

**SAINT THOMAS HEALTH SERVICES FUND**

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

**June 30, 2005 and 2004**

## TABLE OF CONTENTS

Independent Auditor's Report.....	1
Financial Statements:	
Statements of Financial Position.....	2
Statements of Activities and Changes in Net Assets .....	3 – 4
Statements of Functional Expenses.....	5 – 6
Statements of Cash Flows .....	7
Notes to Financial Statements.....	8 – 13



FRASIER, DEAN & HOWARD, PLLC

CERTIFIED PUBLIC ACCOUNTANTS

3310 WEST END AVENUE, SUITE 550  
NASHVILLE, TENNESSEE 37203  
PHONE 615-383-6592, FAX 615-383-7094

## 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, 2005 and 2004 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.

Because of the lack of available historical records, we were unable to satisfy ourselves regarding the nature and classification of certain net assets received in years prior to our engagement as auditors in 2001.

In our opinion, except for the effects of such adjustments, if any, as might have been determined to be necessary had the nature and classification of certain net assets referred to in the preceding paragraph been susceptible to satisfactory audit tests, 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, 2005 and 2004 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*

October 28, 2005

**SAINT THOMAS HEALTH SERVICES FUND**  
**STATEMENTS OF FINANCIAL POSITION**  
**June 30, 2005 and 2004**

<b>Assets</b>		
	<u><b>2005</b></u>	<u><b>2004</b></u>
Cash and cash equivalents	\$ 4,132,843	\$ 3,078,610
Investments	20,462,576	17,733,618
Grants receivable	128,551	-
Accounts receivable - related party	1,198,027	320,965
Contributions receivable, net	537,572	2,019,338
Assets held under split-interest agreements	1,127,495	1,096,352
Furniture and equipment, net of accumulated depreciation of \$78,950 and \$57,390, respectively	36,088	57,648
Other	<u>23,200</u>	<u>1,351</u>
 Total assets	 <u><u>\$27,646,352</u></u>	 <u><u>\$24,307,882</u></u>
 <b>Liabilities and Net Assets</b>		
Accounts payable and accrued expenses	\$ 23,630	\$ 479,278
Promises to give	304,183	339,834
Deferred federal and state grant revenue	<u>311,393</u>	<u>375,295</u>
 Total liabilities	 <u><u>639,206</u></u>	 <u><u>1,194,407</u></u>
Net assets:		
Unrestricted	11,010,446	8,765,196
Temporarily restricted	13,165,602	11,628,537
Permanently restricted	<u>2,831,098</u>	<u>2,719,742</u>
 Total net assets	 <u><u>27,007,146</u></u>	 <u><u>23,113,475</u></u>
 Total liabilities and net assets	 <u><u>\$27,646,352</u></u>	 <u><u>\$24,307,882</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	2,475,874	(2,475,874)	-	-
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	905,727	-	-	905,727
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>\$11,010,446</u>	<u>\$13,165,602</u>	<u>\$ 2,831,098</u>	<u>\$27,007,146</u>

See accompanying notes.

**SAINT THOMAS HEALTH SERVICES FUND**  
**STATEMENT OF ACTIVITIES AND CHANGES IN NET ASSETS**  
**Year ended June 30, 2004**

	<u>Unrestricted</u>	<u>Temporarily Restricted</u>	<u>Permanently Restricted</u>	<u>Total</u>
Revenue and public support:				
Contributions	\$ 2,235,373	\$ 3,610,742	\$ -	\$ 5,846,115
Federal and state grants	98,894	-	-	98,894
Investment income	1,104,766	1,088,455	-	2,193,221
Changes in value of split-interest agreements	42,302	-	-	42,302
Net assets released from restrictions	<u>1,774,873</u>	<u>(1,774,873)</u>	<u>-</u>	<u>-</u>
Total revenue and public support	<u>5,256,208</u>	<u>2,924,324</u>	<u>-</u>	<u>8,180,532</u>
Expenses:				
Program	2,208,579	-	-	2,208,579
Management and general	353,135	-	-	353,135
Fundraising	<u>701,099</u>	<u>-</u>	<u>-</u>	<u>701,099</u>
Total expenses	<u>3,262,813</u>	<u>-</u>	<u>-</u>	<u>3,262,813</u>
Changes in net assets	1,993,395	2,924,324	-	4,917,719
Net assets, beginning of year	<u>6,771,801</u>	<u>8,704,213</u>	<u>2,719,742</u>	<u>18,195,756</u>
Net assets, end of year	<u>\$ 8,765,196</u>	<u>\$11,628,537</u>	<u>\$ 2,719,742</u>	<u>\$23,113,475</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>          </u>	<u>          </u>	<u>          </u>	<u>          </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**  
**STATEMENT OF FUNCTIONAL EXPENSES**  
Year ended June 30, 2004

