

**SAINT THOMAS HEALTH FOUNDATIONS**

**Financial Statements**

**June 30, 2014 and 2013**

**(With Independent Auditors' Report Thereon)**



**LATTIMORE BLACK MORGAN & CAIN, PC**  
CERTIFIED PUBLIC ACCOUNTANTS AND BUSINESS ADVISORS

# SAINT THOMAS HEALTH FOUNDATIONS

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## **INDEPENDENT AUDITORS' REPORT**

**The Board of Directors of  
Saint Thomas Health Foundations:**

### **Report on the Financial Statements**

We have audited the accompanying financial statements of Saint Thomas Health Foundations (a nonprofit organization) (the "Foundations") which comprise the statement of financial position as of June 30, 2014, and the related statements of activities and changes in net assets, functional expenses 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 2014 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.

#### *Auditors' Responsibility*

Our responsibility is to express an opinion on these 2014 financial statements based on our audit. 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. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the 2014 financial statements are free of 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 auditors' 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 2014 financial statements referred to above present fairly, in all material respects, the financial position of Saint Thomas Health Foundations as of June 30, 2014, 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.

### **Prior Period Financial Statements**

The financial statements of the Foundations as of and for the year ended June 30, 2013 were audited by other auditors whose report dated November 21, 2013 expressed an unmodified opinion on those statements.

### **Other Reporting Required by *Government Auditing Standards***

In accordance with *Government Auditing Standards*, we have also issued our report dated December 4, 2014 on our consideration of the Foundations' internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant 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 internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the Foundations' internal control over financial reporting and compliance.

*Lattimore Black Morgan & Cain, PC*

Brentwood, Tennessee  
December 4, 2014

# SAINT THOMAS HEALTH FOUNDATIONS

## Statements of Financial Position

June 30, 2014 and 2013

### Assets

	<u>2014</u>	<u>2013</u>
Cash and cash equivalents	\$ 1,425,334	\$ 1,297,134
Investment in Ascension Alpha Fund	9,432,597	9,087,794
Investments	40,078,350	32,720,066
Prepaid expenses and other assets	33,973	32,528
Grants receivable	87,824	109,601
Contributions receivable, net	2,155,145	1,459,726
Assets held under split-interest agreements	<u>1,661,650</u>	<u>1,702,606</u>
	<u>\$ 54,874,873</u>	<u>\$ 46,409,455</u>

### Liabilities and Net Assets

#### Liabilities:

Accounts payable and accrued expenses	\$ 130,742	\$ 77,141
Accounts payable - related party	1,417,504	1,789,813
Promises to give	116,896	226,246
Deferred grant revenue	<u>14,797</u>	<u>400</u>
Total liabilities	<u>1,679,939</u>	<u>2,093,600</u>

#### Net assets:

Unrestricted	29,483,293	23,681,858
Temporarily restricted	20,798,614	18,346,857
Permanently restricted	<u>2,913,027</u>	<u>2,287,140</u>
Total net assets	<u>53,194,934</u>	<u>44,315,855</u>
	<u>\$ 54,874,873</u>	<u>\$ 46,409,455</u>

See accompanying notes to the financial statements.

