

SAINT THOMAS HEALTH SERVICES FUND

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

June 30, 2006 and 2005

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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, 2006 and 2005 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 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 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, 2006 and 2005 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.

Frasier, Dean & Howard, PLLC

September 20, 2006

SAINT THOMAS HEALTH SERVICES FUND
STATEMENTS OF FINANCIAL POSITION
June 30, 2006 and 2005

	Assets	
	<u>2006</u>	<u>2005</u>
Cash and cash equivalents	\$ 2,144,410	\$ 4,132,843
Investments	26,622,785	20,462,576
Grants receivable	21,543	128,551
Accounts receivable - related party	-	1,198,027
Contributions receivable, net	698,774	537,572
Assets held under split-interest agreements	1,095,182	1,127,495
Furniture and equipment, net of accumulated depreciation of \$95,594 and \$78,950, respectively	19,444	36,088
Other	4,319	23,200
Total assets	<u>\$30,606,457</u>	<u>\$27,646,352</u>
Liabilities and Net Assets		
Accounts payable and accrued expenses	\$ 1,003	\$ 23,630
Accounts payable - related party	353,929	-
Promises to give	174,312	304,183
Deferred federal and state grant revenue	389,741	311,393
Total liabilities	<u>918,985</u>	<u>639,206</u>
Net assets:		
Unrestricted	12,633,120	11,010,446
Temporarily restricted	14,223,254	13,165,602
Permanently restricted	2,831,098	2,831,098
Total net assets	<u>29,687,472</u>	<u>27,007,146</u>
Total liabilities and net assets	<u>\$30,606,457</u>	<u>\$27,646,352</u>

See accompanying notes.

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

	<u>Unrestricted</u>	<u>Temporarily Restricted</u>	<u>Permanently Restricted</u>	<u>Total</u>
Revenue and public support:				
Contributions	\$ 3,626,688	\$ 2,461,437	\$ -	\$ 6,088,125
Federal and state grants	1,047,259	-	-	1,047,259
Investment income	896,259	1,033,593	-	1,929,852
Changes in value of split-interest agreements	(190,313)	-	-	(190,313)
Net assets released from restrictions	<u>2,437,378</u>	<u>(2,437,378)</u>	<u>-</u>	<u>-</u>
Total revenue and public support	<u>7,817,271</u>	<u>1,057,652</u>	<u>-</u>	<u>8,874,923</u>
Expenses:				
Program	4,889,930	-	-	4,889,930
Management and general	345,981	-	-	345,981
Fundraising	<u>958,686</u>	<u>-</u>	<u>-</u>	<u>958,686</u>
Total expenses	<u>6,194,597</u>	<u>-</u>	<u>-</u>	<u>6,194,597</u>
Changes in net assets	1,622,674	1,057,652	-	2,680,326
Net assets, beginning of year	<u>11,010,446</u>	<u>13,165,602</u>	<u>2,831,098</u>	<u>27,007,146</u>
Net assets, end of year	<u><u>\$12,633,120</u></u>	<u><u>\$14,223,254</u></u>	<u><u>\$ 2,831,098</u></u>	<u><u>\$29,687,472</u></u>

See accompanying notes.

SAINT THOMAS HEALTH SERVICES FUND
STATEMENT OF ACTIVITIES AND CHANGES IN NET ASSETS
Year ended June 30, 2005

	<u>Unrestricted</u>	<u>Temporarily Restricted</u>	<u>Permanently Restricted</u>	<u>Total</u>
Revenue and public support:				
Contributions	\$ 2,138,968	\$ 3,257,214	\$ 111,356	\$ 5,507,538
Federal and state grants	752,285	-	-	752,285
Investment income	494,811	755,725	-	1,250,536
Changes in value of split-interest agreements	31,143	-	-	31,143
Net assets released from restrictions	<u>2,475,874</u>	<u>(2,475,874)</u>	<u>-</u>	<u>-</u>
Total revenue and public support	<u>5,893,081</u>	<u>1,537,065</u>	<u>111,356</u>	<u>7,541,502</u>
Expenses:				
Program	2,375,203	-	-	2,375,203
Management and general	366,901	-	-	366,901
Fundraising	<u>905,727</u>	<u>-</u>	<u>-</u>	<u>905,727</u>
Total expenses	<u>3,647,831</u>	<u>-</u>	<u>-</u>	<u>3,647,831</u>
Changes in net assets	2,245,250	1,537,065	111,356	3,893,671
Net assets, beginning of year	<u>8,765,196</u>	<u>11,628,537</u>	<u>2,719,742</u>	<u>23,113,475</u>
Net assets, end of year	<u><u>\$11,010,446</u></u>	<u><u>\$13,165,602</u></u>	<u><u>\$ 2,831,098</u></u>	<u><u>\$27,007,146</u></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	32,923	21,915	60,315
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
Equipment rental and maintenance	-	20,225	-	20,225
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
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
STATEMENT OF FUNCTIONAL EXPENSES
Year ended June 30, 2005

