# 2007 ANNUAL REVIEW

SOUTHWESTERN MEDICAL FOUNDATION

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* = Charter Member
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# 2007 GRANTS, SCHOLARSHIPS AND AWARDS

| | | |
|---|---|---|
| **THE UNIVERSITY OF TEXAS SOUTHWESTERN MEDICAL CENTER:** | | |
| Salary supplementation, faculty recruitment, student and alumni services, travel and administrative expenses | $1,802,500 | |
| Building funds | 3,000,000 | |
| Endowed positions and special centers | 6,647,499 | |
| Research and equipment | 13,420,247 | |
| Scholarships and awards | 228,500 | |
| Special projects | 2,673,547 | |
| University Hospitals — Zale Lipshy and St. Paul | 1,031,509 | |
| **Total to UT Southwestern** | | $28,803,802 |
| **COMMUNITY EVENTS:** | | |
| The Alzheimer's Association Greater Dallas Chapter | 2,500 | |
| The Crystal Charity Ball | 10,000 | |
| The Dallas Historical Society | 1,000 | |
| Junior Achievement of Dallas Inc. | 1,500 | |
| The Junior League of Dallas — Linz Award | 2,000 | |
| Texas Association of Business | 6,000 | |
| Texas Stampede | 12,500 | |
| Texas Women's University Foundation | 5,000 | |
| Volunteer Center of North Texas | 2,500 | |
| MDA/ALS | 3,000 | |
| **Total grants for community events** | | 46,000 |
| **OTHER CHARITABLE ORGANIZATIONS:** | | |
| Advancement of Transplant Services Charitable Trust | 6,000 | |
| American Academy of Restorative Dentistry | 19,000 | |
| Baylor College of Medicine | 3,100 | |
| Baylor Health Care System Foundation | 500,000 | |
| Children's Medical Center Dallas | 1,202,295 | |
| Collin County Health Care Foundation | 41,614 | |
| Constance Kenyon/University of South Florida | 3,000 | |
| M.D. Anderson Cancer Center | 2,000 | |
| Phoenix House of Texas Inc. | 45,000 | |
| The Rise School of Dallas | 70,000 | |
| UTD Center for Brain Health | 12,100 | |
| Texas Woman's University/The Stroke Center — Dallas | 2,500 | |
| **Total grants to other charitable organizations** | | 1,906,609 |
| **Total all grants and scholarships** | | $30,756,411 |

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*Dear Friends:*

Thank you for making 2007 an outstanding year for contributions to Southwestern Medical Foundation. The *Innovations in Medicine* capital campaign and other gifts generated almost $135 million in contributions — $105 million more than last year. The total is one of the highest in our history as commitments for many of the leadership gifts and campaign pledges were fulfilled, including payment on two extraordinary donations. Special thanks go to four families that donated at least $50 million each to the campaign throughout its seven-year duration. Annette and Harold Simmons, Madeleine and Boone Pickens, Margot and Ross Perot, and an anonymous family have left legacies that will continue to enhance medical research, education and patient care for ages.

As stewards of these gifts, the Foundation works diligently to manage these investments for our future. The financial statements for 2007 reflect the impact of these large donations and total assets for 2007 increased to more than $647 million, a 27 percent increase. As a result, the Foundation provided more than $30 million in grants and scholarships — $10 million more than in 2006. Although we were delighted with the contributions we received, the year also provided challenges in the financial market as a weak sub-prime market last fall took its toll and reduced our investment results, as well as everyone else's. However, our diversified portfolio yielded a net total return of 7 percent versus our blended benchmark of 5 percent.

We appreciate the guidance of our trustees, who share their financial strategies, community relationships, management tactics and business expertise to help the Foundation achieve its goals. The Foundation also is fortunate to have a remarkably loyal staff. After 18 years of service, Richard Ferguson retired as our accountant in February 2007. In his place, we welcome Kay Schlankey, CPA. Shanna Romanillos also has signed on in a full-time capacity for our administrative team and joins Kay Pritchard and Katy Sinor, who have more than a half-century of combined experience at the Foundation. We also want to take this opportunity to thank Randy Daugherty and Ken Lanyon for working so diligently to bring in planned gifts and for maximizing investment income from those gifts.