# SAINT THOMAS HEALTH FOUNDATIONS

## Statement of Activities and Changes in Net Assets

Year ended June 30, 2014

	<u>Unrestricted</u>	<u>Temporarily Restricted</u>	<u>Permanently Restricted</u>	<u>Total</u>
<b>Revenue and public support:</b>				
Contributions	\$ 2,455,489	\$ 2,362,013	\$ 625,887	\$ 5,443,389
Grants and awards	557,486	-	-	557,486
Investment income	5,130,922	3,633,949	-	8,764,871
Changes in value of split-interest agreements	-	(40,956)	-	(40,956)
Net assets released from restrictions and reclasses	<u>3,503,249</u>	<u>(3,503,249)</u>	<u>-</u>	<u>-</u>
<b>Total revenue and public support</b>	<u>11,647,146</u>	<u>2,451,757</u>	<u>625,887</u>	<u>14,724,790</u>
<b>Expenses:</b>				
Program services	4,794,403	-	-	4,794,403
Management and general	359,152	-	-	359,152
Fundraising	<u>692,156</u>	<u>-</u>	<u>-</u>	<u>692,156</u>
<b>Total expenses</b>	<u>5,845,711</u>	<u>-</u>	<u>-</u>	<u>5,845,711</u>
<b>Change in net assets</b>	<b>5,801,435</b>	<b>2,451,757</b>	<b>625,887</b>	<b>8,879,079</b>
<b>Net assets at beginning of year</b>	<u>23,681,858</u>	<u>18,346,857</u>	<u>2,287,140</u>	<u>44,315,855</u>
<b>Net assets at end of year</b>	<u>\$ 29,483,293</u>	<u>\$ 20,798,614</u>	<u>\$ 2,913,027</u>	<u>\$ 53,194,934</u>

See accompanying notes to the financial statements.

# SAINT THOMAS HEALTH FOUNDATIONS

## Statement of Activities and Changes in Net Assets

Year ended June 30, 2013

	<u>Unrestricted</u>	<u>Temporarily Restricted</u>	<u>Permanently Restricted</u>	<u>Total</u>
<b>Revenue and public support:</b>				
Contributions	\$ 2,716,456	\$ 1,533,811	\$ 150,000	\$ 4,400,267
Grants and awards	760,607	-	-	760,607
Investment income	2,795,117	2,054,271	-	4,849,388
Changes in value of split-interest agreements	-	(42,512)	-	(42,512)
Net assets released from restrictions and reclasses	<u>6,116,305</u>	<u>(6,116,305)</u>	<u>-</u>	<u>-</u>
<b>Total revenue and public support</b>	<u>12,388,485</u>	<u>(2,570,735)</u>	<u>150,000</u>	<u>9,967,750</u>
<b>Expenses:</b>				
Program services	8,321,951	-	-	8,321,951
Management and general	368,154	-	-	368,154
Fundraising	<u>867,414</u>	<u>-</u>	<u>-</u>	<u>867,414</u>
<b>Total expenses</b>	<u>9,557,519</u>	<u>-</u>	<u>-</u>	<u>9,557,519</u>
<b>Change in net assets</b>	<b>2,830,966</b>	<b>(2,570,735)</b>	<b>150,000</b>	<b>410,231</b>
<b>Net assets at beginning of year</b>	<u>20,850,892</u>	<u>20,917,592</u>	<u>2,137,140</u>	<u>43,905,624</u>
<b>Net assets at end of year</b>	<u>\$ 23,681,858</u>	<u>\$ 18,346,857</u>	<u>\$ 2,287,140</u>	<u>\$ 44,315,855</u>

See accompanying notes to the financial statements.

# SAINT THOMAS HEALTH FOUNDATIONS

## Statement of Functional Expenses

Year ended June 30, 2014

	Program <u>Services</u>	Management <u>and General</u>	<u>Fundraising</u>	<u>Total</u>
Grants	\$ 4,196,559	\$ -	\$ -	\$ 4,196,559
Salaries	166,462	238,883	277,601	682,946
Brokerage fees	376,527	-	-	376,527
Fundraising	-	-	319,947	319,947
Employee benefits	27,351	39,249	45,612	112,212
Printing and supplies	266	39,413	15,245	54,924
Professional fees	-	23,240	-	23,240
Occupancy	26,950	13,475	13,475	53,900
Other	-	-	14,328	14,328
Travel	-	3,293	-	3,293
Postage	-	182	4,818	5,000
Dues and subscriptions	288	575	288	1,151
Telephone	-	842	842	1,684
Total expenses	\$ <u>4,794,403</u>	\$ <u>359,152</u>	\$ <u>692,156</u>	\$ <u>5,845,711</u>

See accompanying notes to the financial statements.



