

FINANCIAL REPORT
SAN ANTONIO MEDICAL
FOUNDATION
DECEMBER 31, 2008

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Carneiro, Chumney & Co., L.C.

CERTIFIED PUBLIC ACCOUNTANTS

REPORT OF INDEPENDENT CERTIFIED PUBLIC ACCOUNTANTS

Board of Trustees
San Antonio Medical Foundation
San Antonio, Texas

We have audited the accompanying statements of financial position of San Antonio Medical Foundation (the Foundation) as of December 31, 2008 and 2007, and the related statements of activities, functional expenses, and cash flows for the years then ended. These financial statements are the responsibility of the Foundation's management. Our responsibility is to express an opinion on these financial statements based on our audits.

We conducted our audits in accordance with United States generally accepted auditing standards. Those standards require that we plan and perform the audits to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes consideration of internal control over financial reporting as a basis for designing audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Foundation's internal control over financial reporting. Accordingly, we express no such opinion. An audit also includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements, 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 San Antonio Medical Foundation as of December 31, 2008 and 2007, and its activities, functional expenses, and cash flows for the years then ended, in accordance with United States generally accepted accounting principles.



May 20, 2009

SAN ANTONIO MEDICAL FOUNDATION

STATEMENTS OF FINANCIAL POSITION

DECEMBER 31, 2008 AND 2007

ASSETS

	2008	2007
Cash and cash equivalents	499,994	966,275
Accounts receivable	--	11,272
Investments	1,697,249	906,466
Land	7,069,388	7,069,388
Improvements, net of accumulated depreciation of \$167,489 for 2008 and \$160,607 for 2007	1,982,886	1,989,768
Furniture and equipment, net of accumulated depreciation of \$50,350 for 2008 and \$49,554 for 2007	5,517	2,547
	<u>11,255,034</u>	<u>10,945,716</u>
TOTAL ASSETS	11,255,034	10,945,716

LIABILITIES AND NET ASSETS

Liabilities:		
Other payables	9,200	7,639
Deferred revenue	60,932	52,682
Total Liabilities	70,132	60,321
Net Assets:		
Unrestricted:		
Board designated for mission related activities	500,000	500,000
Invested in property and improvements	9,052,274	9,059,156
Undesignated	1,041,589	416,029
Total Unrestricted	10,593,863	9,975,185
Temporarily restricted	85,034	404,205
Permanently restricted	506,005	506,005
	<u>11,184,902</u>	<u>10,885,395</u>
Total Net Assets	11,184,902	10,885,395
TOTAL LIABILITIES AND NET ASSETS	11,255,034	10,945,716

The accompanying notes are an integral part of these financial statements.

SAN ANTONIO MEDICAL FOUNDATION

STATEMENTS OF ACTIVITIES

FOR THE YEARS ENDED DECEMBER 31, 2008 AND 2007

	2008	2007
Changes in Unrestricted Net Assets:		
Revenue, Gains, and Other Support:		
Administrative fee for land and donated land	51,032	44,791
Lease income, net of management fees of \$23,209 for 2008 and \$26,308 for 2007	899,218	857,432
Contributions	62,367	76,300
In-kind contributions	651,400	651,158
Dividends and interest	23,490	27,561
Realized and unrealized (losses) on investments	(7)	--
Loss on disposal of fixed assets	--	(49,849)
Net assets released from restrictions	15,578	13,837
Total Unrestricted Revenue, Gains, and Other Support	1,703,078	1,621,230
Expenses:		
Program:		
Donated land at fair value	--	1,080
Donated in-kind leases at fair value	631,000	631,000
Other	330,659	349,673
Administrative and general	100,910	115,432
Fundraising	21,831	23,045
Total Expenses	1,084,400	1,120,230
Change in Unrestricted Net Assets	618,678	501,000
Changes in Temporarily Restricted Net Assets:		
Dividends and interest	38,691	37,229
Realized and unrealized (losses) on investments	(342,284)	(15,964)
Net assets released from restrictions	(15,578)	(13,837)
Change in Temporarily Restricted Net Assets	(319,171)	7,428
Change in Net Assets	299,507	508,428
Net assets at the beginning of the year	10,885,395	10,376,967
NET ASSETS AT END OF YEAR	11,184,902	10,885,395

The accompanying notes are an integral part of these financial statements.