Your help is still needed. Even though the capital campaign surpassed its goals, remember that your gifts are helping to expand the depth and breadth of promising projects at the medical center. New medical breakthroughs and positive outcomes will require additional support. We hope we can continue to count on you to *enhance the future of medicine* for many more years.

Sincerely,

Paul M. Bass
Chairman

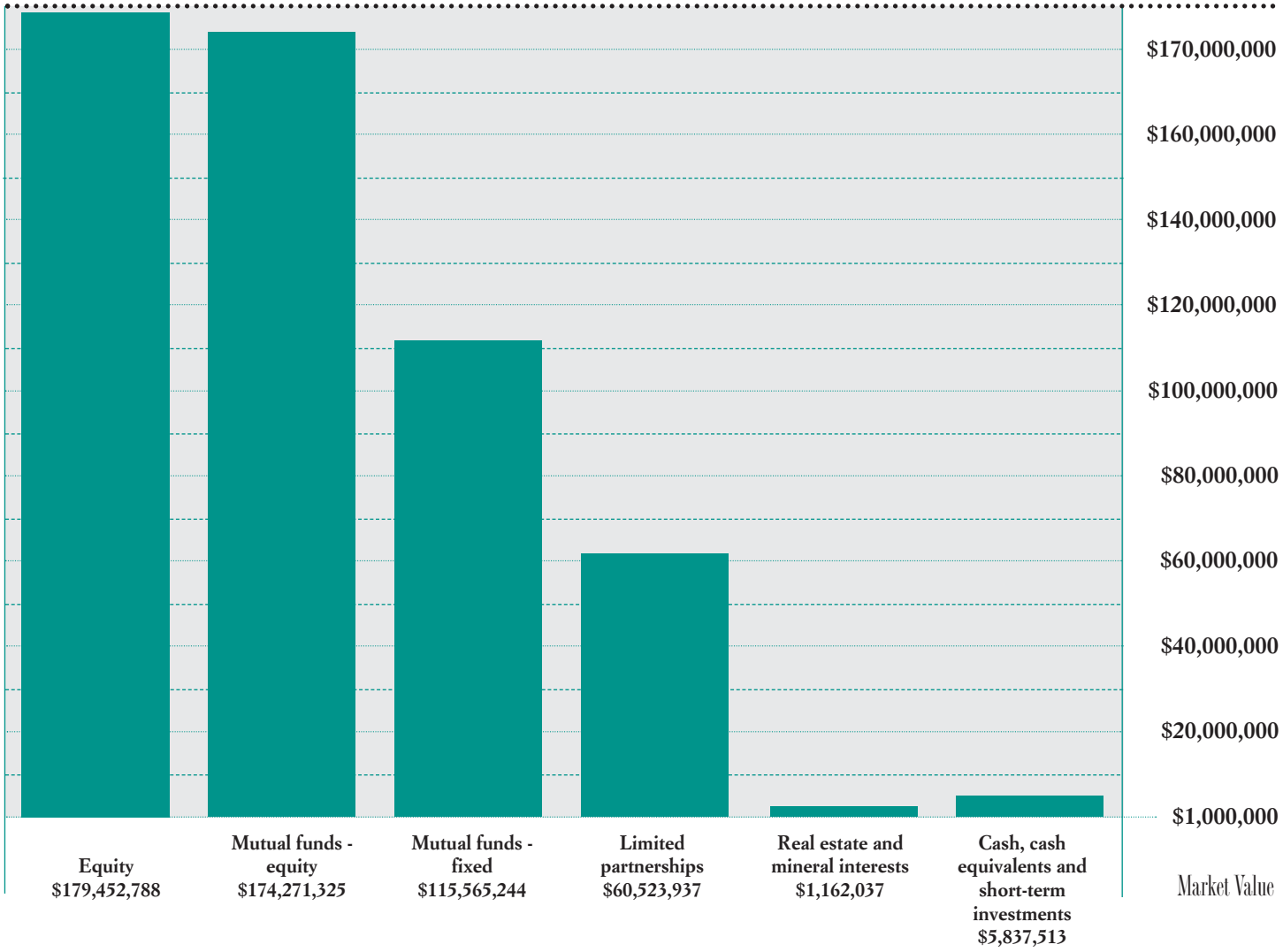
W. Plack Carr Jr.
President and CEO

# SOUTHWESTERN MEDICAL FOUNDATION
## DALLAS, TEXAS

### HISTORICAL PERFORMANCE
For periods ending December 31

| | One Year | Three Years | Five Years |
|---|---|---|---|
| Foundation portfolio total return | 7.37% | 10.37% | 11.29% |
| Expenses | -0.52% | -0.65% | -0.73% |
| Net total return[1] | 6.85% | 9.72% | 10.56% |
| Inflation | -2.85% | -2.89% | -3.16% |
| Real net return | 4.00% | 6.83% | 7.40% |
| Grants | -6.20% | -4.82% | -4.66% |