# SAINT THOMAS HEALTH FOUNDATIONS

## Statement of Functional Expenses

Year ended June 30, 2013

	Program <u>Services</u>	Management <u>and General</u>	<u>Fundraising</u>	<u>Total</u>
Grants	\$ 7,793,065	\$ -	\$ -	\$ 7,793,065
Salaries	152,020	282,002	407,280	841,302
Brokerage fees	319,334	-	-	319,334
Fundraising	-	-	231,587	231,587
Employee benefits	28,782	53,391	77,110	159,283
Printing and supplies	948	5,549	58,783	65,280
Professional fees	-	1,500	58,925	60,425
Occupancy	26,950	13,475	13,475	53,900
Other	-	-	11,477	11,477
Travel	-	9,210	-	9,210
Postage	-	182	7,083	7,265
Dues and subscriptions	852	2,003	852	3,707
Telephone	-	842	842	1,684
Total expenses	\$ <u>8,321,951</u>	\$ <u>368,154</u>	\$ <u>867,414</u>	\$ <u>9,557,519</u>

See accompanying notes to the financial statements.

# SAINT THOMAS HEALTH FOUNDATIONS

## Statements of Cash Flows

Years ended June 30, 2014 and 2013

	<u>2014</u>	<u>2013</u>
Cash flows from operating activities:		
Change in net assets	\$ <u>8,879,079</u>	\$ <u>410,231</u>
Adjustments to reconcile change in net assets to cash and cash equivalents provided by operating activities:		
Realized and unrealized gains on investments	(7,945,699)	(4,314,050)
(Increase) decrease in operating assets:		
Prepaid expenses and other assets	(1,445)	(320)
Grants receivable	21,777	(62,144)
Contributions receivable	(695,419)	4,495,408
Assets held under split-interest agreements	40,956	42,512
Increase (decrease) in operating liabilities:		
Accounts payable and accrued expenses	53,601	16,998
Accounts payable - related party	(372,309)	638,665
Promises to give	(109,350)	34,123
Deferred grant revenue	<u>14,397</u>	<u>(17,838)</u>
Total adjustments	<u>(8,993,491)</u>	<u>833,354</u>
Net cash and cash equivalents provided by operating activities	<u>(114,412)</u>	<u>1,243,585</u>
Cash flows from investing activities:		
Purchases of investments	(19,800,898)	(17,268,397)
Proceeds from sale of investments	20,388,313	12,466,403
Investment in Ascension Alpha Fund, net	<u>(344,803)</u>	<u>(9,087,794)</u>
Net cash and cash equivalents used by investing activities	<u>242,612</u>	<u>(13,889,788)</u>
Increase (decrease) in cash and cash equivalents	128,200	(12,646,203)
Cash and cash equivalents at beginning of	<u>1,297,134</u>	<u>13,943,337</u>
Cash and cash equivalents at end of	<u>\$ 1,425,334</u>	<u>\$ 1,297,134</u>

See accompanying notes to the financial statements.

# SAINT THOMAS HEALTH FOUNDATIONS

## Notes to the Financial Statements

June 30, 2014 and 2013

(1) Nature of activities

Saint Thomas Health Foundations (the "Foundations") was formed, effective July 1, 2002, upon the combination of Saint Thomas Foundation and Baptist Hospital Foundation. The creation of the Foundations 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 Foundations 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 ("STH"). STH is a major provider of hospital and related services in Nashville, Tennessee and surrounding areas.

(2) Summary of significant accounting policies

(a) Basis of presentation

The financial statements of the Foundations are presented on the accrual basis.

Revenues, support, expenses, gains and losses are classified based on the existence or absence of donor-imposed restrictions. Accordingly, net assets of the Foundations and changes therein are classified and reported as follows:

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

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

Permanently restricted net assets - Net assets subject to donor-imposed restrictions that they be maintained permanently by the Foundations.

All contributions are considered to be available for unrestricted use unless specifically restricted by the donor. Amounts received that are designated for future periods or restricted by the donor for specific purposes are reported as temporarily restricted or permanently restricted support that increases those net asset classes.

