

SAINT THOMAS HEALTH SERVICES FUND

**FINANCIAL STATEMENTS AND
INDEPENDENT AUDITOR'S REPORT**

June 30, 2007 and 2006

SAINT THOMAS HEALTH SERVICES FUND

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INDEPENDENT AUDITOR'S REPORT

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) as of June 30, 2007 and 2006 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 Organization'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. 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 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, 2007 and 2006 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.

As discussed in Note 8 to the financial statements, net assets at June 30, 2005 and activities for the year ended June 30, 2006 have been restated.

Frasier, Dean & Howard, PLLC

December 11, 2007

SAINT THOMAS HEALTH SERVICES FUND
STATEMENTS OF FINANCIAL POSITION
June 30, 2007 and 2006

Assets

	<u>2007</u>	<u>2006</u>
Cash and cash equivalents	\$ 3,494,771	\$ 2,144,410
Investments	31,537,450	26,622,785
Grants receivable	9,883	21,543
Contributions receivable, net	989,902	698,774
Assets held under split-interest agreements	1,596,020	1,365,182
Furniture and equipment, net of accumulated depreciation of \$97,548 and \$95,594, respectively	17,490	19,444
Other	<u>-</u>	<u>4,319</u>
Total assets	<u>\$37,645,516</u>	<u>\$30,876,457</u>

Liabilities and Net Assets

Accounts payable and accrued expenses	\$ 1,284	\$ 1,003
Accounts payable - related party	669,107	353,929
Promises to give	6,315	174,312
Deferred federal and state grant revenue	<u>578,866</u>	<u>389,741</u>
Total liabilities	<u>1,255,572</u>	<u>918,985</u>
Net assets:		
Unrestricted	17,469,160	13,368,755
Temporarily restricted	16,089,686	13,757,619
Permanently restricted	<u>2,831,098</u>	<u>2,831,098</u>
Total net assets	<u>36,389,944</u>	<u>29,957,472</u>
Total liabilities and net assets	<u>\$37,645,516</u>	<u>\$30,876,457</u>

See accompanying notes.

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	2,928,025	(2,928,025)	-	-
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	886,250	-	-	886,250
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.

SAINT THOMAS HEALTH SERVICES FUND
STATEMENT OF ACTIVITIES AND CHANGES IN NET ASSETS
Year ended June 30, 2006

	Unrestricted (Restated)	Temporarily Restricted (Restated)	Permanently Restricted	Total (Restated)
Revenue and public support:				
Contributions	\$ 4,032,773	\$ 2,055,352	\$ -	\$ 6,088,125
Federal and state grants	1,047,259	-	-	1,047,259
Investment income	907,958	1,021,894	-	1,929,852
Changes in value of split-interest agreements	(190,313)	-	-	(190,313)
Net assets released from restrictions	1,885,747	(1,885,747)	-	-
Total revenue and public support	7,683,424	1,191,499	-	8,874,923
Expenses:				
Program	4,889,930	-	-	4,889,930
Management and general	345,981	-	-	345,981
Fundraising	958,686	-	-	958,686
Total expenses	6,194,597	-	-	6,194,597
Changes in net assets	1,488,827	1,191,499	-	2,680,326
Net assets, beginning of year, as previously reported	11,010,446	13,165,602	2,831,098	27,007,146
Restatement (Note 8)	869,482	(599,482)	-	270,000
Net assets, beginning of year, as restated	11,879,928	12,566,120	2,831,098	27,277,146
Net assets, end of year	<u>\$13,368,755</u>	<u>\$13,757,619</u>	<u>\$ 2,831,098</u>	<u>\$29,957,472</u>

See accompanying notes.

SAINT THOMAS HEALTH SERVICES FUND
STATEMENT OF FUNCTIONAL EXPENSES
Year ended June 30, 2007

	Program Services	Management and General	Fund Raising	Total
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	978	488	488	1,954
Total expenses	<u>\$3,326,806</u>	<u>\$ 326,114</u>	<u>\$ 886,250</u>	<u>\$4,539,170</u>

See accompanying notes.

SAINT THOMAS HEALTH SERVICES FUND
STATEMENT OF FUNCTIONAL EXPENSES
Year ended June 30, 2006

	<u>Program Services</u>	<u>Management and General</u>	<u>Fund Raising</u>	<u>Total</u>
Grants	\$4,553,442	\$ -	\$ -	\$4,553,442
Salaries	169,558	168,511	465,658	803,727
Fundraising	-	-	186,100	186,100
Employee benefits	67,400	30,516	61,031	158,947
Printing	3,925	188	122,737	126,850
Occupancy	34,440	17,220	17,220	68,880
Other	5,477	39,391	21,915	66,783
Supplies	16,185	5,323	25,002	46,510
Postage	641	4,519	37,872	43,032
Brokerage fees	20,633	20,633	-	41,266
Professional fees	-	25,693	-	25,693
Software maintenance	-	13,757	-	13,757
Dues and subscriptions	4,492	8,985	4,492	17,969
Depreciation	8,322	4,161	4,161	16,644
Outside labor	4,003	4,003	8,006	16,012
Gifts and entertainment	1,412	1,412	2,823	5,647
Telephone	-	1,669	1,669	3,338
	<u> </u>	<u> </u>	<u> </u>	<u> </u>
Total expenses	<u>\$4,889,930</u>	<u>\$ 345,981</u>	<u>\$ 958,686</u>	<u>\$6,194,597</u>

See accompanying notes.