| Funds' real growth | -2.20% | 2.01% | 2.74% |
| [1] Benchmarks: | | | |
| S&P 500 | 5.49% | 8.73% | 13.16% |
| Russell 2000 | -1.57% | 6.11% | 16.77% |
| Lehman Bros. Aggregate Bond | 6.97% | 4.58% | 4.43% |

### MANAGED INVESTMENTS:
Totals as of December 31, 2007: $536,812,844



# SOUTHWESTERN MEDICAL FOUNDATION
# DALLAS, TEXAS

## NET ASSET GROWTH AND DISTRIBUTION
For periods ending December 31
*(in millions of dollars)*

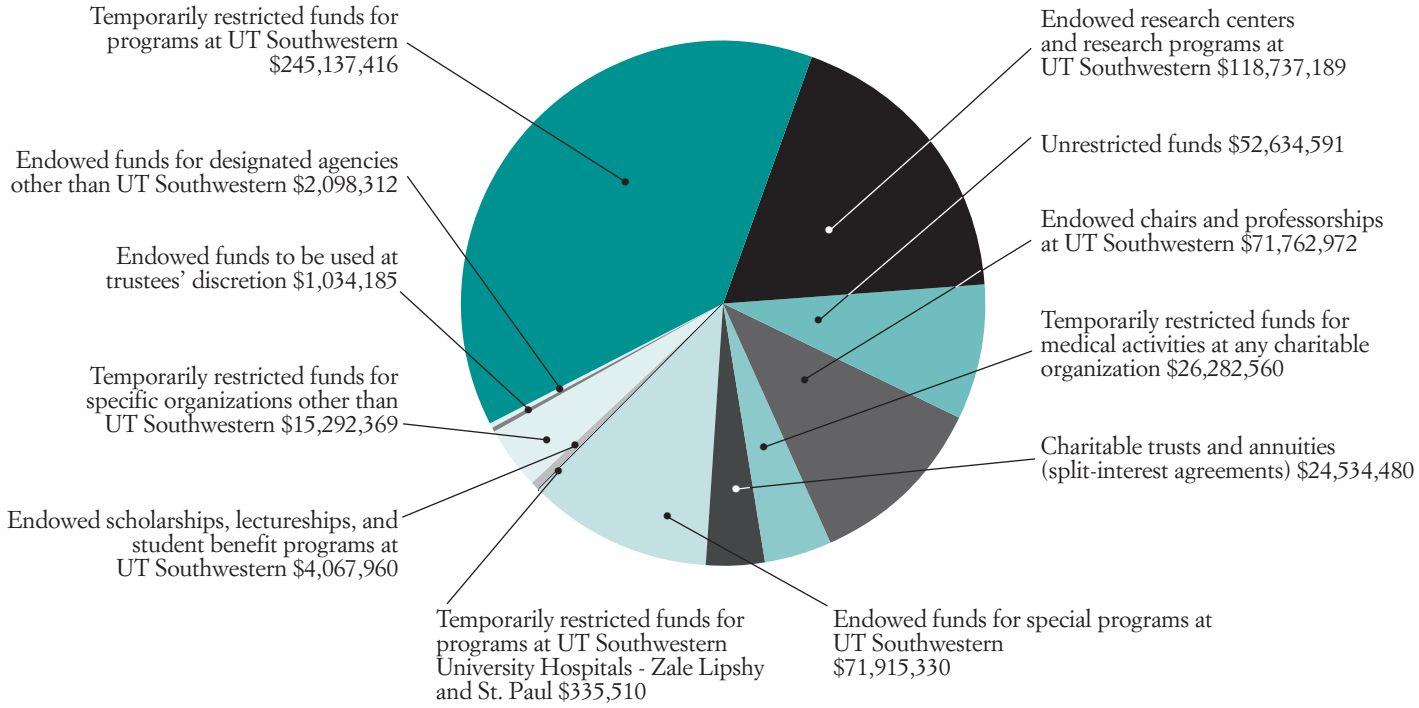
Southwestern Medical Foundation received almost $135 million in contributions in 2007 – a remarkable 359 percent increase over the prior year. Thanks to donor generosity, we were able to increase grants and scholarships to the medical center by 52 percent. Although investment return decreased due to market challenges in fall 2007, it still outperformed the S&P and Russell 2000 benchmarks for the year, and continues to exceed industry standards averaged over five years.