SAN ANTONIO MEDICAL FOUNDATION

STATEMENTS OF FUNCTIONAL EXPENSES

FOR THE YEARS ENDED DECEMBER 31, 2008 AND 2007

2008	Program	General and Administrative	Fundraising	Total
Compensation	158,434	31,289	12,887	202,610
Consultants	5,340	19,086	--	24,426
Donated in-kind leases for medical organizations	631,000	--	--	631,000
Depreciation expense	3,929	3,750	--	7,679
Engineer	3,989	--	--	3,989
Insurance	7,446	604	--	8,050
Legal	9,735	--	--	9,735
Miscellaneous	--	200	--	200
Office:				
Other	437	16,590	654	17,681
In-kind office rent	15,504	3,468	1,428	20,400
Promotion	--	14,761	6,862	21,623
Properties maintenance	24,845	--	--	24,845
Special Projects:				
Medical Center Alliance	100,000	--	--	100,000
Scholarships	1,000	--	--	1,000
Trustee meetings	--	11,162	--	11,162
	<u>961,659</u>	<u>100,910</u>	<u>21,831</u>	<u>1,084,400</u>
2007	Program	General and Administrative	Fundraising	Total
Compensation	152,963	35,015	13,798	201,776
Consultants	10,371	18,460	--	28,831
Donated in-kind leases for medical organizations	631,000	--	--	631,000
Donated land at fair value for medical organizations	1,080	--	--	1,080
Depreciation expense	5,274	15,000	--	20,274
Engineer	9,383	--	--	9,383
Insurance	7,106	3,495	--	10,601
Legal	4,743	--	--	4,743
Miscellaneous	--	100	--	100
Office:				
Other	408	15,496	611	16,515
In-kind office rent	15,280	3,498	1,380	20,158
Promotion	--	14,516	7,256	21,772
Properties maintenance	43,145	--	--	43,145
Special Projects:				
Medical Center Alliance	100,000	--	--	100,000
Scholarships	1,000	--	--	1,000
Trustee meetings	--	9,852	--	9,852
	<u>981,753</u>	<u>115,432</u>	<u>23,045</u>	<u>1,120,230</u>

The accompanying notes are an integral part of these financial statements.

SAN ANTONIO MEDICAL FOUNDATION

STATEMENTS OF CASH FLOWS

FOR THE YEARS ENDED DECEMBER 31, 2008 AND 2007

	2008	2007
Cash Flows from Operating Activities:		
Change in net assets	299,507	508,428
Adjustments to Reconcile Change in Net Assets to Net Cash Provided by (Used in) Operating Activities:		
Depreciation	7,679	20,274
Realized and unrealized losses (gains) on investments	342,291	15,964
Noncash donation of land and improvements	--	1,080
Loss on disposal of fixed assets	--	49,849
Decrease (Increase) in accounts receivable	11,272	(11,272)
Increase (Decrease) in accounts payable	1,561	(1,628)
Increase in deferred revenue	8,250	26,765
Net Cash Provided by Operating Activities	670,560	609,460
Cash Flows from Investing Activities:		
Proceeds from sale of investments	16,000	914,016
Purchase of investments	(1,149,074)	(937,430)
Purchase of furniture and equipment	(3,767)	--
Net Cash (Used in) Investing Activities	(1,136,841)	(23,414)
Net (Decrease) Increase in Cash	(466,281)	586,046
Cash and cash equivalents, beginning of year	966,275	380,229
CASH AND CASH EQUIVALENTS, END OF YEAR	499,994	966,275

The accompanying notes are an integral part of these financial statements.

SAN ANTONIO MEDICAL FOUNDATION

NOTES TO FINANCIAL STATEMENTS

DECEMBER 31, 2008 AND 2007

Note 1: Organization Purpose and Summary of Significant Accounting Policies

Organization Purpose

San Antonio Medical Foundation (the Foundation) is a nonprofit foundation organized under the laws of the State of Texas and operated for charitable, scientific, and educational purposes. The mission of the San Antonio Medical Foundation is to improve health care, advance biomedical science, and enhance community well-being by providing leadership and active stewardship of land and other assets.

Basis of Accounting

The Foundation follows United States generally accepted accounting principles for not-for-profit organizations using the accrual basis of accounting. Significant accruals are included in the financial statements. Other significant accounting policies utilized by the Foundation are explained in these footnotes.

