as support until such time as the conditions are substantially met. An allowance is recorded based on management's estimate of uncollectability including such factors as prior collection history, type of contribution and the nature of the fundraising activity.

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 in the accompanying statements of financial position. The liabilities are adjusted annually for accretion of the discount and changes in actuarial assumptions.

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. As a result, the accompanying financial statements do not reflect a provision for Federal and State income taxes.

The Foundation follows the accounting guidance for uncertainties in income tax positions which requires that a tax position be recognized or derecognized based on a "more likely than not" threshold. This applies to positions taken or expected to be taken in a tax return. The Foundation does not believe its financial statements include any material uncertain tax positions. In addition, there have been no tax related interest or penalties for the period presented in these financial statements. Should any such penalties be incurred, the Foundation's policy would be to recognize them as operating expenses.

Volunteers

A number of volunteers, including the members of the Board, have made significant contributions of time to the Foundation's policymaking, program and support functions. The value of this contributed time does not meet the criteria for recognition of contributed services and, accordingly, is not reflected in the accompanying financial statements.

St. Joseph's Hospital and Medical Center Foundation, Inc.
Notes to Financial Statements
December 31, 2019

New Accounting Pronouncements Not Yet Adopted

Lease Transactions

In February 2016 the FASB issued ASU 2016-02, Leases which, as of the date these financial statements were available to be issued, is effective for fiscal years beginning after December 15, 2020 with early adoption permitted. However, there is a new proposed effective date, which would change the effective date to year ending after December 15, 2021. In addition to expanded disclosure requirements regarding leasing activities, the new standard significantly changes current lessee accounting for operating leases. Under the new standard all lessees will be required to recognize a right-of-use asset and a lease liability in the statement of financial position for all leases of property and equipment, except for certain leases classified as short-term leases. The Foundation has not adopted the new standard in these financial statements and is presently evaluating the effect adoption will have on prospective financial statements.

Recently Adopted Accounting Policies

Revenue Recognition

During 2019, the Foundation adopted Accounting Standards Update ("ASU") 2018-08, Not For Profit Entities (Topic 958): Clarifying the Scope and Accounting Guidance for Contributions Received and Contributions Made, which clarifies how entities determine whether to account for a transfer of assets (or a reduction, settlement or cancellation of a liability) as an exchange transaction or a contribution based on whether commensurate value has been received or transferred. The new guidance also clarifies that a contribution is conditional if the agreement includes both a barrier that must be overcome for the recipient to be entitled to the assets transferred and a right of return of the transferred assets or a right of release of the promisor's obligation to transfer assets. The clarified guidance applies to all entities that receive or make contributions (grants). This adoption of this ASU had no impact on current or prior periods.

The Foundation also adopted ASC 606. See Revenue and Support Recognition above for further details.

Restricted Cash

During 2019, the Foundation adopted ASU 2016-18 Statement of Cash Flows (Topic 230) – Restricted Cash. Under ASU 2016-18, the statement of cash flows requires an explanation of the change during the period in the total of cash, cash equivalents and amounts generally described as restricted cash or restricted cash equivalents. As a result, amounts generally described as restricted cash and restricted cash equivalents should be included with cash and cash equivalents when reconciling beginning-of-year and end-of-year total amounts shown on the statement of cash flows.

3. LIQUIDITY AND AVAILABILITY

As of December 31, 2019, financial assets available within one year for general expenditure were as follows:

Cash and cash equivalents	\$ 1,451,012
Investments	4,982,730
Unconditional promises to give, net	<u>1,244,985</u>
	<u>\$ 7,678,727</u>

None of the financial assets listed in the table above are subject to donor or other contractual restrictions that make them unavailable for general expenditure within one year of the statement of financial position date.

St. Joseph's Hospital and Medical Center Foundation, Inc.
Notes to Financial Statements
December 31, 2019

The Foundation regularly monitors liquidity to meet its operating needs and other contractual commitments, while also striving to maximize investment of its available funds. The Foundation has various sources of liquidity at its disposal, including cash and cash equivalents, investments and collections of unconditional promises to give.

For purposes of analyzing resources available to meet general expenditures over a 12-month period, the Foundation considers all expenditures related to its ongoing activities of raising funds to support the programs and services of its affiliated organizations and other area charitable organizations to be general expenditures.

In addition to financial assets available to meet general expenditures over the next 12 months, the Foundation operates with a positive working capital and anticipates collecting sufficient revenue to cover general expenditures not covered by resources with donor restrictions.

4. FAIR VALUE MEASUREMENTS

The Foundation measures fair value as the price that would be received to sell an asset or paid to transfer a liability (the exit price) in an orderly transaction between market participants at the measurement date. In determining fair value, the Foundation uses the market approach, which utilizes prices and other relevant information generated by market transactions involving identical or comparable assets or liabilities.

