

SAINT THOMAS HEALTH SERVICES FUND

FINANCIAL STATEMENTS

JUNE 30, 2008 AND 2007

SAINT THOMAS HEALTH SERVICES FUND

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Independent Auditors' Report

The Board of Trustees
Saint Thomas Health Services Fund
Brentwood, Tennessee

We have audited the accompanying statement of financial position of Saint Thomas Health Services Fund (a nonprofit organization) as of June 30, 2008 and the related statements of activities and changes in net asset, functional expenses, and cash flows for the year then ended. These financial statements are the responsibility of the Organization's management. Our responsibility is to express an opinion on these financial statements based on our audit. The financial statements of Saint Thomas Health Services Fund as of and for the year ended June 30, 2007, were audited by other auditors whose report dated December 11, 2007, expressed an unqualified opinion on those 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 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. We believe that our audit provides a reasonable basis for our opinion.

In our opinion, the 2008 financial statements referred to above present fairly, in all material respects, the financial position of Saint Thomas Health Services Fund as of June 30, 2008, and its activities and changes in net assets and its cash flows for the year then ended in conformity with accounting principles generally accepted in the United States of America.

Crosslin & Associates, P.C.

December 12, 2008
Nashville, Tennessee

SAINT THOMAS HEALTH SERVICES FUND
STATEMENTS OF FINANCIAL POSITION

ASSETS

	June 30,	
	<u>2008</u>	<u>2007</u>
Cash and cash equivalents	\$ 4,372,374	\$ 3,494,771
Investments	29,475,464	31,537,450
Grants receivable	495	9,883
Contributions receivable, net	2,463,734	989,902
Assets held under split-interest agreements	1,610,423	1,596,020
Furniture and equipment, net of accumulated depreciation of \$112,492 and \$97,548, respectively	<u>2,546</u>	<u>17,490</u>
Total assets	<u>\$37,925,036</u>	<u>\$37,645,516</u>

LIABILITIES AND NET ASSETS

Liabilities:		
Accounts payable and accrued expenses	\$ 72,753	\$ 1,284
Accounts payable - related party	330,043	669,107
Promises to give	22,389	6,315
Deferred federal and state grant revenue	839,869	578,866
Guarantee liability	<u>546,075</u>	<u>-</u>
Total liabilities	<u>1,811,129</u>	<u>1,255,572</u>
Net Assets:		
Unrestricted	15,985,278	17,469,160
Temporarily restricted	17,247,560	16,089,686
Permanently restricted	<u>2,881,069</u>	<u>2,831,098</u>
Total net assets	<u>36,113,907</u>	<u>36,389,944</u>
Total liabilities and net assets	<u>\$37,925,036</u>	<u>\$37,645,516</u>

See accompanying notes to financial statements.

SAINT THOMAS HEALTH SERVICES FUND
STATEMENT OF ACTIVITIES AND CHANGES IN NET ASSETS
YEAR ENDED JUNE 30, 2008

	<u>Unrestricted</u>	<u>Temporarily Restricted</u>	<u>Permanently Restricted</u>	<u>Total</u>
REVENUE AND PUBLIC SUPPORT				
Contributions	\$ 2,102,653	\$ 4,893,707	\$ -	\$ 6,996,360
Federal and state grants	917,581	-	-	917,581
Investment income (loss)	(948,786)	(865,639)	-	(1,814,425)
Changes in value of split-interest agreements	-	14,405	-	14,405
Net assets released from restrictions and reclasses	<u>2,834,628</u>	<u>(2,884,599)</u>	<u>49,971</u>	<u>-</u>
Total revenue and public support	<u>4,906,076</u>	<u>1,157,874</u>	<u>49,971</u>	<u>6,113,921</u>
EXPENSES				
Program	5,217,824	-	-	5,217,824
Management and general	422,172	-	-	422,172
Fundraising	<u>749,962</u>	<u>-</u>	<u>-</u>	<u>749,962</u>
Total expenses	<u>6,389,958</u>	<u>-</u>	<u>-</u>	<u>6,389,958</u>
Changes in net assets	(1,483,882)	1,157,874	49,971	(276,037)
Net assets, beginning of year	<u>17,469,160</u>	<u>16,089,686</u>	<u>2,831,098</u>	<u>36,389,944</u>
Net assets, end of year	<u>\$ 15,985,278</u>	<u>\$ 17,247,560</u>	<u>\$2,881,069</u>	<u>\$ 36,113,907</u>

See accompanying notes to financial statements.