Use of Estimates

The preparation of financial statements in conformity with United States 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 revenue and expenses during the reporting period. Actual results could differ from those estimates.

Cash and Cash Equivalents

For purposes of the statement of cash flows, all highly liquid debt instruments with an original maturity of three months or less are considered to be cash equivalents.

Investments

Investments are recorded at fair value (FASB Statement 157 Level 1 Input) based on quoted market prices within active markets.

Deferred Revenue

Deferred revenue is comprised of rents paid for a future period.

Property and Equipment

Property and equipment are stated at cost if purchased, or at fair value at the date of contribution. Depreciation on building improvements and furniture, fixtures, and equipment is calculated using the straight-line method over the estimated useful lives of the assets.

Contributions

The Foundation reports all contributions as unrestricted support 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 restricted support.

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 are reported in the statement of activities as net assets released from restrictions.

Permanently restricted contributions are held in perpetuity. As specified by the donor, earnings from permanently restricted contributions are temporarily restricted until expensed for community health care needs.

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SAN ANTONIO MEDICAL FOUNDATION

NOTES TO FINANCIAL STATEMENTS

DECEMBER 31, 2008 AND 2007

(Continuation)

Note 2: Cash Credit Risk

The Foundation maintains its cash balance at one financial institution. Interest bearing accounts at each financial institution are insured by the Federal Deposit Insurance Company (FDIC) up to \$250,000 and \$100,000 at December 31, 2008 and 2007, respectively. Non interest bearing accounts are fully insured by the FDIC at December 31, 2008 and insured up to \$100,000 at December 31, 2007. At December 31, 2008, and 2007, balances did not exceed the FDIC insured limit. Funds in excess of \$40,000 are swept daily into an over-night investment sweep fund consisting of government securities.

Note 3: Investments

Carrying amounts and estimated market values of investments at December 31, 2008 and 2007 are summarized as follows:

	<u>Cost</u>	<u>Cumulative Unrealized Gain (Loss)</u>	<u>Market Value</u>
December 31, 2008:			
San Antonio Area Foundation	<u>2,055,504</u>	<u>(358,255)</u>	<u>1,697,249</u>
December 31, 2007:			
San Antonio Area Foundation	<u>922,430</u>	<u>(15,964)</u>	<u>906,466</u>

Note 4: Land and Improvements

At December 31, land included the carrying value of remaining acreage held by the Foundation. This land and its improvements represent approximately 289 undeveloped acres acquired from the following:

Land:	2008	2007
Five Oaks, Inc.	90,028	90,028
Earl and Gladys Cooper	334,358	334,358
Less: Donation of land	<u>(42,544)</u>	<u>(42,544)</u>
Balance	381,842	381,842
Florence B. McAlpine	49,630	49,630
Boyce Gaskin, Inc.	402,334	402,334
Norman and Avram Jacobson (Fawn Meadow)	2,394,575	2,394,575
Maria Trinidad Guerrero	65,266	65,266
Fannie Lee Denman	701,634	701,634
Cinnamon Hill	916,944	916,944
Valley Green Joint Venture (Fawn Meadow)	122,291	122,291
Maness Property	457,904	457,904
Hamilton Wolfe easement	<u>1,576,968</u>	<u>1,576,968</u>
Total Land	<u>7,069,388</u>	<u>7,069,388</u>

(Continued)

SAN ANTONIO MEDICAL FOUNDATION

NOTES TO FINANCIAL STATEMENTS

DECEMBER 31, 2008 AND 2007

(Continuation)

Note 4: Land and Improvements (Continued)

Improvements:	<u>2008</u>	<u>2007</u>
Sewer project	79,375	79,375
Drainage project - Five Oaks, Inc. property	88,466	88,466
Construction of Ewing Halsell Drive and Wurzbach Road	41,595	41,595
Landscaping Ewing Halsell Drive and Wurzbach Road	9,079	9,079
Health Resources Cluster Project	228,645	228,645
Sid Katz Drive extension	154,121	154,121
Access road - Aldo's property improvements	10,379	10,379
Floyd Curl	1,249,105	1,249,105
Depreciable Improvements:		
Maness Houses	65,300	65,300
Denman House	60,000	60,000
Other - Aldo's property improvements	<u>164,310</u>	<u>164,310</u>
Total Improvements Before Depreciation	2,150,375	2,150,375
Less: Accumulated depreciation	<u>167,489</u>	<u>160,607</u>
Total Net Improvements	<u>1,982,886</u>	<u>1,989,768</u>

Note 5: In-Kind Donations and Contributions

The Foundation arranges for leases to strengthen the medical center serving the San Antonio and South Texas community. For purposes of determining the economic effect of these leases, the annual contributory value of ground leases as estimated in a restricted appraisal report prepared by real estate appraisers has been used to determine this economic benefit. For the years ended December 31, 2008 and 2007, this amount totaled \$631,000. The estimated value of the leases is revalued every five years.

