

SAINT THOMAS HEALTH SERVICES FUND

**FINANCIAL STATEMENTS
AND SUPPLEMENTAL INFORMATION**

JUNE 30, 2009 AND 2008

SAINT THOMAS HEALTH SERVICES FUND

Table of Contents

INDEPENDENT AUDITORS' REPORT	1 - 2
FINANCIAL STATEMENTS	
Statements of Financial Position.....	3
Statements of Activities and Changes in Net Assets	4 - 5
Statements of Functional Expenses.....	6 - 7
Statements of Cash Flows	8
Notes to Financial Statements.....	9 - 21
SUPPLEMENTAL INFORMATION	
Schedule of Grant Activity.....	22 - 25
INDEPENDENT AUDITORS' REPORT ON INTERNAL CONTROL OVER FINANCIAL REPORTING AND ON COMPLIANCE AND OTHER MATTERS BASED ON AN AUDIT OF FINANCIAL STATEMENTS PERFORMED IN ACCORDANCE WITH <i>GOVERNMENT AUDITING STANDARDS</i>	26 - 27



Independent Auditors' Report

The Board of Directors
Saint Thomas Health Services Fund
Nashville, Tennessee

We have audited the accompanying statements of financial position of Saint Thomas Health Services Fund (a nonprofit organization) (the "Fund") as of June 30, 2009 and 2008, and the related statements of activities and changes in net assets, functional expenses, and cash flows for the years then ended. These financial statements are the responsibility of the Fund's management. Our responsibility is to express an opinion on these financial statements based on our audits.

We conducted our audits in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audits 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 audits provide a reasonable basis for our opinion.

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of Saint Thomas Health Services Fund as of June 30, 2009 and 2008, and its activities and changes in net assets and its cash flows for the years then ended in conformity with accounting principles generally accepted in the United States of America.

In accordance with *Government Auditing Standards*, we have also issued our report dated November 24, 2009 on our consideration of the Fund's internal control over financial reporting and our tests of its compliance with certain provisions of laws, regulations, contracts, grants agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be considered in assessing the results of our audit.

The Board of Directors
Saint Thomas Health Services Fund

Our audits were made for the purpose of forming an opinion on the basic financial statements of the Fund taken as a whole. The accompanying schedule of grant activity for the year ending June 30, 2009 is presented for purposes of additional analysis and is not a required part of the basic financial statements. Such information has been subjected to the auditing procedures applied in the audits of the basic financial statements and, in our opinion, is fairly stated, in all material respects, in relation to the basic financial statements taken as a whole.

Crosslin & Associates, P.C.

Nashville, Tennessee
November 24, 2009

SAINT THOMAS HEALTH SERVICES FUND
STATEMENTS OF FINANCIAL POSITION

ASSETS

	<u>June 30,</u>	
	<u>2009</u>	<u>2008</u>
Cash and cash equivalents	\$ 7,015,221	\$ 4,372,374
Investments	23,423,386	29,475,464
Grants receivable	41,400	495
Contributions receivable, net	3,904,176	2,463,734
Assets held under split-interest agreements	1,620,684	1,610,423
Furniture and equipment, net of accumulated depreciation of \$113,510 and \$112,492, respectively	<u>1,528</u>	<u>2,546</u>
Total assets	<u>\$36,006,395</u>	<u>\$37,925,036</u>

LIABILITIES AND NET ASSETS

Liabilities:		
Accounts payable and accrued expenses	\$ 31,988	\$ 72,753
Accounts payable - related party	3,349,386	330,043
Promises to give	225,303	22,389
Deferred grant revenue	325,865	839,869
Guarantee liability	<u>546,075</u>	<u>546,075</u>
Total liabilities	<u>4,478,617</u>	<u>1,811,129</u>
Net Assets:		
Unrestricted	13,857,660	15,985,278
Temporarily restricted	15,549,541	17,247,560
Permanently restricted	<u>2,120,577</u>	<u>2,881,069</u>
Total net assets	<u>31,527,778</u>	<u>36,113,907</u>
Total liabilities and net assets	<u>\$36,006,395</u>	<u>\$37,925,036</u>

See accompanying notes to financial statements.