(b) Contributions

The Foundations 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 and changes in net assets 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 amount are reflected as reclassifications in the statement of activities and changes in net assets.

# SAINT THOMAS HEALTH FOUNDATIONS

## Notes to the Financial Statements

June 30, 2014 and 2013

(c) Cash equivalents

The Foundations considers all highly liquid investments with original maturities of less than three months to be cash equivalents.

(d) Investment in Ascension Alpha Fund

The Foundations maintains excess operating cash balances in Ascension Alpha Fund, LLC (the "Fund"), which is a pooled investment fund managed by an affiliate of the parent of STH. The Fund's investment objective is to allow each of its members to achieve attractive risk adjusted returns while attempting to preserve capital in adverse market conditions through the implementation of diversified investment strategies.

(e) 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.

(f) Contribution receivables

Contributions receivable are recorded at their estimated fair value at the time of the contribution. Contributions to be received over a period greater than one year are recorded net of discounts for present value. The discount rate applied is based upon the length of payment period and management's categorization of the non-payment risk into three tiers. These discount rates are reset quarterly. 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.

(g) 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.

(h) Furniture and equipment

Furniture and equipment are stated at cost, or if contributed, at fair 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. Furniture and equipment of \$55,136 were fully depreciated as of June 30, 2014 and 2013.

# SAINT THOMAS HEALTH FOUNDATIONS

## Notes to the Financial Statements

June 30, 2014 and 2013

(i) Split-interest agreements

The following instruments are recorded as contributions and assets at the present value of their ultimate Foundations' 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.

(j) Concentrations and credit risk

The Foundations 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.

The Foundations utilizes various investment instruments. 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 for changes in the values of investment securities occurring in the near term and those changes could materially affect the amounts reported in the financial statements.

(k) Income taxes

The Foundations is exempt from federal income taxes under the provisions of Internal Revenue Code Section 501(c)(3), and, accordingly, no provision for income taxes is included in the financial statements.

The Foundations accounts for the effect of any uncertain tax positions based on a *more likely than not* threshold to the recognition of the tax positions being sustained based on the technical merits of the position under examination by the applicable taxing authority. If a tax position or positions are deemed to result in uncertainties of those positions, the unrecognized tax benefit is estimated based on a *cumulative probability assessment* that aggregates the estimated tax liability for all uncertain tax positions. Tax positions for the Foundations include, but are not limited to, the tax-exempt status and determination of whether income is subject to unrelated business income tax; however, the Foundations has determined that such tax positions do not result in an uncertainty requiring recognition.

As of June 30, 2014, the Foundations has accrued no interest and no penalties related to uncertain tax positions. It is the Foundations' policy to recognize interest and/or penalties related to income tax matters in income tax expense.

# SAINT THOMAS HEALTH FOUNDATIONS

## Notes to the Financial Statements

June 30, 2014 and 2013

The Organization files a U.S. Federal information tax return. The Foundations is currently open to audit under the statute of limitations by the Internal Revenue Service for the years ended after June 30, 2010.

(l) Functional expense

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

(m) Fair value measurements

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. 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.

(n) Use of estimates

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

(o) Reclassifications

Certain items in the 2013 financial statements have been reclassified to conform to the presentation of the 2014 financial statements. These reclassifications had no effect on net assets or changes in net assets as previously reported.

# SAINT THOMAS HEALTH FOUNDATIONS

## Notes to the Financial Statements

June 30, 2014 and 2013

### (3) Investments

Investments at fair value, at June 30, 2014 and 2013, consisted of the following

	<u>2014</u>	<u>2013</u>
Mutual funds	\$ 13,555,569	\$ 10,718,336
Common stocks and bonds	19,915,197	15,508,913
Limited partnerships	<u>6,607,584</u>	<u>6,492,817</u>
	<u>\$ 40,078,350</u>	<u>\$ 32,720,066</u>

The Foundations' general investment policy is to maintain 0%-70% in domestic equities, 0%-50% in international equities, 0%-70% in fixed income securities, 0%-30% in alternative investments and 0%-30% in cash equivalents.