The Foundation uses the fair value hierarchy to determine the fair value based on the following:

Level 1 - Holdings use quoted (unadjusted) prices for identical assets or liabilities in active markets.

Level 2 - Holdings use the following methods: quoted prices for similar assets or liabilities in active markets, quoted prices for identical or similar assets in non-active markets (few transactions, limited information, non-current prices, high variability over time), inputs other than quoted prices that are observable for the assets or liabilities (e.g., interest rates, yield curves volatilities, default rates, etc.), and inputs that are derived principally from or corroborated by other observable market data.

Level 3 - Holdings use quoted market prices of the Foundation's beneficial interests in the underlying investments of the perpetual trusts.

There have been no changes in valuation techniques for these assets for the year ended December 31, 2019.

St. Joseph's Hospital and Medical Center Foundation, Inc.
Notes to Financial Statements
December 31, 2019

The following tables present the fair value hierarchy for the Foundation's financial assets measured at fair value on a recurring basis as of December 31, 2019:

	<u>Level 1</u>	<u>Level 2</u>	<u>Level 3</u>	<u>Total</u>
Investments and assets whose use is limited				
Fixed income				
Government bonds	\$ -	\$ 2,268,081	\$ -	\$ 2,268,081
Corporate bonds	-	6,649,361	-	6,649,361
Equities	2,562,042	-	-	2,562,042
Beneficial interests in trusts	<u>-</u>	<u>-</u>	<u>6,195,989</u>	<u>6,195,989</u>
	<u>\$ 2,562,042</u>	<u>\$ 8,917,442</u>	<u>\$ 6,195,989</u>	17,675,473
Cash and cash equivalents included in investments and assets whose use is limited				<u>565,701</u>
				<u>\$ 18,241,174</u>

The following table sets forth the change in the fair value of beneficial interests in trusts measured using unobservable inputs (Level 3):

At January 1, 2019	\$ 5,530,292
Unrealized gains	<u>665,697</u>
At December 31, 2019	<u>\$ 6,195,989</u>

The following summarizes the investment income reflected in the accompanying Statements of Activities and Changes in Net Assets for the year ended December 31, 2019:

Interest and dividend income, net	\$ 415,128
Realized gains	40,006
Unrealized gains	<u>452,361</u>
	<u>\$ 907,495</u>

5. UNCONDITIONAL PROMISES TO GIVE

Unconditional promises to give include contributions and pledges receivable due from local area residents and businesses. The unconditional promises to give which extend beyond one year are discounted at a range of 3.5% to 4.5% to their fair value as of December 31, 2019. Unconditional promises to give are expected to be collected as follows at December 31, 2019:

One year	\$ 1,244,985
Two years to five years	<u>1,513,910</u>
	2,758,895
Present value discount	(231,000)
Allowance for uncollectibles	<u>(862,081)</u>
	<u>\$ 1,665,814</u>

St. Joseph's Hospital and Medical Center Foundation, Inc.
Notes to Financial Statements
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An unconditional promise to give from one donor accounted for approximately 11% of the gross receivable at December 31, 2019.

6. NET ASSETS WITH RESTRICTIONS

Net assets with donor restrictions as of December 31, 2019 are available for the following purposes:

Subject to expenditure for specified purpose	
St. Joseph's is the Future - capital campaign	\$ 1,049,484
Medical equipment and programs	927,730
Adult and children services	2,692,261
Other health care programs	<u>2,269,838</u>
	<u>6,939,313</u>
Endowment	
Subject to spending policy and appropriation	
General use	<u>123,142</u>
Not subject to spending policy or appropriation	
Beneficial interests in trusts	<u>6,195,989</u>
	<u>\$ 13,258,444</u>

Net assets released from restriction during the years ended December 31, 2019 represent expenditures for the following purposes:

St. Joseph's is the Future - capital campaign	\$ 444,281
Medical equipment and programs	124,951
Adult and children services	1,333,784
Other health care programs	<u>77,794</u>
Total net assets released from restriction	<u>\$ 1,980,810</u>

7. ENDOWMENT FUND

The Foundation maintains a donor-restricted fund whose purpose is to provide for the care and treatment of patients afflicted with cancer. In classifying such fund for financial statement purposes as either net assets with or without donor restrictions, the Board of Trustees looks to the explicit directions of the donor where applicable and the provisions of the laws of the State of New Jersey. The Board has determined that, absent donor stipulations to the contrary, the provisions of New Jersey State law do not impose either restriction on the income or capital appreciation derived from the original gift.