SAINT THOMAS HEALTH SERVICES FUND
STATEMENT OF ACTIVITIES AND CHANGES IN NET ASSETS
YEAR ENDED JUNE 30, 2007

	<u>Unrestricted</u>	<u>Temporarily Restricted</u>	<u>Permanently Restricted</u>	<u>Total</u>
REVENUE AND PUBLIC SUPPORT				
Contributions	\$ 2,663,307	\$ 2,776,881	\$ -	\$ 5,440,188
Federal and state grants	332,691	-	-	332,691
Investment income	2,484,273	2,483,211	-	4,967,484
Changes in value of split-interest agreements	231,279	-	-	231,279
Net assets released from restrictions	<u>2,928,025</u>	<u>(2,928,025)</u>	<u>-</u>	<u>-</u>
Total revenue and public support	<u>8,639,575</u>	<u>2,332,067</u>	<u>-</u>	<u>10,971,642</u>
EXPENSES				
Program	3,326,806	-	-	3,326,806
Management and general	326,114	-	-	326,114
Fundraising	<u>886,250</u>	<u>-</u>	<u>-</u>	<u>886,250</u>
Total expenses	<u>4,539,170</u>	<u>-</u>	<u>-</u>	<u>4,539,170</u>
Changes in net assets	4,100,405	2,332,067	-	6,432,472
Net assets, beginning of year	<u>13,368,755</u>	<u>13,757,619</u>	<u>2,831,098</u>	<u>29,957,472</u>
Net assets, end of year	<u>\$17,469,160</u>	<u>\$ 16,089,686</u>	<u>\$2,831,098</u>	<u>\$36,389,944</u>

See accompanying notes to financial statements.

SAINT THOMAS HEALTH SERVICES FUND
STATEMENT OF FUNCTIONAL EXPENSES
YEAR ENDED JUNE 30, 2008

	<u>Program Services</u>	<u>Management and General</u>	<u>Fund Raising</u>	<u>Total</u>
Grants	\$4,345,963	\$ -	\$ -	\$4,345,963
Salaries	162,230	251,180	319,125	732,535
Guarantee expense	546,075	-	-	546,075
Fundraising	-	-	191,268	191,268
Employee benefits	31,376	49,145	54,939	135,460
Brokerage fees	78,761	26,253	-	105,014
Supplies	468	2,812	67,890	71,170
Occupancy	31,480	15,740	15,740	62,960
Printing	-	50	60,489	60,539
Other	8,853	22,401	16,801	48,055
Professional fees	-	24,773	-	24,773
Dues and subscriptions	5,146	10,294	5,147	20,587
Postage	-	8,137	10,030	18,167
Depreciation	7,472	3,736	3,736	14,944
Software maintenance	-	6,308	-	6,308
Gifts and entertainment	-	-	3,454	3,454
Telephone	-	1,343	1,343	2,686
	<u> </u>	<u> </u>	<u> </u>	<u> </u>
Total expenses	<u>\$5,217,824</u>	<u>\$422,172</u>	<u>\$749,962</u>	<u>\$6,389,958</u>

See accompanying notes to financial statements.