SAINT THOMAS HEALTH SERVICES FUND
STATEMENT OF ACTIVITIES AND CHANGES IN NET ASSETS
YEAR ENDED JUNE 30, 2009

	<u>Unrestricted</u>	<u>Temporarily Restricted</u>	<u>Permanently Restricted</u>	<u>Total</u>
REVENUE AND PUBLIC SUPPORT				
Contributions	\$ 4,138,450	\$ 3,059,459	\$ -	\$ 7,197,909
Grants and awards	2,032,617	-	-	2,032,617
Investment (loss) income	(2,838,782)	(2,930,003)	4,500	(5,764,285)
Changes in value of split-interest agreements	-	10,261	-	10,261
Net assets released from restrictions and reclasses	<u>2,602,728</u>	<u>(1,837,736)</u>	<u>(764,992)</u>	<u>-</u>
Total revenue and public support	<u>5,935,013</u>	<u>(1,698,019)</u>	<u>(760,492)</u>	<u>3,476,502</u>
EXPENSES				
Program	6,767,451	-	-	6,767,451
Management and general	460,885	-	-	460,885
Fundraising	<u>834,295</u>	<u>-</u>	<u>-</u>	<u>834,295</u>
Total expenses	<u>8,062,631</u>	<u>-</u>	<u>-</u>	<u>8,062,631</u>
Changes in net assets	(2,127,618)	(1,698,019)	(760,492)	(4,586,129)
Net assets, beginning of year	<u>15,985,278</u>	<u>17,247,560</u>	<u>2,881,069</u>	<u>36,113,907</u>
Net assets, end of year	<u>\$ 13,857,660</u>	<u>\$ 15,549,541</u>	<u>\$ 2,120,577</u>	<u>\$ 31,527,778</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
Grants and awards	917,581	-	-	917,581
Investment (loss) income	(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 FUNCTIONAL EXPENSES
YEAR ENDED JUNE 30, 2009

	<u>Program Services</u>	<u>Management and General</u>	<u>Fund Raising</u>	<u>Total</u>
Grants	\$6,535,341	\$ -	\$ -	\$6,535,341
Salaries	97,368	306,889	423,990	828,247
Fundraising	-	-	176,483	176,483
Employee benefits	18,323	52,637	75,898	146,858
Brokerage fees	69,408	23,136	-	92,544
Occupancy	31,480	15,740	15,740	62,960
Printing	-	93	51,666	51,759
Other	4,352	20,838	25,029	50,219
Supplies	3,091	2,963	29,369	35,423
Dues and subscriptions	7,579	15,159	7,580	30,318
Postage	-	283	23,155	23,438
Professional fees	-	13,818	-	13,818
Software maintenance	-	7,140	-	7,140
Telephone	-	1,934	1,934	3,868
Gifts and entertainment	-	-	3,197	3,197
Depreciation	<u>509</u>	<u>255</u>	<u>254</u>	<u>1,018</u>
Total expenses	<u>\$6,767,451</u>	<u>\$460,885</u>	<u>\$834,295</u>	<u>\$8,062,631</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
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
STATEMENTS OF CASH FLOWS

	Year Ended June 30,	
	<u>2009</u>	<u>2008</u>
CASH FLOWS FROM OPERATING ACTIVITIES		
Changes in net assets	\$(4,586,129)	\$(276,037)
Adjustments to reconcile change in net assets to net cash provided by operating activities:		
Depreciation	1,018	14,944
Realized and unrealized loss on investments	6,210,524	2,480,164
Changes in operating assets and liabilities:		
Contributions receivable, net	(1,440,442)	(1,473,832)
Grants receivable	(40,905)	9,388
Assets held under split-interest agreements	(10,261)	(14,403)
Accounts payable and accrued expenses	(40,765)	71,469
Accounts payable (receivable) - related party	3,019,343	(339,064)
Promises to give	202,914	16,074
Deferred grant revenue	(514,004)	261,003
Guarantee liability	<u>-</u>	<u>546,075</u>
Net cash provided by operating activities	<u>2,801,293</u>	<u>1,295,781</u>
CASH FLOWS FROM INVESTING ACTIVITIES		
Purchase of investments	(4,277,682)	(6,969,251)
Proceeds from sale of investments	<u>4,119,236</u>	<u>6,551,073</u>
Net cash used in investing activities	<u>(158,446)</u>	<u>(418,178)</u>
Net increase in cash and cash equivalents	2,642,847	877,603
Cash and cash equivalents, beginning of year	<u>4,372,374</u>	<u>3,494,771</u>
Cash and cash equivalents, end of year	<u>\$ 7,015,221</u>	<u>\$ 4,372,374</u>

See accompanying notes to financial statements.