The following sets forth the activity in the Endowment fund:

At January 1, 2018	\$ 123,142
Net investment income	3,500
Transfer of earnings	<u>(3,500)</u>
At December 31, 2019	<u>\$ 123,142</u>

St. Joseph's Hospital and Medical Center Foundation, Inc.
Notes to Financial Statements
December 31, 2019

Interpretation of Relevant Law

The Board of Trustees of the Foundation has interpreted state law as requiring the preservation of the value of the original gift as of the gift date of the donor-restricted endowment fund absent explicit donor stipulations to the contrary. As a result of this interpretation, the Foundation classifies as net assets with donor restrictions (a) the original value of gifts donated to the endowment and (b) the original value of subsequent gifts to the endowment. Donor-restricted amounts not retained in perpetuity are subject to expenditure by the Foundation in a manner consistent with the standard of prudence prescribed by state law.

The Foundation considers the following factors in making a determination to appropriate or accumulate donor-restricted endowment funds:

- (1) The duration and preservation of the fund
- (2) The purposes of the Foundation and the donor-restricted endowment fund
- (3) General economic conditions
- (4) The possible effect of inflation and deflation
- (5) The expected total return from income and the appreciation of investments
- (6) Other resources of the Foundation
- (7) The investment policies of the Foundation

Return Objectives and Risk Parameters

The Foundation has adopted investment and spending policies for endowment assets that attempt to provide a steady stream of funding to programs supported by its endowment while seeking to maintain the purchasing power of the endowment assets. Under these policies, as approved by the Board of Trustees, the endowment assets are invested in a manner that is intended to provide real growth after inflation, liquidity and adequate income to meet program needs. The assets are invested in a diversified portfolio measured against benchmark indices to achieve these objectives with a moderate level of investment risk. The Foundation expects its endowment fund, over time, to provide a reasonable rate of return.

Strategies Employed for Achieving Objectives

To satisfy its long-term rate-of-return objectives, the Foundation relies on a total return strategy in which investment returns are achieved through both capital appreciation (realized and unrealized) and current yield (interest and dividends). The Foundation targets a diversified asset allocation that places a greater emphasis on equity-based investments to achieve its long-term return objectives within prudent risk constraints.

Spending Policy and How the Investment Objectives Relate to Spending Policy

The Foundation has an investment objective to provide sufficient liquidity to meet operating, distribution and spending requirements as needed. As allowed under donor-imposed restrictions, investment income earned on the endowment fund is included in the change in net assets in the accompanying Statements of Activities and Changes in Net Assets and utilized to meet the donor-imposed restrictions.

8. RELATED PARTY TRANSACTIONS

The Medical Center pays the salaries and benefits of the Foundation's employees. The Foundation reimburses the Medical Center at cost for these amounts. Total salaries and benefits paid by the Medical Center during the year ended December 31, 2019 were \$953,438.

St. Joseph's Hospital and Medical Center Foundation, Inc.
Notes to Financial Statements
December 31, 2019

The Foundation periodically makes contributions to the Medical Center for the purchase of equipment, the funding of special programs, and for general operations. Contributions to affiliated organizations as reported in the accompanying statements of activities and changes in net assets were \$1,830,810 for the year ended December 31, 2019.

The balance due to the Medical Center was \$1,359,020 at December 31, 2019.

The Foundation leases its office building from the Medical Center. During the year ended December 31, 2019, the Foundation paid approximately \$88,000 in connection with the office building lease.

9. COMMITMENTS AND CONTINGENCIES

The Foundation assumed an existing sublease from St. Joseph's Hospital and Medical Center Foundation, Inc. with the Medical Center for its office space. The term of the lease is for a period of ten years. Rent expense for the year ended December 31, 2019 was \$88,281. The sublease requires rental payments for periods subsequent to December 31, 2019 as follows:

2020	\$ 90,596
2021	92,978
2022	95,768
2023	98,641
2024	98,641
Thereafter	<u>232,602</u>
	<u>\$ 709,226</u>

10. CONCENTRATION OF CREDIT RISK

Financial instruments that potentially subject the Foundation to concentrations of credit risk consist principally of cash and cash equivalents in financial institutions in excess of federally insured limits and investments. Exposure to credit risk is reduced by placing deposits and investments in highly regarded financial institutions. With respect to cash and cash equivalents in financial institutions, which may periodically during the year exceed federally insured limits, the Foundation has not experienced any losses in such accounts and believes it is not exposed to any significant credit risk on the balances maintained in the financial institutions. Concentration of credit risk with respect to investments (assets whose use is limited) is reduced by diversification, professional management, and limited exposure to any single investment.