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

	<u>2014</u>	<u>2013</u>
Interest and dividends	\$ 819,172	\$ 535,338
Realized and unrealized (losses) gains, net	<u>7,945,699</u>	<u>4,314,050</u>
	<u>\$ 8,764,871</u>	<u>\$ 4,849,388</u>

### (4) Contributions receivable

Contributions receivable at June 30, 2014 and 2013 is as follows:

	<u>2014</u>	<u>2013</u>
Contributions receivable (present value)	\$ 2,172,315	\$ 1,478,844
Less: allowance for uncollectible contributions	<u>(17,170)</u>	<u>(19,118)</u>
Net contributions receivable	<u>\$ 2,155,145</u>	<u>\$ 1,459,726</u>

Expected future maturities of contributions receivable at June 30, 2014 were as follows:

<u>Year</u>	<u>Amount</u>
2015	\$ 740,000
2016	419,000
2017	459,000
2018	451,250
2019	<u>750,000</u>
Total expected contributions	2,819,250
Less: allowance for net present value	<u>(646,935)</u>
	<u>\$ 2,172,315</u>

# SAINT THOMAS HEALTH FOUNDATIONS

## Notes to the Financial Statements

June 30, 2014 and 2013

(5) Assets held under split-interest agreements

A donor has established a trust held by a third party naming the Foundations as a beneficiary of \$1,250,000 upon the death of the designated beneficiary. The Foundations has accounted for its interest at the present value of the amount to be received based upon the beneficiary's life expectancy and a 2% discount rate. The present value of such amounts approximated \$1,133,000 and \$1,150,000 at June 30, 2014 and 2013, respectively.

A donor has established an irrevocable trust naming the Foundations as a remainder beneficiary of approximately \$227,000. The Foundations has accounted for its interest at the present value of the amount to be received based upon the beneficiary's life expectancy and a 2% discount rate. The present value of such amounts approximated \$210,000 and \$212,000 at June 30, 2014 and 2013, respectively.

A donor has established a trust held by a third party naming the Foundations as the lead beneficiary of a charitable lead annuity trust. Under terms of the split-interest agreement, the Foundations 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 2% discount rate, the present value of future benefits expected to be received by the Foundations approximated \$48,000 and \$55,000 at June 30, 2014 and 2013, respectively.

A donor has established a trust irrevocably naming the Foundations as a remainder beneficiary of approximately \$580,000. The Foundations has accounted for its interest at the present value of the amount to be received based upon the beneficiary's life expectancy and a 2% discount rate. The present value of such amounts approximated \$270,000 and \$286,000 at June 30, 2014 and 2013, respectively.

(6) Promises to give

Promises to give at June 30, 2014 and 2013 include amounts approved by the Foundations' board of directors to be used for various projects, such as research and outreach, and totaled \$116,896 and \$226,246, respectively.

(7) Temporarily and permanently restricted assets

Temporarily restricted net assets are available for the following purposes:

	<u>2014</u>	<u>2013</u>
Community outreach	\$ 1,344,311	\$ 1,140,013
Education	5,214,367	4,377,685
Research	1,804,602	1,526,163
Charity care	3,565,425	3,000,410
Other	4,539,307	4,057,140
Capital	<u>4,330,602</u>	<u>4,245,446</u>
	<u>\$ 20,798,614</u>	<u>\$ 18,346,857</u>



# SAINT THOMAS HEALTH FOUNDATIONS

## Notes to the Financial Statements

June 30, 2014 and 2013

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>2014</u>	<u>2013</u>
Community outreach	\$ 600,000	\$ 600,000
Education	1,575,109	963,223
Charity care	235,994	235,992
Other	<u>501,924</u>	<u>487,925</u>
	<u>\$ 2,913,027</u>	<u>\$ 2,287,140</u>

Net assets of \$3,503,249 and \$6,116,305 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, 2014 and 2013, respectively. The purpose restrictions accomplished were for program expenses.