SAINT THOMAS HEALTH SERVICES FUND
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2009 AND 2008

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.

SAINT THOMAS HEALTH SERVICES FUND
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2009 AND 2008

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.

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.

Cash and Cash Equivalents

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

Federal, State and Other Grants

Revenue under federal, state and other grants is recognized to the extent related expenses have been incurred. Grants receivable represents the difference between amounts earned and amounts received. Deferred 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 fair value (generally at quoted market prices). In the case of certain less marketable investments, principally real estate funds, offshore and private investments, fair value has been estimated by the respective investment managers. Gains or losses in the value of 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, 2009 AND 2008

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* (FASB Codification 460-10), 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, 2009 AND 2008

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.

Fair Value Measurements

Effective July 1, 2008, the Fund adopted SFAS No. 157, *Fair Value Measurements* (FASB Codification 820-10), which established a framework for measuring fair value in accordance with generally accepted accounting principles (GAAP), and expands disclosures regarding the use of fair value measures. The adoption of SFAS No. 157 did not have an impact on the Fund's financial position or changes in net assets. Assets and liabilities recorded at fair value in the statements of financial position are categorized based on the level of judgment associated with the inputs used to measure their fair value (Note 1). Level inputs are defined as follows:

Level 1 - Values are unadjusted quoted prices for identical assets in active markets accessible at the measurement date.

Level 2 - Inputs include quoted prices for similar assets in active markets, quoted prices from those willing to trade in markets that are not active, or other inputs that are observable or can be corroborated by market data for the term of the instrument. Such inputs include market interest rates and volatilities, spread, and yield curves.

Level 3 - Certain inputs are unobservable (supported by little or no market activity) and significant to the fair value measurement. Unobservable inputs reflect the best estimate of what hypothetical market participants would use to determine a transaction price for the asset or liability at the reporting date.

SAINT THOMAS HEALTH SERVICES FUND
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2009 AND 2008

C. INVESTMENTS

Investments consist of the following at June 30:

	<u>2009</u>	<u>2008</u>
Mutual funds	\$ 8,236,125	\$13,243,929
Equities	7,943,358	8,928,217
Fixed income securities	7,086,256	7,150,171
Cash surrender value of life insurance	<u>157,647</u>	<u>153,147</u>
	<u>\$23,423,386</u>	<u>\$29,475,464</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, 2009 and 2008.

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.

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

	<u>2009</u>	<u>2008</u>
Interest and dividends	\$ 446,239	\$ 665,739
Realized and unrealized (loss) gains - net	<u>(6,210,524)</u>	<u>(2,480,164)</u>
	<u>\$(5,764,285)</u>	<u>\$(1,814,425)</u>

D. CONTRIBUTIONS RECEIVABLE

Contributions receivable at June 30, 2009 and 2008 consisted of the following:

	<u>2009</u>	<u>2008</u>
Contributions receivable (present value)	\$ 4,049,676	\$ 2,600,362
Less: allowance for uncollectible contributions	<u>(145,500)</u>	<u>(136,628)</u>
Net contributions receivable	<u>\$ 3,904,176</u>	<u>\$ 2,463,734</u>

SAINT THOMAS HEALTH SERVICES FUND
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2009 AND 2008

D. CONTRIBUTIONS RECEIVABLE - Continued

Expected maturities of contributions receivable at June 30, 2009 were as follows:

<u>Years(s) ended June 30,</u>	
2009	\$ 2,443,082
2010	270,738
2011	249,109
2012	301,500
2013	301,500
Thereafter	<u>1,101,750</u>
Total expected contributions	4,667,679
Less: allowance for net present value	<u>(618,003)</u>
Present value of contributions receivable	<u>\$ 4,049,676</u>

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 \$1,103,000 and \$1,011,000 at June 30, 2009 and 2008, 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 \$179,000 and \$166,000 at June 30, 2009 and 2008, 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 60% 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 \$79,000 and \$110,000 at June 30, 2009 and 2008, respectively.