SAINT THOMAS HEALTH SERVICES FUND
STATEMENT OF FUNCTIONAL EXPENSES
YEAR ENDED JUNE 30, 2007

	<u>Program Services</u>	<u>Management and General</u>	<u>Fund Raising</u>	<u>Total</u>
Grants	\$2,860,318	\$ -	\$ -	\$2,860,318
Salaries	258,038	176,975	346,302	781,315
Fundraising	-	-	247,108	247,108
Employee benefits	49,960	27,966	67,730	145,656
Supplies	13,021	3,913	102,951	119,885
Brokerage fees	74,534	24,844	-	99,378
Occupancy	34,130	17,065	17,065	68,260
Other	30,005	17,155	15,163	62,323
Printing	-	91	55,420	55,511
Professional fees	-	27,459	-	27,459
Postage	-	350	23,819	24,169
Dues and subscriptions	5,004	10,008	5,004	20,016
Software maintenance	-	13,952	-	13,952
Gifts and entertainment	-	4,403	3,755	8,158
Telephone	818	1,445	1,445	3,708
Depreciation	<u>978</u>	<u>488</u>	<u>488</u>	<u>1,954</u>
Total expenses	<u>\$3,326,806</u>	<u>\$326,114</u>	<u>\$886,250</u>	<u>\$4,539,170</u>

See accompanying notes to financial statements.

SAINT THOMAS HEALTH SERVICES FUND
STATEMENTS OF CASH FLOWS

	<u>Year Ended June 30,</u>	
	<u>2008</u>	<u>2007</u>
CASH FLOWS FROM OPERATING ACTIVITIES		
Changes in net assets	\$(276,037)	\$ 6,432,472
Adjustments to reconcile change in net assets to net cash provided by operating activities:		
Depreciation	14,944	1,954
Realized and unrealized loss (gain) on investments	2,480,164	(4,187,855)
Changes in operating assets and liabilities:		
Contributions receivable, net	(1,473,832)	(291,128)
Grant receivable	9,388	11,660
Assets held under split-interest agreements	(14,403)	(230,838)
Other	-	4,319
Accounts payable and accrued expenses	71,469	281
Accounts payable (receivable) - related party	(339,064)	315,178
Promises to give	16,074	(167,997)
Deferred federal and state grant revenue	261,003	189,125
Guarantee liability	<u>546,075</u>	<u>-</u>
Net cash provided by operating activities	<u>1,295,781</u>	<u>2,077,171</u>
CASH FLOWS FROM INVESTING ACTIVITIES		
Purchase of investments	(6,969,251)	(9,515,900)
Proceeds from sale of investments	<u>6,551,073</u>	<u>8,789,090</u>
Net cash used in investing activities	<u>(418,178)</u>	<u>(726,810)</u>
Net increase in cash and cash equivalents	877,603	1,350,361
Cash and cash equivalents, beginning of year	<u>3,494,771</u>	<u>2,144,410</u>
Cash and cash equivalents, end of year	<u>\$ 4,372,374</u>	<u>\$ 3,494,771</u>

See accompanying notes to financial statements.

SAINT THOMAS HEALTH SERVICES FUND
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2008 AND 2007

A. ORGANIZATION AND PURPOSE

Saint Thomas Health Services Fund (“the Fund”) was formed effective July 1, 2002 upon the combination of Saint Thomas Foundation and Baptist Hospital Foundation. The creation of the Fund resulted from Saint Thomas Foundation restating its bylaws and assuming control of Baptist Hospital Foundation. Previously, Saint Thomas Foundation and Baptist Hospital Foundation operated as separate entities. The Fund is a not-for-profit, Tennessee corporation organized exclusively to solicit contributions from individuals and organizations for charitable, educational and scientific purposes solely to support and encourage health care services of Saint Thomas Health Services. Saint Thomas Health Services is a major provider of hospital and related services in Nashville, Tennessee and surrounding areas.

B. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Accrual Basis and Financial Statement Presentation

The financial statements of the Fund have been prepared on the accrual basis of accounting.

The Fund classifies its revenue, support, expenses, gains and losses into three classes of net assets based on the existence or absence of donor-imposed restrictions. Net assets of the Fund and changes therein are classified as follows:

Unrestricted net assets - Net assets that are not subject to donor-imposed stipulations.