### (8) Related party transactions

The Foundations was formed to extend the ministry of STH.

Promises to give include \$116,896 and \$226,246 approved for projects of STH at June 30, 2014 and 2013, respectively.

The Foundations conducts its operations in office space leased from STH. Total rent paid to STH during each of the fiscal years 2014 and 2013 was \$37,901. The Foundations also receives in-kind use of office space at Saint Thomas Midtown Hospital with an estimated annual value of approximately \$16,000.

STH makes annual contributions to the Foundations in order to defray the Foundations' operating expenses. Such contributions generally approximate one hundred percent of operating expenses excluding investment management fees. Contributions from STH to the Foundations were \$985,954 and \$1,418,820, including in-kind salaries and employee benefits of \$257,692 and \$249,417 paid by STH on the Foundations' behalf, during fiscal years 2014 and 2013, respectively.

Accounts receivable - related party totaled \$391,709 and \$128,242 at June 30, 2014 and 2013, respectively. The receivable is from STH for reimbursement of the Foundations' operating expenses. Accounts payable - related party totaled \$1,809,213 and \$1,918,055 at June 30, 2014 and 2013, respectively. The payable is to STH for grants and expenses paid on the Foundations' behalf. Such receivables and payables are netted in the respective year's presentation in the accompanying statements of financial position.

# SAINT THOMAS HEALTH FOUNDATIONS

## Notes to the Financial Statements

June 30, 2014 and 2013

### (9) Assets and liabilities measured at fair value

Required disclosures concerning the estimated fair value of financial instruments are presented below. The estimated fair value amounts have been determined based on the Foundations' assessment of available market information and appropriate valuation methodologies. The following table summarizes required fair value disclosures and measurements at June 30, 2014 and 2013 for the assets and liabilities measured at fair value on a recurring basis:

Fair Value Measurements as of <u>June 30, 2014 using the following inputs</u>				
	<u>Level 1</u>	<u>Level 2</u>	<u>Level 3</u>	<u>Total</u>
Contributions receivable	\$ -	\$ 2,155,145	\$ -	\$ 2,155,145
Investment in Ascension Alpha Fund	-	9,432,597	-	9,432,597
Investments:				
Equity mutual funds	13,555,569	-	-	13,555,569
Common stocks	19,911,564	-	-	19,911,564
Corporate and foreign bonds	-	3,633	-	3,633
Limited partnerships:				
Real estate	-	-	717,527	717,527
High yield and distressed debt	-	-	3,593,183	3,593,183
Offshore private investment companies	-	-	2,296,874	2,296,874
Total investments	33,467,133	3,633	6,607,584	40,078,350
Assets held under split-interest agreements	-	-	1,661,650	1,661,650
Total	\$ 33,467,133	\$ 11,591,375	\$ 8,269,234	\$ 53,327,742

# SAINT THOMAS HEALTH FOUNDATIONS

## Notes to the Financial Statements

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### Fair Value Measurements as of June 30, 2013 using the following inputs

	<u>Level 1</u>	<u>Level 2</u>	<u>Level 3</u>	<u>Total</u>
Contributions receivable	\$ -	\$ 1,459,726	\$ -	\$ 1,459,726
Investment in Ascension Alpha Fund	-	9,087,794	-	9,087,794
Investments:				
Equity mutual funds	10,718,336	-	-	10,718,336
Common stocks	15,503,149	-	-	15,503,149
Corporate and foreign bonds	-	5,764	-	5,764
Limited partnerships:				
Real estate	-	-	746,961	746,961
High yield and distressed debt	-	-	3,287,944	3,287,944
Offshore private investment companies	-	-	2,457,912	2,457,912
Total investments	26,221,485	5,764	6,492,817	32,720,066
Assets held under split-interest agreements	-	-	1,702,606	1,702,606
Total	\$ 26,221,485	\$ 10,553,284	\$ 8,195,423	\$ 44,970,192