SAINT THOMAS HEALTH SERVICES FUND
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2009 AND 2008

E. ASSETS HELD UNDER SPLIT-INTEREST AGREEMENTS - Continued

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 \$260,000 and \$323,000 at June 30, 2009 and 2008, respectively.

F. PROMISES TO GIVE

Promises to give at June 30, 2009 and 2008 include amounts approved by the Fund's board of directors to be used for various projects, such as research and outreach, and totaled \$225,303 and \$22,389, respectively.

G. TEMPORARILY AND PERMANENTLY RESTRICTED NET ASSETS

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

	<u>2009</u>	<u>2008</u>
Community outreach	\$ 743,714	\$ 943,141
Education	2,086,245	2,890,857
Research	2,182,618	1,897,675
Charity care	2,066,964	2,889,338
Other	3,569,951	4,209,131
Capital	<u>4,900,049</u>	<u>4,417,418</u>
Total temporarily restricted net assets	<u>\$15,549,541</u>	<u>\$17,247,560</u>

Permanently restricted net assets consist of endowment funds (Note J) 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>2009</u>	<u>2008</u>
Education	\$ 963,223	\$ 808,723
Community outreach	600,000	600,000
Research	-	1,072,638
Charity care	235,992	235,992
Other	<u>321,362</u>	<u>163,716</u>
Total permanently restricted net assets	<u>\$2,120,577</u>	<u>\$2,881,069</u>

SAINT THOMAS HEALTH SERVICES FUND
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2009 AND 2008

G. TEMPORARILY AND PERMANENTLY RESTRICTED NET ASSETS - Continued

Net assets of \$2,755,875 and \$2,884,599 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, 2009 and 2008, respectively. The purpose restrictions accomplished were for program expenses.

H. RELATED PARTY TRANSACTIONS

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

Promises to give include \$225,303 and \$22,389 approved for projects of Saint Thomas Health Services at June 30, 2009 and 2008, 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 2009 and 2008 was \$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 \$1,371,900 and \$1,278,508, including in-kind salaries and employee benefits of \$241,117 and \$221,968 paid by Saint Thomas Health Services on the Fund's behalf, during fiscal 2009 and 2008, respectively.

Accounts receivable - related party totals \$94,884 and \$74,716 at June 30 2009 and 2008, respectively, receivable from Saint Thomas Health Services for reimbursement of operating expenses of the Fund. Accounts payable - related party totals \$3,444,270 and \$404,759 at June 30, 2009 and 2008, respectively, payable to Saint Thomas Health Services for grants and 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 \$546,075 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, 2009. On December 18, 2009, the Fund executed an agreement to assign its rights, duties and obligations under the guarantee agreement to Williamson Medical Center.

SAINT THOMAS HEALTH SERVICES FUND
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2009 AND 2008

I. FAIR VALUES OF FINANCIAL INSTRUMENTS

Required disclosures concerning the estimated fair value of financial instruments are presented below. The estimated fair value amounts have been determined based on the Fund's assessment of available market information and appropriate valuation methodologies. The following table summarizes required fair value disclosures under SFAS No. 107, *Disclosures about Fair Value of Financial Instruments* and measurements at June 30, 2009 for the assets and liabilities measured at fair value on a recurring basis under SFAS No. 157, *Fair Value Measurements* (FASB Codification 820-10):

	Carrying Amount	SFAS No. 107 Estimated Fair Value	Assets Measured at Fair Value	Fair Value Measurements Using		
				Level 1	Level 2	Level 3
Assets:						
Contributions receivable	\$ 3,904,176	\$ 3,904,176	\$ 3,904,176	\$ -	\$3,904,176	\$ -
Investments	23,423,386	23,423,386	23,423,386	12,115,397	7,114,191	4,193,798
Assets held under split-interest agreements	1,620,684	1,620,684	1,620,684	-	-	1,620,684
Liabilities:						
Guarantee liability	546,075	546,075	-			

The following methods and assumptions were used to estimate the fair value of each class of financial instrument:

Cash and cash equivalents

Cash is reflected at carrying value, which is considered its fair value.

Investments

The fair value of investments, as disclosed in Note C, has been calculated based on quoted market prices, where available, and on Level 3 inputs.