Temporarily restricted net assets - Net assets subject to donor-imposed stipulations that may or will be met either by actions of the Fund and/or the passage of time.

Permanently restricted net assets - Net assets subject to donor-imposed stipulations that they must be maintained permanently by the Fund. Generally, the donors of these assets permit the Fund to use all or part of the income earned on related investments for general or specific purposes.

The amount for each of these classes of net assets is presented in the statement of financial position and the amount of change in each class of net assets is displayed in the statement of activities and changes in net assets.

In the event a donor makes changes to the nature of a restricted gift which affects its classification among the net asset categories, such amounts are reflected as reclassifications in the statement of activities and changes in net assets.

SAINT THOMAS HEALTH SERVICES FUND
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2008 AND 2007

B. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - Continued

Contributions

The Fund reports gifts of cash and other assets as restricted support if they are received with donor stipulations that limit the use of the donated assets. When a donor restriction expires, that is, when a stipulated time restriction ends or purpose restriction is accomplished, temporarily restricted net assets are reclassified to unrestricted net assets and reported in the statement of activities as net assets released from restrictions.

Cash and Cash Equivalents

Cash and cash equivalents include cash and highly liquid investments with original maturities of three months or less.

Federal and State Grants

Revenue under federal and state grants is recognized to the extent related expenses have been incurred. Grants receivable represents the difference between amounts earned and amounts received. Deferred federal and state grant revenue represents grant funds received that have not been earned.

Contributions Receivable

Contributions receivable are recorded at their estimated fair value and reflect discounts for payment terms greater than one year and allowances for uncollectible amounts. Contributions receivable are considered to be either conditional or unconditional promises to give. A conditional contribution is one which depends on the occurrence of some specified uncertain future event to become binding on the donor.

Conditional contributions are not recorded as revenue until the condition is met, at which time they become unconditional. Unconditional contributions are recorded as revenue at the time verifiable evidence of the pledge is received.

Investments

Investments are reported at quoted market values. Gains or losses in the value of such investments are reported in the statements of activities and changes in net assets in the period they occur.

SAINT THOMAS HEALTH SERVICES FUND
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2008 AND 2007

B. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - Continued

Split Interest Agreements

The following instruments are recorded as contributions and assets at the present value of their ultimate Saint Thomas Health Services Fund interest.

Charitable Remainder Trust - A trust under which specified distributions are to be made upon termination of the trust.

Charitable Lead Trust - A trust with specific distributions to be made over a specified period. Upon termination of the trust, the remainder of the trust assets is paid to the beneficiary designated by the donor.

Furniture and Equipment

Furniture and equipment is recorded at cost, or if contributed, at fair market value at date of gift. Depreciation is calculated using the straight-line method based upon useful lives of the respective assets which range from five to fifteen years.

Guarantee Liability

Guarantees are recorded in accordance with FASB Interpretation No. 45 (FIN 45), *Guarantor's Accounting and Disclosure Requirements for Guarantees, Including Indirect Guarantees of Indebtedness to Others*, which requires the Fund to recognize, at inception of a guarantee, a liability for the fair value of the obligation undertaken in issuing the guarantee.

Concentrations

The Fund maintains cash deposits and investments in accounts which, at times, may exceed federally insured limits. Credit risk is managed by maintaining all deposits in high quality financial institutions and by maintaining diversification of investments, including those held in various securities. Such funds are subject to inherent market fluctuations, which at times, may be significant.

Income Taxes

The Fund has qualified for tax-exempt status under Section 501(c)(3) of the Internal Revenue Code and is classified as other than a private foundation.

Functional Expenses

Expenses have been allocated by function into program, management and general, or fundraising based on estimates made by management.

SAINT THOMAS HEALTH SERVICES FUND
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2008 AND 2007

B. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - Continued

Use of Estimates in the Preparation of the Financial Statements

Judgment and estimation are exercised by management in certain areas of the preparation of the financial statements. The areas include the recovery period for furniture and equipment and the collectibility of contributions and other receivables. Management believes that such estimates have been based on reasonable assumptions and that such estimates are adequate, however, actual results could differ from those estimates.