SAINT THOMAS HEALTH SERVICES FUND
STATEMENTS OF CASH FLOWS
Years ended June 30, 2007 and 2006

	<u>2007</u>	<u>2006</u>
Cash flows from operating activities:		
Changes in net assets	\$ 6,432,472	\$ 2,680,326
Adjustments to reconcile change in net assets to net cash provided by operating activities:		
Depreciation	1,954	16,644
Realized and unrealized gain on investments	(4,187,855)	(950,018)
Changes in operating assets and liabilities:		
Contributions receivable	(291,128)	(161,202)
Grant receivable	11,660	107,008
Assets held under split-interest agreements	(230,838)	32,313
Other	4,319	18,881
Accounts payable and accrued expenses	281	(22,627)
Accounts payable (receivable) - related party	315,178	1,551,956
Promises to give	(167,997)	(129,871)
Deferred federal and state grant revenue	189,125	78,348
	<u>2,077,171</u>	<u>3,221,758</u>
Net cash provided by operating activities		
Cash flows from investing activities:		
Purchases of investments	(9,515,900)	(12,709,553)
Proceeds from sale of investments	8,789,090	7,499,362
	<u>(726,810)</u>	<u>(5,210,191)</u>
Net cash used in investing activities		
Net increase (decrease) in cash and cash equivalents	1,350,361	(1,988,433)
Cash and cash equivalents, beginning of year	<u>2,144,410</u>	<u>4,132,843</u>
Cash and cash equivalents, end of year	<u><u>\$ 3,494,771</u></u>	<u><u>\$ 2,144,410</u></u>

See accompanying notes.

SAINT THOMAS HEALTH SERVICES FUND
NOTES TO FINANCIAL STATEMENTS
June 30, 2007 and 2006

NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

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.

Financial Statement Presentation

The Fund follows the standards of accounting and reporting prescribed for nonprofit organizations using the accrual basis of accounting.

The Fund’s net assets and its support, revenue, expenses, gains, and losses are classified into three classes of net assets based on the existence 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. When a restriction expires temporarily restricted net assets are reclassified to unrestricted net assets and reported in the statement of activities as net assets released from restrictions.

Permanently restricted net assets – Net assets subject to donor-imposed stipulations that they 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.

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

For purposes of the statement of cash flows, the Fund considers all highly liquid investments with a maturity of three months or less when purchased to be cash equivalents.

SAINT THOMAS HEALTH SERVICES FUND
NOTES TO FINANCIAL STATEMENTS (Continued)
June 30, 2007 and 2006

NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

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. Under the provisions of Statement of Financial Accounting Standards No. 116, 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 as a change in net assets in the period they occur.

Split Interest Agreements

Accounting standards require that the following instruments be 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.

SAINT THOMAS HEALTH SERVICES FUND
NOTES TO FINANCIAL STATEMENTS (Continued)
June 30, 2007 and 2006

NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Concentrations

The Fund maintains cash deposits and investments in excess of 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.

Use of Estimates

The preparation of financial statements in conformity with accounting principles generally accepted in the United States of America requires management to make estimates and assumptions that affect certain reported amounts and disclosures. Accordingly, actual results could differ from those estimates.

Reclassifications

Certain reclassifications have been made to the 2006 financial statements in order to conform with the 2007 presentation.

NOTE 2 – INVESTMENTS

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

	<u>2007</u>	<u>2006</u>
Mutual funds	\$15,467,253	\$12,411,878
Equities	9,072,724	7,805,120
Fixed income securities	6,848,797	6,262,371
Cash surrender value of life insurance	<u>148,676</u>	<u>143,416</u>
	<u>\$31,537,450</u>	<u>\$26,622,785</u>

SAINT THOMAS HEALTH SERVICES FUND
NOTES TO FINANCIAL STATEMENTS (Continued)
June 30, 2007 and 2006

NOTE 2 – INVESTMENTS (Continued)

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, 2007 and 2006.