Grants receivable

The carrying value of grants receivable approximates fair value due to the short-term nature of the receivables.

Contributions receivable

Contributions receivable are recorded at net present value as disclosed in Note D, which approximates their fair value.

SAINT THOMAS HEALTH SERVICES FUND
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2009 AND 2008

I. FAIR VALUES OF FINANCIAL INSTRUMENTS - Continued

Assets under split-interest agreements

Assets under split-interest agreements are recorded at present value as discussed in Note E, which approximates fair value.

Accounts payable, accrued liabilities, deferred grant revenues and promises to give

The carrying value of these items approximates fair value due to the short-term nature of the obligations.

Guarantee liability

The fair value of the lease guarantee, as disclosed in Note H, has been calculated net of amortization based upon tenants fulfillment of the lease obligation through June 30, 2009. The carrying value approximates its fair value.

J. ENDOWMENT FUNDS

The Fund's endowment consists of individual funds established for a variety of purposes and includes both donor-restricted endowment funds and funds designated by the Board of Directors to function as endowments. As required by GAAP, net assets associated with endowment funds, including funds designated by the Board of Directors to function as endowments, are classified and reported based on the existence or absence of donor-imposed restrictions.

In August 2008, the Financial Accounting Standards Board ("FASB") issued FASB Staff Position (FSP) No. FAS 117-1, *Endowments of Not for Profit Organizations: Net Asset Classification of Funds Subject to an Enacted Version of the Uniform Prudent Management of Institutional Funds Act, and Enhanced Disclosures for All Endowment Funds* (FSP No. FAS 117-1, FASB Codification 958-205). FSP No. FAS 117-1 provides guidance on the net asset classification of donor-restricted endowment funds for a nonprofit organization that is subject to an enacted version of the Uniform Prudent Management of Institutional Funds Act of 2006 (UPMIFA). The State of Tennessee's State Uniform Prudent Management of Institutional Funds Act (SUPMIFA) became effective during fiscal 2008. FSP No. FAS 117-1 also requires additional disclosures about an organization's endowment funds (both donor-restricted endowment funds and board-designated funds functioning as endowment) whether or not the organization is subject to UPMIFA.

SAINT THOMAS HEALTH SERVICES FUND
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2009 AND 2008

J. ENDOWMENT FUNDS - Continued

Interpretation of Relevant Law

The Board of Directors of the Fund has interpreted SUPMIFA as requiring the preservation of the original gift as of the gift date of the donor-restricted endowment funds absent explicit donor stipulations to the contrary. As a result of this interpretation, the Fund classifies as permanently restricted net assets (a) the original value of gifts donated to the permanent endowment, (b) the original value of subsequent gifts to the permanent endowment, and (c) accumulations to the permanent endowment made in accordance with the direction of the applicable donor gift instrument at the time the accumulation is added to the fund. The remaining portion of the donor-restricted endowment fund that is not classified in permanently restricted net assets is classified as temporarily restricted net assets until those amounts are appropriated for expenditure by the Fund in a manner consistent with the standard of prudence prescribed by applicable state laws. In accordance with applicable state laws, the Fund considers the following factors in making a determination to appropriate or accumulate donor-restricted endowment funds:

- The duration and preservation of the fund
- The purposes of the Fund and the donor-restricted endowment fund
- General economic conditions
- The possible effect of inflation and deflation
- The expected total return from income and the appreciation of investments
- Other resources of the Fund
- The investment policies of the Fund

Endowment Net Asset Composition by Type of fund as of June 30, 2009

	<u>Unrestricted</u>	<u>Temporarily Restricted</u>	<u>Permanently Restricted</u>	<u>Total</u>
Donor-restricted endowment funds	\$ -	\$1,552,135	\$2,120,577	\$3,672,712
Board-designated endowment funds	<u>19,880</u>	<u>-</u>	<u>-</u>	<u>19,880</u>
Total funds	<u>\$19,880</u>	<u>\$1,552,135</u>	<u>\$2,120,577</u>	<u>\$3,692,592</u>