Reclassifications

Certain prior year amounts have been reclassified to conform to the current year presentation.

C. INVESTMENTS

Investments consisting of various managed portfolios are stated at fair value and consist primarily of the following at June 30:

	<u>2008</u>	<u>2007</u>
Mutual funds	\$13,243,929	\$15,467,253
Equities	8,928,217	9,072,724
Fixed income securities	7,150,171	6,848,797
Cash surrender value of life insurance	<u>153,147</u>	<u>148,676</u>
	<u>\$29,475,464</u>	<u>\$31,537,450</u>

The Fund's investment in life insurance represents a policy donated to the Fund by one individual. The death benefit approximates the cash surrender value at June 30, 2008 and 2007.

The Fund's general investment policy is as follows: to maintain 40% - 70% in domestic equities, 0% - 20% in international equities, 0% - 5% in global equities, 25% - 60% in fixed income securities and 0% - 15% in alternative investments.

SAINT THOMAS HEALTH SERVICES FUND
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2008 AND 2007

C. INVESTMENTS - Continued

Investment income (loss) is comprised of the following for the years ended June 30:

	<u>2008</u>	<u>2007</u>
Interest and dividends	\$ 665,739	\$ 779,629
Realized and unrealized (loss) gains - net	<u>(2,480,164)</u>	<u>4,187,855</u>
	<u>\$(1,814,425)</u>	<u>\$4,967,484</u>

D. CONTRIBUTIONS RECEIVABLE

Contributions receivable at June 30, 2008 and 2007 consisted of the following:

	<u>2008</u>	<u>2007</u>
Contributions receivable (present value)	\$ 2,600,362	\$ 999,928
Less: allowance for uncollectible contributions	<u>(136,628)</u>	<u>(10,026)</u>
Net contributions receivable	<u>\$ 2,463,734</u>	<u>\$ 989,902</u>

Expected maturities of contributions receivable at June 30, 2008 were as follows:

Years(s) ended June 30,

2009	\$ 822,026
2010	414,500
2011	125,000
2012	125,000
2013	250,000
Thereafter	<u>1,350,000</u>
Total expected contributions	3,086,526
Less: allowance for net present value	<u>(486,164)</u>
Present value of contributions receivable	<u>\$ 2,600,362</u>

SAINT THOMAS HEALTH SERVICES FUND
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2008 AND 2007

E. ASSETS HELD UNDER SPLIT-INTEREST AGREEMENTS

A donor has established a trust held by a third party naming the Fund as a beneficiary of \$1,250,000 upon the death of the designated beneficiary. The Fund has accounted for its interest based upon the present value of the amount to be received. The Fund has accounted for its interest based upon the beneficiary's life expectancy and a 3.49% discount rate. The present value of such amounts approximated \$1,011,000 and \$978,000 at June 30, 2008 and 2007, respectively.

A donor has established an irrevocable trust naming the Fund as a remainder beneficiary of approximately \$227,000. The Fund has accounted for its interest based on the present value of the amount to be received. The Fund has accounted for its interest based upon the beneficiary's life expectancy and a 3.73% discount rate. The present value of such amounts approximated \$166,000 and \$158,000 at June 30, 2008 and 2007, respectively.

A donor has established a trust held by a third party naming the Fund as the lead beneficiary of a charitable lead annuity trust. Under terms of the split-interest agreement, the Fund is to receive 80% of 5% of the trust assets annually for its unrestricted use for a period of fifteen years. Upon termination of the trust, the remaining trust assets are to be distributed to others. Based upon earnings at an estimated rate of 8.0% over the life of the trust and a 3.99% discount rate, the present value of future benefits expected to be received by the Fund approximated \$110,000 and \$191,000 at June 30, 2008 and 2007, respectively.