The following table provides a summary of changes in fair value of the Foundations' Level 3 assets for the years ended June 30, 2014 and 2013:

### Fair Value Measurements Using Significant Unobservable Inputs (Level 3)

	Assets held under split- interest agreements	<u>Limited partnerships</u>		
		<u>Real estate</u>	<u>High Yield and Distressed Debt</u>	<u>Offshore Private Investment Companies</u>
Balance at June 30, 2012	\$ 1,745,118	\$ 719,635	\$ 2,735,789	\$ 2,232,262
Contributions/purchases	-	60,000	140,000	-
Net gains (losses) included in change in net assets	(17,003)	89,326	412,155	225,650
Distributions/sales	(25,509)	(122,000)	-	-
Balance at June 30, 2013	1,702,606	746,961	3,287,944	2,457,912
Contributions/purchases	-	11,500	40,000	1,079,493
Net gains (losses) included in change in net assets	(40,956)	106,981	520,239	(208,307)
Distributions/sales	-	(147,915)	(255,000)	(1,032,224)
Balance at June 30, 2014	\$ 1,661,650	\$ 717,527	\$ 3,593,183	\$ 2,296,874

# SAINT THOMAS HEALTH FOUNDATIONS

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

### Cash and cash equivalents

Cash and cash equivalents are reflected at carrying value, which is considered fair value.

### Investments

The fair value of investments has been calculated based on quoted market prices, where available, and on Level 2 and 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, which approximates their fair value.

### Assets under split-interest agreements

Assets under split-interest agreements are recorded at present value, 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.

### (10) Endowment funds

The Foundations' 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 generally accepted accounting principles (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.

# SAINT THOMAS HEALTH FOUNDATIONS

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As prescribed by the Uniform Prudent Management of Institutional Funds Act ("UPMIFA"), the Foundations intends to preserve the fair value 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 Foundations 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 expenditures by the Foundations in a manner consistent with the standard of prudence prescribed by UPMIFA. In accordance with UPMIFA, the Foundations 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 Foundations 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 Foundations
- (7) The investment policies of the Foundations.

The endowment pool market value to net asset analysis as of June 30, 2014 is as follows:

	<u>Unrestricted</u>	<u>Temporarily Restricted</u>	<u>Permanently Restricted</u>	<u>Total</u>
Endowment pool:				
Donor-restricted	\$ -	\$ 2,636,125	\$ 2,913,027	\$ 5,549,152
Board-designated	<u>44,256</u>	<u>-</u>	<u>-</u>	<u>44,256</u>
Total	<u>\$ 44,256</u>	<u>\$ 2,636,125</u>	<u>\$ 2,913,027</u>	<u>\$ 5,593,408</u>

The endowment pool market value to net asset analysis as of June 30, 2013 is as follows:

	<u>Unrestricted</u>	<u>Temporarily Restricted</u>	<u>Permanently Restricted</u>	<u>Total</u>
Endowment pool:				
Donor-restricted	\$ -	\$ 1,857,825	\$ 2,287,140	\$ 4,144,965
Board-designated	<u>39,478</u>	<u>-</u>	<u>-</u>	<u>39,478</u>
Total	<u>\$ 39,478</u>	<u>\$ 1,857,825</u>	<u>\$ 2,287,140</u>	<u>\$ 4,184,443</u>

# SAINT THOMAS HEALTH FOUNDATIONS

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June 30, 2014 and 2013

Changes in endowment net assets for the fiscal years ended June 30, 2014 and 2013 are as follows:

	<u>Unrestricted</u>	<u>Temporarily Restricted</u>	<u>Permanently Restricted</u>	<u>Total</u>
Endowment net assets, June 30, 2012	\$ <u>36,810</u>	\$ <u>1,631,264</u>	\$ <u>2,137,140</u>	\$ <u>3,805,214</u>
Investment return:				
Investment income	308	54,059	-	54,367
Net appreciation (depreciation) - realized and unrealized	<u>2,543</u>	<u>432,680</u>	<u>-</u>	<u>435,223</u>
Total investment return	<u>2,851</u>	<u>486,739</u>	<u>-</u>	<u>489,590</u>
Contributions	-	43,607	150,000	193,607
Appropriation of endowment assets for expenditure	<u>(183)</u>	<u>(303,785)</u>	<u>-</u>	<u>(303,968)</u>
Endowment net assets, June 30, 2013	<u>39,478</u>	<u>1,857,825</u>	<u>2,287,140</u>	<u>4,184,443</u>
Investment return:				
Investment income	484	82,039	-	82,523
Net appreciation (depreciation) - realized and unrealized	<u>4,517</u>	<u>764,757</u>	<u>-</u>	<u>769,274</u>
Total investment return	<u>5,001</u>	<u>846,796</u>	<u>-</u>	<u>851,797</u>
Contributions	-	37,181	625,887	663,068
Appropriation of endowment assets for expenditure	<u>(223)</u>	<u>(105,677)</u>	<u>-</u>	<u>(105,900)</u>
Endowment net assets, June 30, 2014	\$ <u>44,256</u>	\$ <u>2,636,125</u>	\$ <u>2,913,027</u>	\$ <u>5,593,408</u>

# SAINT THOMAS HEALTH FOUNDATIONS

## Notes to the Financial Statements

June 30, 2014 and 2013

The Foundations 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 Foundations 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 Foundations' spending rate, while assuming a moderate level of investment risk. Actual returns in any given year may vary from this amount.

To satisfy its long-term rate-of-return objectives, the Foundations relies on total return strategy in which investment returns are achieved through both capital appreciation (realized and unrealized) and current yield (interest and dividends). The Foundations 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.

The Foundations' 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 Foundations objectives. In establishing this policy, the Foundations considers the long-term expected return on its endowment. The Foundations' 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 investments return.

### (11) Subsequent events

Management has evaluated subsequent events through December 4, 2014, the date the financial statements were available for issuance, and has determined there are no subsequent events requiring disclosure.

**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 of  
Saint Thomas Health Foundations:

We have audited, in accordance with the 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, the financial statement of Saint Thomas Health Foundations (the "Foundations"), which comprise the statement of financial position as of June 30, 2014, and the related statements of activities and changes in net assets, functional expenses and cash flows for the year then ended, and the related notes to the financial statements, and have issued our report thereon dated December 4, 2014.

**Internal Control Over Financial Reporting**

In planning and performing our audit of the financial statements, we considered the Foundations' internal control over financial reporting (internal control) to determine the audit procedures that are appropriate in the circumstances 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 Foundations' internal control. Accordingly, we do not express an opinion on the effectiveness of the Foundations' internal control.

A *deficiency in internal control* 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 and correct, misstatements on a timely basis. A *material weakness* is a deficiency, or a combination of deficiencies, in internal control, such that there is a reasonable possibility that a material misstatement of the Foundations' financial statements will not be prevented, or detected and corrected on a timely basis. A *significant deficiency* is a deficiency, or a combination of deficiencies, in internal control that is less severe than a material weakness, yet important enough to merit attention by those charged with governance.

Our consideration of internal control was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control that might be material weaknesses or significant deficiencies. Given these limitations, during our audit we did not identify any deficiencies in internal control that we consider to be material weaknesses. However, material weaknesses may exist that have not been identified.

**Compliance and Other Matters**

As part of obtaining reasonable assurance about whether the Foundations' financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements, 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 or other matters that are required to be reported under *Government Auditing Standards*.



### Purpose of this Report

The purpose of this report is solely to describe the scope of our testing of internal control and compliance and the results of that testing, and not to provide an opinion on the effectiveness of the Foundations' internal control or on compliance. This report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the Foundations' internal control and compliance. Accordingly, this communication is not suitable for any other purpose.

*Lattimore Black Morgan & Cain, PC*

Brentwood, Tennessee  
December 4, 2014