Endowment Net Asset Composition by Type of fund as of June 30, 2008

	<u>Unrestricted</u>	<u>Temporarily Restricted</u>	<u>Permanently Restricted</u>	<u>Total</u>
Donor-restricted endowment funds	\$ -	\$2,311,435	\$2,881,069	\$5,192,504
Board-designated endowment funds	<u>25,245</u>	<u>-</u>	<u>-</u>	<u>25,245</u>
Total funds	<u>\$25,245</u>	<u>\$2,311,435</u>	<u>\$2,881,069</u>	<u>\$5,217,749</u>

SAINT THOMAS HEALTH SERVICES FUND
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2009 AND 2008

J. ENDOWMENT FUNDS - Continued

Changes in Endowment Net Assets for the years ended June 30, 2009 and 2008

	<u>Unrestricted</u>	<u>Temporarily Restricted</u>	<u>Permanently Restricted</u>	<u>Total</u>
<i>Endowment net assets,</i> July 1, 2007	\$ 27,900	\$ 2,713,845	\$ 2,831,098	\$ 5,572,843
Investment return:				
Investment income	1,492	249,382	-	250,874
Net depreciation (realized and unrealized)	<u>(3,226)</u>	<u>(539,074)</u>	<u>-</u>	<u>(542,300)</u>
Total investment return	<u>(1,734)</u>	<u>(289,692)</u>	<u>-</u>	<u>(291,426)</u>
Contributions	<u>-</u>	<u>34,413</u>	<u>-</u>	<u>34,413</u>
Appropriation of endowment assets for expenditure	(921)	(147,131)	-	(148,052)
Reclassifications	<u>-</u>	<u>-</u>	<u>49,971</u>	<u>49,971</u>
<i>Endowment net assets,</i> June 30, 2008	<u>25,245</u>	<u>2,311,435</u>	<u>2,881,069</u>	<u>5,217,749</u>
Investment return:				
Investment income	570	97,262	4,500	102,332
Net depreciation (realized and unrealized)	<u>(5,207)</u>	<u>(909,160)</u>	<u>-</u>	<u>(914,367)</u>
Total investment return	<u>(4,637)</u>	<u>(811,898)</u>	<u>4,500</u>	<u>(812,035)</u>
Contributions	<u>-</u>	<u>164,237</u>	<u>-</u>	<u>164,237</u>
Appropriation of endowment assets for expenditure	(728)	(111,639)	-	(112,367)
Reclassifications	<u>-</u>	<u>-</u>	<u>(764,992)</u>	<u>(764,992)</u>
<i>Endowment net assets,</i> June 30, 2009	<u>\$ 19,880</u>	<u>\$ 1,552,135</u>	<u>\$ 2,120,577</u>	<u>\$ 3,692,592</u>

SAINT THOMAS HEALTH SERVICES FUND
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2009 AND 2008

J. ENDOWMENT - Continued

Return Objectives and Risk Parameters

The Fund has adopted investment and spending policies for endowment assets that attempt to provide a predictable stream of funding to programs supported by its endowment while seeking to maintain the purchasing power of the endowment assets. Endowment assets include those assets of donor-restricted funds that the Fund must hold in perpetuity or for donor-specified periods, as well as board-designated funds. Under this policy, as approved by the Board of Directors, the endowment assets are invested in a manner that is intended to produce results that exceed the price and yield results of selected markets and various comparative indices as well as the Fund's spending rate, while assuming a moderate level of investment risk. Actual returns in any given year may vary from this amount.

Strategies Employed for Achieving Objectives

To satisfy its long-term rate-of-return objectives, the Fund 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 Fund 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 Fund's current policy of appropriating for distribution annually from its endowment fund is at the discretion of the Board of Directors, based on institutional grant requests and Fund objectives, not to exceed 5% of the previous three year rolling average year-end market values. In establishing this policy, the Fund considered the long-term expected return on its endowment. The Fund's objective is to maintain the purchasing power of the endowment assets held in perpetuity or for a specified term as well as to provide additional real growth through new gifts and investment return.

K. SUBSEQUENT EVENTS

Management has evaluated subsequent events through November 24, 2009, and has determined that except as asset forth in Note H, there are no subsequent events requiring disclosure.

A black and white image of a spiral-bound notebook. The spiral binding is visible on the left edge, consisting of a series of metal or plastic loops. The page is blank except for the text "SUPPLEMENTAL INFORMATION" centered in the middle.