Land contributions made by the Foundation are recorded at fair market value, with the difference between cost and market value recognized as in-kind income.

Note 6: Office Lease

The Foundation pays no rent for its office space but recognizes the fair value of the rent as in-kind contribution income and as in-kind office rent expense. These amounts totaled \$20,400 in 2008 and \$20,158 in 2007.

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SAN ANTONIO MEDICAL FOUNDATION

NOTES TO FINANCIAL STATEMENTS

DECEMBER 31, 2008 AND 2007

(Continuation)

Note 7: Leases to Others

In addition to leasing its land to various nonprofit institutions at nominal cost to the lessee, the Foundation leases a portion of its land to commercial businesses (some of which are medically affiliated).

The lease agreements contain minimum annual rental payments, with some leases having periodic adjustments based on the consumer price index. One lease generates additional lease payments based on a percentage of sales above a certain threshold. The leases vary in duration from month to month to thirty years, with most having renewable options. Some permit and zoning costs incurred by certain tenants during construction are refunded to the tenants by credits against future rental payments.

Approximate minimum payments to be received under non-cancelable long-term operating leases for the next five years, net of refundable credits, are as follows:

2009	971,197
2010	1,035,930
2011	988,260
2012	935,965
2013	977,936

Note 8: Contingencies and Commitments

On July 1, 2002, the Foundation entered into an Infrastructure Participation Agreement (the Agreement) with the Medical Center Alliance for the purpose of planning and managing capital improvement initiatives within the Medical Center. The Agreement had a term of two years and automatically renews through June 30, 2010. In 2008 and 2007 the Foundation paid \$100,000 in each year under the Agreement.

Future maximum assessments due under the Agreement are as follows:

2009	100,000
2010	50,000

Note 9: Employee Retirement Plans

The Foundation has a simplified employee pension (SEP) plan available to employees who are at least 18 years old and have completed one year of service. The cost of the plan to the Foundation is a percentage of annual compensation as agreed to by the Board of Directors. Plan expense was \$27,995 and \$27,881 for the years ended December 31, 2008 and 2007, respectively.

The Foundation also provides for participation in a 403(B) deferred compensation plan. Contributions are made by the employee only, and therefore, there is no cost to the Foundation.

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SAN ANTONIO MEDICAL FOUNDATION

NOTES TO FINANCIAL STATEMENTS

DECEMBER 31, 2008 AND 2007

(Continuation)

Note 10: Unrestricted – Board Designated Net Assets

During 2007, the Board elected to designate \$500,000 of unrestricted net assets for mission related activities and there was no change to this balance in 2008.

Note 11: Restricted Net Assets

Restricted net assets at December 31 are as follows:

	<u>2008</u>	<u>2007</u>
Temporarily restricted - Community health care needs	<u>85,034</u>	<u>404,205</u>
Permanently restricted - Methodist Hospital Foundation Endowment and other restricted contributions for community health care needs	<u>506,005</u>	<u>506,005</u>

Note 12: Net Assets Released from Restrictions

Temporarily restricted net assets were released for the following purposes at December 31:

	<u>2008</u>	<u>2007</u>
Purpose restrictions accomplished - Community health care needs	<u>15,578</u>	<u>13,837</u>

Note 13: Endowment Funds

General Information

The San Antonio Medical Foundation maintains approximately \$1,091,039 of endowment funds established for a variety of purposes. These endowments include both donor-restricted endowment contributions and funds designated by the Board of Directors to function as endowments. The donor-restricted endowment funds fall under the provisions of the Uniform Prudent Management of Institutional Funds Act of 2006 (UPMIFA) which was adopted by the State of Texas with an effective date of September 1, 2007. This policy defines the organization's interpretation of the provisions of this law as it relates to the prudent management of its endowment fund.