	<u>Program Services</u>	<u>Management and General</u>	<u>Fund Raising</u>	<u>Total</u>
Grants	\$2,040,255	\$ -	\$ -	\$2,040,255
Salaries	155,469	155,469	310,936	621,874
Fundraising	-	-	237,278	237,278
Employee benefits	46,674	46,679	93,346	186,699
Printing	-	25,759	103,034	128,793
Brokerage fees	71,966	17,992	-	89,958
Other	11,747	32,083	29,731	73,561
Occupancy	22,758	22,758	23,448	68,964
Outside labor	5,213	5,213	41,707	52,133
Postage	3,747	11,241	22,483	37,471
Professional fees	-	22,494	-	22,494
Depreciation	7,114	7,114	7,332	21,560
Equipment rental and maintenance	6,096	6,096	6,280	18,472
Gifts and entertainment	-	1,807	16,260	18,067
Dues and subscriptions	-	8,032	8,032	16,064
Supplies	1,938	1,938	2,584	6,460
Insurance	1,728	1,728	1,781	5,237
Telephone	498	498	1,495	2,491
	<u>\$2,375,203</u>	<u>\$ 366,901</u>	<u>\$ 905,727</u>	<u>\$3,647,831</u>
Total expenses	<u>\$2,375,203</u>	<u>\$ 366,901</u>	<u>\$ 905,727</u>	<u>\$3,647,831</u>

See accompanying notes.

SAINT THOMAS HEALTH SERVICES FUND
STATEMENTS OF CASH FLOWS
Years ended June 30, 2006 and 2005

	<u>2006</u>	<u>2005</u>
Cash flows from operating activities:		
Changes in net assets	\$ 2,680,326	\$ 3,893,671
Adjustments to reconcile change in net assets to net cash provided by operating activities:		
Depreciation	16,644	21,560
Realized and unrealized gain on investments	(950,018)	(618,015)
Changes in operating assets and liabilities:		
Contributions receivable	(161,202)	1,481,766
Accounts receivable - related party	1,551,956	(877,062)
Grant receivable	107,008	(128,551)
Beneficial interest in trusts	32,313	(31,143)
Other	18,881	(21,849)
Accounts payable and accrued expenses	(22,627)	(455,648)
Promises to give	(129,871)	(35,651)
Deferred federal and state grant revenue	78,348	(63,902)
Net cash provided by operating activities	<u>3,221,758</u>	<u>3,165,176</u>
Cash flows from investing activities:		
Purchases of investments	(12,709,553)	(12,713,958)
Proceeds from sale of investments	<u>7,499,362</u>	<u>10,603,015</u>
Net cash used in investing activities	<u>(5,210,191)</u>	<u>(2,110,943)</u>
Net (decrease) increase in cash and cash equivalents	(1,988,433)	1,054,233
Cash and cash equivalents, beginning of year	<u>4,132,843</u>	<u>3,078,610</u>
Cash and cash equivalents, end of year	<u><u>\$ 2,144,410</u></u>	<u><u>\$ 4,132,843</u></u>

See accompanying notes.

SAINT THOMAS HEALTH SERVICES FUND
NOTES TO FINANCIAL STATEMENTS
June 30, 2006 and 2005

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, 2006 and 2005

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, 2006 and 2005

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 mutual funds.

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.

NOTE 2 – INVESTMENTS

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

	<u>2006</u>	<u>2005</u>
U.S. Savings Bonds	\$ -	\$ 220,000
Mutual funds	12,411,878	9,898,469
Equities	7,805,120	4,409,819
Fixed income securities	6,262,371	5,795,752
Cash surrender value of life insurance	<u>143,416</u>	<u>138,536</u>
	<u>\$26,622,785</u>	<u>\$20,462,576</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, 2006 and 2005.