	<u>Program Services</u>	<u>Management and General</u>	<u>Fund Raising</u>	<u>Total</u>
Grants	\$1,928,966	\$ -	\$ -	\$1,928,966
Salaries	136,020	136,020	272,039	544,079
Fundraising	-	-	190,553	190,553
Employee benefits	32,807	32,807	65,612	131,226
Brokerage fees	42,527	42,527	-	85,054
Printing	-	21,076	63,229	84,305
Occupancy	22,639	22,639	23,326	68,604
Gifts and entertainment	-	9,088	27,279	36,367
Other	3,065	14,133	14,225	31,423
Professional fees	347	30,109	-	30,456
Outside labor	9,583	9,583	9,874	29,040
Postage	7,583	10,111	7,583	25,277
Dues and subscriptions	7,292	7,292	7,512	22,096
Depreciation	6,149	6,149	6,338	18,636
Equipment rental and maintenance	5,109	5,109	5,263	15,481
Supplies	4,311	4,311	5,748	14,370
Insurance	1,288	1,288	1,327	3,903
Telephone	893	893	1,191	2,977
	<u>          </u>	<u>          </u>	<u>          </u>	<u>          </u>
Total expenses	<u>\$2,208,579</u>	<u>\$ 353,135</u>	<u>\$ 701,099</u>	<u>\$3,262,813</u>

See accompanying notes.



**SAINT THOMAS HEALTH SERVICES FUND**  
**STATEMENTS OF CASH FLOWS**  
**Years ended June 30, 2005 and 2004**

	<u>2005</u>	<u>2004</u>
Cash flows from operating activities:		
Changes in net assets	\$ 3,893,671	\$ 4,917,719
Adjustments to reconcile change in net assets to net cash provided by operating activities:		
Depreciation	21,560	18,636
Realized and unrealized gain on investments	(618,015)	(1,492,104)
Receipts of donated investments	-	(220,000)
Changes in operating assets and liabilities:		
Contributions receivable	1,481,766	41,717
Accounts receivable - related party	(877,062)	(197,849)
Grant receivable	(128,551)	31,108
Beneficial interest in trusts	(31,143)	(250,303)
Other	(21,849)	(1,351)
Accounts payable and accrued expenses	(455,648)	442,294
Promises to give	(35,651)	(3,160,166)
Deferred federal and state grant revenue	(63,902)	375,295
Net cash provided by operating activities	<u>3,165,176</u>	<u>504,996</u>
Cash flows from investing activities:		
Purchases of furniture and equipment	-	(32,279)
Purchases of investments	(12,713,958)	(7,218,150)
Proceeds from sale of investments	10,603,015	6,401,488
Net cash used in investing activities	<u>(2,110,943)</u>	<u>(848,941)</u>
Net increase (decrease) in cash and cash equivalents	1,054,233	(343,945)
Cash and cash equivalents, beginning of year	<u>3,078,610</u>	<u>3,422,555</u>
Cash and cash equivalents, end of year	<u>\$ 4,132,843</u>	<u>\$ 3,078,610</u>
Supplemental disclosure of cash flow information:		
Non-cash investing and financing activity:		
Receipts of donated investments	<u>\$ -</u>	<u>\$ 220,000</u>

See accompanying notes.

**SAINT THOMAS HEALTH SERVICES FUND**  
**NOTES TO FINANCIAL STATEMENTS**  
**June 30, 2005 and 2004**

**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.

**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, 2005 and 2004**

**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, 2005 and 2004**

**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.

**Reclassifications**

Certain reclassifications of 2004 amounts have been made to conform with 2005 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>2005</u>	<u>2004</u>
U.S. Savings Bonds	\$ 220,000	\$ 220,000
Mutual funds	9,898,469	5,863,855
Equities	4,409,819	5,855,948
Fixed income securities	5,795,752	5,660,068
Cash surrender value of life insurance	<u>138,536</u>	<u>133,747</u>
	<u>\$20,462,576</u>	<u>\$17,733,618</u>

**SAINT THOMAS HEALTH SERVICES FUND**  
**NOTES TO FINANCIAL STATEMENTS (Continued)**  
**June 30, 2005 and 2004**

**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, 2005 and 2004.

The Fund's investment policy generally requires that no more than 70% of the portfolio be invested in equities. Up to 15% of the equity allocation may be invested in small-cap stocks with international stocks comprising no more than 15%. No less than 30% of the portfolio should be invested in U.S. Government and/or corporate debt securities.