SUPPLEMENTAL INFORMATION

SAINT THOMAS HEALTH SERVICES FUND
SCHEDULE OF GRANT ACTIVITY
YEAR ENDED JUNE 30, 2009

<u>Federal Grantor/ Pass-Through Grantor</u>	<u>CFDA Number</u>	<u>State Grant Number</u>	<u>Grant Period</u>	<u>Program Award</u>
<u>Federal Awards</u>				
Department of Health and Human Services/Tennessee Department of Health	93.889	Z-08-200373-00	09-01-07 to 08-31-09	\$215,700
Department of Health and Human Services/Tennessee Department of Health	93.889	DG-07-2040-00	09-01-06 to 08-31-08	279,000
Department of Health and Human Services/Tennessee Department of Health	93.889	Z-08-200454-00	09-01-07 to 08-31-09	220,800
Total Program #93.889				
Department of Health and Human Services	93.912	N/A	05-01-09 to 04-30-10	180,000
Department of Health and Human Services	93.912	N/A	05-01-08 to 04-30-09	180,000
Total Program #93.912				
Department of Health and Human Services	93.110	N/A	03-01-09 to 02-28-10	77,492
Department of Health and Human Services	93.110	N/A	03-01-08 to 02-28-09	49,420
Total Program #93.110				
TOTAL FEDERAL AWARDS				

<u>July 1, 2008</u> <u>(Accrued) Deferred</u>	<u>Receipts</u>	<u>State</u> <u>Expenditures</u>	<u>Federal</u> <u>Expenditures</u>	<u>June 30, 2009</u> <u>(Accrued) Deferred</u>
\$125,700	\$ 90,000	\$ -	\$ 90,014	\$ 125,686
171,693	-	-	171,693	-
<u>130,800</u>	<u>90,000</u>	<u>-</u>	<u>75,955</u>	<u>144,845</u>
<u>428,193</u>	<u>180,000</u>	<u>-</u>	<u>337,662</u>	<u>270,531</u>
-	15,763	-	15,763	-
<u>-</u>	<u>105,975</u>	<u>-</u>	<u>109,039</u>	<u>(3,064)</u>
<u>-</u>	<u>121,738</u>	<u>-</u>	<u>124,802</u>	<u>(3,064)</u>
-	9,630	-	6,507	3,123
<u>-</u>	<u>21,348</u>	<u>-</u>	<u>21,348</u>	<u>-</u>
<u>-</u>	<u>30,978</u>	<u>-</u>	<u>27,855</u>	<u>3,123</u>
<u>428,193</u>	<u>332,716</u>	<u>-</u>	<u>490,319</u>	<u>270,590</u>

See accompanying independent auditors' report.

SAINT THOMAS HEALTH SERVICES FUND
SCHEDULE OF GRANT ACTIVITY
YEAR ENDED JUNE 30, 2009

<u>Federal Grantor/ Pass-Through Grantor</u>	<u>CFDA Number</u>	<u>State Grant Number</u>	<u>Grant Period</u>	<u>Program Award</u>
<u>State Financial Assistance</u>				
Tennessee Department of Health	N/A	GR-08-22853-00	10-01-07 to 09-30-08	122,600
Tennessee Department of Health	N/A	GR-08-23046-00	11-01-07 to 10-31-08	250,000
Tennessee Department of Health	N/A	GR-08-23401-00	07-01-07 to 06-30-08	125,000
Tennessee Department of Health	N/A	GR-08-23234-00	07-01-07 to 06-30-08	162,500
Tennessee Department of Health	N/A	GR-08-23238-00	07-01-07 to 06-30-08	100,000
Tennessee Department of Health	N/A	GR-08-23556-00	01-01-08 to 12-31-09	1,000,000
Tennessee Department of Health	N/A	GR-09-25485-00	07-01-08 to 06-30-09	121,100
Tennessee Department of Health	N/A	GR-09-26088-00	10-01-08 to 09-30-09	121,900
Tennessee Department of Health	N/A	GR-09-27020-00	07-01-08 to 06-30-09	57,100
Tennessee Department of Health	N/A	GR-09-27009-00	07-01-08 to 06-30-09	59,400
Tennessee Department of Health	N/A	GR-09-26139-00	11-01-08 to 10-31-09	250,000
Tennessee Department of Health	N/A	GR-09-27128-00	07-01-08 to 06-30-09	58,900
Tennessee Department of Health	N/A	GR-09-27351-00	10-01-08 to 06-30-09	60,000
Tennessee Department of Health/ Hickman Community Enhancement	N/A	N/A	09-01-07 to 08-31-08	97,000