St. Joseph's Hospital and Medical Center Foundation, Inc.
Notes to Financial Statements
December 31, 2019

11. FUNCTIONAL EXPENSES

Expenses by functional classification for the year ended December 31, 2019 consists of the following:

	Program Services		Management, Administrative and General	Fundraising	Total Expenses
	St. Joseph's Hospital and Medical Center	Other Programs			
Salaries and wages	\$ -	\$ -	\$ 76,885	\$ 691,967	\$ 768,852
Employee benefits	-	-	18,459	166,127	184,586
Contributions	1,830,810	3,939,680	-	-	5,770,490
Provision for bad debts	-	-	19,518	175,664	195,182
Special events	-	-	760,572	-	760,572
Other expenses	-	-	75,746	681,712	757,458
Total expenses	<u>\$ 1,830,810</u>	<u>\$ 3,939,680</u>	<u>\$ 951,180</u>	<u>\$ 1,715,470</u>	<u>\$ 8,437,140</u>

12. SUBSEQUENT EVENTS

The Foundation evaluated its December 31, 2019 financial statements for subsequent events through May 4, 2020, the date the financial statements were available to be issued. Based on this evaluation, the Foundation has determined that other than the below, no subsequent events have occurred which require recognition or disclosure in the financial statements.

The Foundation's management is currently evaluating the recent introduction of the COVID-19 virus to the United States and its impact on the healthcare industry and global markets. The Foundation is closely monitoring its investment portfolio and liquidity and is working to minimize market declines. In addition, management is evaluating the impact the virus could have on its contribution and special events income. Management has concluded that while it is reasonably possible that the virus could have a negative effect on the Foundation's financial condition and results of operations, the specific impact is not readily determinable as of the date of these financial statements. The financial statements do not include adjustments that have resulted from recent market declines.

SUPPLEMENTARY INFORMATION

St. Joseph's Hospital and Medical Center Foundation, Inc.
Supplementary Schedule on Statement of Financial Position
December 31, 2019
(All Amounts in Thousands)

Assets

Current assets	
Cash and cash equivalents	\$ 1,451
Investments	4,983
Unconditional promises to give, net	1,245
Prepaid expenses and other current assets	<u>58</u>
Total current assets	7,737
Assets whose use is limited	
Investments - endowment	6,939
Unconditional promises to give, net	123
Cash surrender value of life insurance	421
Beneficial interests in trusts	<u>21</u>
	<u>6,196</u>
Total assets	<u>\$ 21,437</u>

Liabilities and Net Assets

Current liabilities	
Due to St. Joseph's Hospital and Medical Center	\$ 1,359
Accounts payable and accrued expenses	<u>272</u>
Total current liabilities	1,631
Annuitiies payable	<u>65</u>
Total liabilities	<u>1,696</u>
Commitments and contingencies	
Net assets	
Without donor restrictions	6,483
With donor restrictions	<u>13,258</u>
Total net assets	<u>19,741</u>
Total liabilities and net assets	<u>\$ 21,437</u>

See Independent Auditor's Report.

St. Joseph's Hospital and Medical Center Foundation, Inc.
Supplementary Schedule on Statement of Operations Without Donor Restrictions
Year Ended December 31, 2019
(All Amounts in Thousands)

Revenues	
Other revenue	\$ 2,477
Net assets released from restriction	<u>1,981</u>
Total revenues	<u>4,458</u>
Expenses	
Salaries and wages	769
Employee benefits	185
Supplies and other	7,288
Provision for bad debts	<u>195</u>
Total expenses	<u>8,437</u>
Excess of revenues over expenses	(3,979)
Net unrealized gain on investments	<u>451</u>
Increase in net assets without donor restrictions before transfer	-
Transfer to St. Joseph's Hospital and Medical Center	<u>-</u>
Change in net assets without donor restrictions	<u>\$ (3,528)</u>

See Independent Auditor's Report.

St. Joseph's Hospital and Medical Center Foundation, Inc.
Supplementary Schedule on Statement of Changes in Net Assets
Year Ended December 31, 2019
(All Amounts in Thousands)

Net assets without donor restrictions	
Excess of revenues over expenses	\$ (3,979)
Net unrealized (loss) gain on investments	<u>451</u>
Decrease in net assets without donor restrictions	<u>(3,528)</u>
Net assets with donor restrictions	
Contributions	3,743
Interest and dividend income, net	2
Net realized and unrealized (loss) gain on investments	2
Net assets released from restriction for operations	(1,981)
Change in beneficial interests in trusts	<u>666</u>
Increase in net assets with donor restrictions	<u>2,432</u>
Change in net assets	(1,096)
Net assets	
Beginning of year	<u>20,837</u>
End of year	<u>\$ 19,741</u>

See Independent Auditor's Report.