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

	<u>2005</u>	<u>2004</u>
Interest and dividends	\$ 632,521	\$ 701,117
Realized and unrealized gains - net	<u>618,015</u>	<u>1,492,104</u>
	<u>\$ 1,250,536</u>	<u>\$ 2,193,221</u>

**NOTE 3 – CONTRIBUTIONS RECEIVABLE**

Contributions receivable consist of the following at June 30:

	<u>2005</u>	<u>2004</u>
Capital campaign	\$ 360,273	\$ 1,141,172
Other	197,067	922,204
Less: allowance for uncollectible contributions	(19,768)	(24,521)
Less: discount to net present value	<u>-</u>	<u>(19,517)</u>
Net contributions receivable	<u>\$ 537,572</u>	<u>\$ 2,019,338</u>
Receivable in less than one year, net	\$ 537,572	\$ 1,578,582
Receivable in one to five years, net	<u>-</u>	<u>440,756</u>
	<u>\$ 537,572</u>	<u>\$ 2,019,338</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, 2005, contributions receivable related to the campaign totaled approximately \$360,273.

**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 donor's death. The Fund has accounted for its interest based upon the donor's life expectancy and a 5% discount rate. The present value of such amounts totaled \$954,679 and \$888,352 at June 30, 2005 and 2004, respectively.

**SAINT THOMAS HEALTH SERVICES FUND**  
**NOTES TO FINANCIAL STATEMENTS (Continued)**  
**June 30, 2005 and 2004**

**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 3.0% over the life of the trust and a 3.0% discount rate, the present value of future benefits expected to be received by the Fund totaled \$172,816 and \$208,000 at June 30, 2005 and 2004, respectively.

**NOTE 5 – PROMISES TO GIVE**

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

Promises to give at June 30, 2004 includes \$339,834 from capital campaign funds approved by the Fund's board of directors to be used for Institute of Healing Arts (the "Institute") construction costs. The Institute is an alliance between Saint Thomas Health Services and the YMCA of Middle Tennessee created to offer, among other things, cardiac rehabilitation and related physical therapy. The related programs under the alliance were discontinued in fiscal 2005, and such promises to give were redesignated to unrestricted funds.

**NOTE 6 – TEMPORARILY AND PERMANENTLY RESTRICTED NET ASSETS**

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

	<u>2005</u>	<u>2004</u>
Community outreach	\$ 1,594,002	\$ 1,307,721
Education	2,184,174	2,060,872
Research	1,955,911	1,253,761
Charity care	1,657,343	1,193,578
Other, including time restrictions	<u>5,774,172</u>	<u>5,812,605</u>
Total temporarily restricted net assets	<u>\$13,165,602</u>	<u>\$11,628,537</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>2005</u>	<u>2004</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>52,358</u>
Total permanently restricted net assets	<u>\$ 2,831,098</u>	<u>\$ 2,719,742</u>

**SAINT THOMAS HEALTH SERVICES FUND**  
**NOTES TO FINANCIAL STATEMENTS (Continued)**  
**June 30, 2005 and 2004**

**NOTE 7 – RELATED PARTY TRANSACTIONS**

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

The Fund maintains a portion of its cash balances in pooled accounts with Saint Thomas Health Services. At June 30, 2005 and 2004, approximately \$3.5 million and \$2.2 million, respectively, was included in pooled accounts.

Promises to give include \$304,183 and \$339,834 approved for projects of Saint Thomas Health Services at June 30, 2005 and 2004, 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 2005 and 2004 totaled \$38,964 and \$38,604, 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 \$1,421,000 and \$1,320,000, including in-kind salaries and employee benefits of \$303,579 and \$279,000 paid by Saint Thomas Health Services on the Fund's behalf, during fiscal 2005 and 2004, respectively.

Accounts receivable – related party totals \$2,319,371 and \$1,014,284 at June 30, 2005 and 2004, respectively, receivable from Saint Thomas Health Services for reimbursement of operating expenses of the Fund. Accounts payable – related party totals \$1,121,344 and \$693,319 at June 30, 2005 and 2004, respectively, payable to Saint Thomas Health Services for expenses paid on the Fund's behalf. Such amounts are generally reimbursed to the Fund.