SAINT THOMAS HEALTH SERVICES FUND
NOTES TO FINANCIAL STATEMENTS (Continued)
June 30, 2006 and 2005

NOTE 2 – INVESTMENTS (Continued)

The Fund's general investment policy is as follows: to maintain 40% - 70% in domestic equities, 0% - 20% in international 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>2006</u>	<u>2005</u>
Interest and dividends	\$ 979,834	\$ 632,521
Realized and unrealized gains - net	<u>950,018</u>	<u>618,015</u>
	<u>\$ 1,929,852</u>	<u>\$ 1,250,536</u>

NOTE 3 – CONTRIBUTIONS RECEIVABLE

Contributions receivable consist of the following at June 30:

	<u>2006</u>	<u>2005</u>
Capital campaign	\$ -	\$ 360,273
Other	706,899	197,067
Less: allowance for uncollectible contributions	<u>(8,125)</u>	<u>(19,768)</u>
Net contributions receivable	<u>\$ 698,774</u>	<u>\$ 537,572</u>
Receivable in less than one year, net	\$ 398,774	\$ 537,572
Receivable in one to five years, net	<u>300,000</u>	<u>-</u>
	<u>\$ 698,774</u>	<u>\$ 537,572</u>

During fiscal 2002, the Fund began a five year capital campaign to raise approximately \$18 million for various projects including the Institute for the Healing Arts, the Center for Spiritual Renewal and the Saint Thomas Family Health Center South. As of June 30, 2006 and 2005, contributions receivable related to the campaign totaled approximately \$0 and \$360,000, respectively.

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 5.11% discount rate. The present value of such amounts totaled \$798,204 and \$954,679 at June 30, 2006 and 2005, respectively.

SAINT THOMAS HEALTH SERVICES FUND
NOTES TO FINANCIAL STATEMENTS (Continued)
June 30, 2006 and 2005

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

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 5.00% discount rate. The present value of such amounts approximated \$158,000 at June 30, 2006.

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 5.11% discount rate, the present value of future benefits expected to be received by the Fund totaled \$138,978 and \$172,816 at June 30, 2006 and 2005, respectively.

NOTE 5 – PROMISES TO GIVE

Promises to give at June 30, 2006 and 2005 includes amounts approved by the Fund's board of directors to be used for various projects, such as research and outreach, and totaled \$174,312 and \$304,183, respectively.

NOTE 6 – TEMPORARILY AND PERMANENTLY RESTRICTED NET ASSETS

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

	<u>2006</u>	<u>2005</u>
Community outreach	\$ 729,804	\$ 1,594,002
Education	2,451,835	2,184,174
Research	2,469,486	1,955,911
Charity care	1,685,741	1,657,343
Other, including time restrictions	<u>6,886,388</u>	<u>5,774,172</u>
Total temporarily restricted net assets	<u>\$14,223,254</u>	<u>\$13,165,602</u>

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

	<u>2006</u>	<u>2005</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>

SAINT THOMAS HEALTH SERVICES FUND
NOTES TO FINANCIAL STATEMENTS (Continued)
June 30, 2006 and 2005

NOTE 7 – RELATED PARTY TRANSACTIONS

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

Promises to give include \$174,312 and \$304,183 approved for projects of Saint Thomas Health Services at June 30, 2006 and 2005, 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 2006 and 2005 totaled \$38,880 and \$38,964, 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 Saint Thomas Foundation and one hundred percent of Baptist Hospital Foundation (now both operating as Saint Thomas Health Services Fund) operating expenses excluding investment management fees. Contributions from Saint Thomas Health Services to the Fund approximated \$1,467,000 and \$1,421,000, including in-kind salaries and employee benefits of \$343,300 and \$303,579 paid by Saint Thomas Health Services on the Fund's behalf, during fiscal 2006 and 2005, respectively.

Accounts receivable – related party totals \$1,123,273 and \$2,319,371 at June 30, 2006 and 2005, respectively, receivable from Saint Thomas Health Services for reimbursement of operating expenses of the Fund. Accounts payable – related party totals \$1,477,202 and \$1,121,344 at June 30, 2006 and 2005, 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.