Background

In July, 2006, the Uniform Law Commission (ULC) approved UPMIFA as a modernized version of the Uniform Management of Institutional Funds Act of 1972 (UMIFA) which governed the investment and management of donor-restricted endowment funds by not-for-profit organizations. The major change of the new law is that UPMIFA prescribes new guidelines for expenditure of a donor-restricted endowment fund when there are no explicit donor stipulations. These guidelines require the organization to determine what constitutes prudent spending based upon consideration of the donor's intent that the endowment fund continue permanently, the purpose of the fund, and relevant economic factors. UPMIFA emphasizes the perpetuation of the purchasing power of the fund, not just the original dollars contributed to the fund. Although the Act does not require that a specified amount be set aside as principal, the Act assumes that an organization will preserve "principal" by maintaining the purchasing power of amounts contributed and will spend "income" by making distributions using a reasonable spending rate.

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SAN ANTONIO MEDICAL FOUNDATION

NOTES TO FINANCIAL STATEMENTS

DECEMBER 31, 2008 AND 2007

(Continuation)

Note 13: Endowment Funds (continued)

Endowment "Principal" Interpretation

The San Antonio Medical Foundation has interpreted UPMIFA as requiring the preservation of 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 Foundation classifies as permanently restricted net assets the original value of gifts donated to the permanent endowment (the "Principal"). The remaining portion of the donor-restricted endowment fund that is not classified as permanently restricted net assets is classified as temporarily restricted net assets until those amounts are appropriated for expenditure by the Foundation in a manner consistent with the standard of prudence prescribed by UPMIFA.

Endowment Investment Objectives

Endowment investments are managed by the San Antonio Area Foundation (SAAF) based upon the investment policy described in the agreement between the SAAF and the Foundation and approved by the Board of Trustees of the Foundation. Funds should be invested in a manner that seeks to produce results that meet or exceed the performance of generally recognized market indices while assuming a moderate level of investment risk.

Endowment "Income" Appropriation (Spending Policy)

The Foundation accrues capital appreciation or depreciation (realized and unrealized gains or losses) on endowment investments. Earned investment income (i.e. dividends and interest) is generally appropriated. The Foundation will discuss and define the Foundation's spending policy during 2009. In establishing this policy, the Foundation will consider the long-term expected return on its endowment and the Foundation's investment objectives.

In accordance with UPMIFA, in all its endowment spending activity, the Foundation will consider the following factors in making a determination to appropriate (spend) or accumulate donor-restricted endowment funds:

1. The duration and preservation of the fund
2. The purposes of the Foundation and the donor-restricted endowment fund
3. General economic and investment market 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 Foundation and
7. The investment policies of the Foundation

(Continued)

SAN ANTONIO MEDICAL FOUNDATION

NOTES TO FINANCIAL STATEMENTS

DECEMBER 31, 2008 AND 2007

(Continuation)

Note 13: Endowment Funds (continued)

Endowment Net Asset Composition by Type of Fund as of December 31, 2008

	<u>Unrestricted</u>	<u>Temporarily Restricted</u>	<u>Permanently Restricted</u>	<u>Total</u>
Donor-restricted endowment funds	--	85,034	506,005	591,039
Board-designated endowment funds	<u>500,000</u>	<u>--</u>	<u>--</u>	<u>500,000</u>
Total Funds	<u>500,000</u>	<u>85,034</u>	<u>506,005</u>	<u>1,091,039</u>

Changes in Endowment Net Assets for the Year Ended December 31, 2008

	<u>Unrestricted</u>	<u>Temporarily Restricted</u>	<u>Permanently Restricted</u>	<u>Total</u>
Endowment net assets, beginning of year	500,000	404,205	506,005	1,410,210
Investment Return:				
Interest and dividends	--	38,691	--	38,691
Net (depreciation) (realized and unrealized)	<u>--</u>	<u>(342,284)</u>	<u>--</u>	<u>(342,284)</u>
Total Investment Return	--	(303,593)	--	(303,593)
Contributions	--	--	--	--
Appropriations of endowment assets for expenditure	<u>--</u>	<u>(15,578)</u>	<u>--</u>	<u>(15,578)</u>
Endowment net assets, end of year	<u>500,000</u>	<u>85,034</u>	<u>506,005</u>	<u>1,091,039</u>