TOTAL STATE AWARDS

TOTAL FEDERAL & STATE AWARDS

Note A: The schedule of grant activity includes the federal and state grant activity of the Fund. The information in this schedule is presented in accordance with the requirements of the State of Tennessee. Therefore, some amounts presented in this schedule may differ from amounts presented in, or used in, the preparation of the basic financial statements.

<u>July 1, 2008</u> <u>(Accrued) Deferred</u>	<u>Receipts</u>	<u>State</u> <u>Expenditures</u>	<u>Federal</u> <u>Expenditures</u>	<u>June 30, 2009</u> <u>(Accrued) Deferred</u>
9,759	50,850	60,609	-	-
-	17,510	17,510	-	-
-	85,050	74,151	-	10,899
26,075	23,975	50,050	-	-
22,575	25,750	48,325	-	-
256,623	500,000	756,623	-	-
-	64,516	96,029	-	(31,513)
-	75,256	74,720	-	536
-	57,100	57,100	-	-
-	59,400	59,400	-	-
-	40,354	40,979	-	(625)
-	40,775	-	-	40,775
-	52,797	58,994	-	(6,197)
<u>96,644</u>	<u>-</u>	<u>96,644</u>	<u>-</u>	<u>-</u>
<u>411,676</u>	<u>1,093,333</u>	<u>1,491,134</u>	<u>-</u>	<u>13,875</u>
<u>\$839,869</u>	<u>\$1,426,049</u>	<u>\$1,491,134</u>	<u>\$490,319</u>	<u>\$ 284,465</u>

See accompanying independent auditors' report.

INDEPENDENT AUDITORS' REPORT ON INTERNAL CONTROL OVER
FINANCIAL REPORTING AND ON COMPLIANCE AND OTHER MATTERS
BASED ON AN AUDIT OF FINANCIAL STATEMENTS PERFORMED
IN ACCORDANCE WITH *GOVERNMENT AUDITING STANDARDS*

The Board of Directors
Saint Thomas Health Services Fund
Nashville, Tennessee

We have audited the financial statements of Saint Thomas Health Services Fund (the "Fund") as of and for the year ended June 30, 2009, and have issued our report thereon dated November 24, 2009. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States.

Internal Control Over Financial Reporting

In planning and performing our audit, we considered the Fund's internal control over financial reporting as a basis for designing our auditing procedures for the purpose of expressing our opinion on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the Fund's internal control over financial reporting. Accordingly, we do not express an opinion on the effectiveness of the Fund's internal control over financial reporting.

A control deficiency exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent or detect misstatements on a timely basis. A significant deficiency is a control deficiency, or combination of control deficiencies, that adversely affects the entity's ability to initiate, authorize, record, process, or report financial data reliably in accordance with generally accepted accounting principles, such that there is more than a remote likelihood that a misstatement of the entity's financial statements that is more than inconsequential will not be prevented or detected by the entity's internal control.

A material weakness is a significant deficiency, or combination of significant deficiencies, that results in more than a remote likelihood that a material misstatement of the financial statements will not be prevented or detected by the Fund's internal control.

Our consideration of internal control over financial reporting was for the limited purpose described in the first paragraph of this section and would not necessarily identify all deficiencies in internal control that might be significant deficiencies or material weaknesses. We did not identify any deficiencies in internal control over financial reporting that we consider to be material weaknesses, as defined above.

The Board of Directors
Saint Thomas Health Services Fund

Compliance and Other Matters

As part of obtaining reasonable assurance about whether the Fund's financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, grant agreements and other matters, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit, and accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance that are required to be reported under *Government Auditing Standards*.

This report is intended solely for the information and use of management, the Board of Directors, federal and state awarding agencies, and pass-through entities and is not intended to be and should not be used by anyone other than these specified parties.

Crosslin & Associates, P.C.

Nashville, Tennessee
November 24, 2009