A donor has established a trust irrevocably naming the Fund as a remainder beneficiary of approximately \$580,000. The Fund has accounted for its interest based on the present value of the amount to be received. The Fund has accounted for its interest based upon the beneficiary's life expectancy and a 4.59% discount rate. The present value of such amounts approximated \$323,000 and \$270,000 at June 30, 2008 and 2007, respectively.

SAINT THOMAS HEALTH SERVICES FUND
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2008 AND 2007

F. PROMISES TO GIVE

Promises to give at June 30, 2008 and 2007 include amounts approved by the Fund's board of directors to be used for various projects, such as research and outreach, and totaled \$22,389 and \$6,315, respectively.

G. TEMPORARILY AND PERMANENTLY RESTRICTED NET ASSETS

Temporarily restricted net assets are available for the following purposes at June 30:

	<u>2008</u>	<u>2007</u>
Community outreach	\$ 943,141	\$ 1,068,163
Education	2,890,857	3,034,113
Research	1,897,675	1,765,996
Charity care	2,889,338	3,031,224
Other	4,209,131	5,035,497
Capital	<u>4,417,418</u>	<u>2,154,693</u>
Total temporarily restricted net assets	<u>\$17,247,560</u>	<u>\$16,089,686</u>

Permanently restricted net assets consist of endowment funds subject to the restrictions of gift instruments generally requiring that the principal be invested in perpetuity, the income from which is expendable to support the following various purposes:

	<u>2008</u>	<u>2007</u>
Research	\$1,072,638	\$1,072,668
Education	808,723	758,722
Community outreach	600,000	600,000
Charity care	235,994	235,994
Other	<u>163,714</u>	<u>163,714</u>
Total permanently restricted net assets	<u>\$2,881,069</u>	<u>\$2,831,098</u>

Net assets of \$2,884,599 and \$2,928,025 were released from donor restrictions by satisfying the restricted purposes or by occurrence of other events specified by donors for the years ended June 30, 2008 and 2007, respectively. The purpose restrictions accomplished were for program expenses.

SAINT THOMAS HEALTH SERVICES FUND
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2008 AND 2007

H. RELATED PARTY TRANSACTIONS

The Fund was formed to extend the ministry of Saint Thomas Health Services.

Promises to give include \$22,389 and \$6,315 approved for a project of Saint Thomas Health Services at June 30, 2008 and 2007, respectively (Note F).

The Fund conducts its operations in office space leased from Saint Thomas Health Services. Total rent paid to Saint Thomas Health Services during each of the fiscal years 2008 and 2007 totaled \$38,260. The Fund also receives in-kind use of office space at Baptist Hospital with an estimated annual value of \$24,700.

Saint Thomas Health Services makes annual contributions to the Fund in order to defray Fund operating expenses. Such contributions generally approximate one hundred percent of operating expenses excluding investment management fees. Contributions from Saint Thomas Health Services to the Fund approximated \$1,278,508 and \$1,422,951, including in-kind salaries and employee benefits of \$221,968 and \$251,400 paid by Saint Thomas Health Services on the Fund's behalf, during fiscal 2008 and 2007, respectively.

Accounts receivable - related party totals \$74,716 and \$1,171,551 at June 30 2008 and 2007, respectively, receivable from Saint Thomas Health Services for reimbursement of operating expenses of the Fund. Accounts payable - related party totals \$404,759 and \$1,840,658 at June 30, 2008 and 2007, respectively, payable to Saint Thomas Health Services for expenses paid on the Fund's behalf. Such receivables and payables are netted in the respective year's presentation in the accompanying statements of financial position.

In January 2008, the Fund entered into a guarantee agreement with a third party. Under the terms of the agreement, the Fund is a 50% guarantor of certain payments and liabilities relating to building space being leased by Williamson - Saint Thomas Community Health, LLC (a joint venture created by Williamson Medical Center and Saint Thomas Health Services). The initial term of the lease is 10 years. A liability and related expense in the amount of \$545,075 for the fair value of the lease guarantee was recognized during fiscal 2008. There has been no call on this guarantee as of June 30, 2008.