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

	<u>2007</u>	<u>2006</u>
Interest and dividends	\$ 779,629	\$ 979,834
Realized and unrealized gains - net	<u>4,187,855</u>	<u>950,018</u>
	<u>\$ 4,967,484</u>	<u>\$ 1,929,852</u>

NOTE 3 – CONTRIBUTIONS RECEIVABLE

Contributions receivable consist of the following at June 30:

	<u>2007</u>	<u>2006</u>
Contributions receivable	\$ 999,928	\$ 706,899
Less: allowance for uncollectible contributions	<u>(10,026)</u>	<u>(8,125)</u>
Net contributions receivable	<u>\$ 989,902</u>	<u>\$ 698,774</u>
Receivable in less than one year, net	\$ 860,171	\$ 398,774
Receivable in one to five years, net	<u>129,731</u>	<u>300,000</u>
	<u>\$ 989,902</u>	<u>\$ 698,774</u>

NOTE 4 – 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 beneficiary's life expectancy and a 5.03% discount rate. The present value of such amounts approximated \$978,000 and \$798,000 at June 30, 2007 and 2006, respectively.

A donor has established a trust irrevocably naming the Fund as a remainder beneficiary of approximately \$227,000. The Fund has accounted for its interest based on the present value of amount to be received. The Fund has accounted for its interest based upon the beneficiary's life expectancy and a 5.05% discount rate. The present value of such amounts approximated \$158,000 at June 30, 2007 and 2006.

SAINT THOMAS HEALTH SERVICES FUND
NOTES TO FINANCIAL STATEMENTS (Continued)
June 30, 2007 and 2006

NOTE 4 – ASSETS HELD UNDER SPLIT-INTEREST AGREEMENTS (Continued)

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 5.10% discount rate, the present value of future benefits expected to be received by the Fund approximated \$191,000 and \$139,000 at June 30, 2007 and 2006, 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 amount to be received. The Fund has accounted for its interest based upon the beneficiary's life expectancy and a 5.10% discount rate. The present value of such amounts approximated \$270,000 at June 30, 2007 and 2006.

NOTE 5 – PROMISES TO GIVE

Promises to give at June 30, 2007 and 2006 includes amounts approved by the Fund's board of directors to be used for various projects, such as research and outreach, and totaled \$6,315 and \$174,312, respectively.

NOTE 6 – TEMPORARILY AND PERMANENTLY RESTRICTED NET ASSETS

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

	<u>2007</u>	<u>2006</u>
Community outreach	\$ 1,068,163	\$ 926,542
Education	3,034,113	2,525,660
Research	1,765,996	1,660,025
Charity care	3,031,224	2,631,626
Other, including time restrictions	5,893,323	4,788,101
Capital	<u>1,296,867</u>	<u>1,225,565</u>
Total temporarily restricted net assets	<u>\$16,089,686</u>	<u>\$13,757,519</u>

SAINT THOMAS HEALTH SERVICES FUND
NOTES TO FINANCIAL STATEMENTS (Continued)
June 30, 2007 and 2006

NOTE 6 – TEMPORARILY AND PERMANENTLY RESTRICTED NET ASSETS
(Continued)

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>2007</u>	<u>2006</u>
Research	\$ 1,072,668	\$ 1,072,668
Education	758,722	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>\$ 2,831,098</u>	<u>\$ 2,831,098</u>

NOTE 7 – RELATED PARTY TRANSACTIONS

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

Promises to give include \$6,315 and \$174,312 approved for projects of Saint Thomas Health Services at June 30, 2007 and 2006, respectively (Note 5).

The Fund conducts its operations in office space leased from Saint Thomas Health Services. Total rent paid to Saint Thomas Health Services during fiscal 2007 and 2006 totaled \$38,260 and \$38,880, respectively. The Fund also receives in-kind use of office space at Baptist Hospital with an estimated annual value of \$30,000.

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 \$1,422,951 and \$1,467,000, including in-kind salaries and employee benefits of \$251,400 and \$343,300 paid by Saint Thomas Health Services on the Fund's behalf, during fiscal 2007 and 2006, respectively.

Accounts receivable – related party totals \$1,171,551 and \$1,123,273 at June 30, 2007 and 2006, respectively, receivable from Saint Thomas Health Services for reimbursement of operating expenses of the Fund. Accounts payable – related party totals \$1,840,658 and \$1,477,202 at June 30, 2007 and 2006, respectively, payable to Saint Thomas Health Services for expenses paid on the Fund's behalf. Such receivables and payables are netted in the respective years' presentation in the accompanying statements of financial position.

SAINT THOMAS HEALTH SERVICES FUND
NOTES TO FINANCIAL STATEMENTS (Continued)
June 30, 2007 and 2006

NOTE 8 – RESTATEMENT

The Fund restated temporarily restricted net assets as of June 30, 2005 to properly record its beneficial interest in a charitable remainder trust at that date of \$270,000. The Fund's interest in such trust had previously been unrecorded in the Fund's accounting records.

Net assets at June 30, 2005 and 2006 have been restated to properly reflect the classification of net assets. As a result, temporarily restricted net assets have been decreased by \$869,482 and \$417,784 at June 30, 2005 and 2006, respectively, with a corresponding increase in unrestricted net assets. The restatement had no effect on total changes in net assets for the years ended June 30, 2006 and 2007.