| | 2003 | 2004 | 2005 | 2006 | 2007 |
|---|---|---|---|---|---|
| Beginning Net Assets | $287.753 | $332.134 | $377.542 | $426,620 | $495.891 |
| Contributions | 17.102* | 27.706* | 31.406* | 29.321* | 134.726* |
| Investment Return | 42.279 | 35.334 | 33.842 | 63.096 | 36.524 |
| Expenses | - 2.781 | -2.440 | -2.833 | -2.997 | -2.552 |
| Grants | - 12.219 | -15.192 | -13.337 | -20.149 | -30.756 |
| Ending Net Assets | **$332.134** | **$377.542** | **$426.620** | **$495.891** | **$633.833** |

** Note: As required by FASB guidelines, the Foundation has included split-interest agreements that have not matured. The amounts are as follows: In 2003 - $1,547,184; in 2004 - $6,334,548; in 2005 - $1,079,710; in 2006 - $3,781,740; and in 2007 ($400,500).*

## NET ASSETS BY DESIGNATION
Total as of December 31, 2007: $633,832,874

Donors have many reasons for giving, and in turn there are many ways in which a gift can be channeled. Southwestern Medical Foundation oversees funds for creating research centers, endowing chairs and professorships, sponsoring research projects, and assisting students with scholarships while also accepting gifts dedicated to supporting other organizations. In addition, the Foundation serves as a steward for undesignated funds and applies them where they are most needed.



# SOUTHWESTERN MEDICAL FOUNDATION
# STATEMENTS OF FINANCIAL POSITION

## AS OF DECEMBER 31, 2007 AND 2006

| | 2007 | 2006 |
|---|---|---|
| **ASSETS** | | |
| Investments, at market: | | |
| Pooled investments | $ 534,335,955 | $ 447,389,053 |
| Assets held in charitable remainder trusts | 21,390,417 | 20,899,748 |
| Assets held in charitable gift annuities | 18,074,866 | 19,356.669 |
| Real estate | 559,844 | 559,844 |
| Other | 602,193 | 644,958 |
| Total investments | **574,963,275** | **488,850,272** |
| Cash and cash equivalents | 1,314,852 | 2,350,481 |
| Accrued interest and dividends receivable | 4,526,868 | 519,100 |
| Pledges receivable, net of discount | 65,238,071 | 15,694,272 |
| Beneficial interest in perpetual trusts | 1,041,402 | 1,008,295 |
| Other assets | 93,064 | 123,618 |
| Total assets | **$ 647,177,532** | **$ 508,546,038** |
| **LIABILITIES AND NET ASSETS** | | |
| Liabilities: | | |
| Grants and scholarships payable | $ 1,802,500 | $ 848,750 |
| Accrued liabilities | 870,938 | 778,004 |
| Liability under split-interest agreements | 10,671,220 | 11,028,692 |
| Total liabilities | **13,344,658** | **12,655,446** |
| Net assets: | | |
| Unrestricted | 52,634,591 | 49,934,789 |
| Temporarily restricted | 287,047,855 | 224,373,979 |
| Permanently restricted | 294,150,428 | 221,581,824 |
| Total net assets | **633,832,874** | **495,890,592** |
| Total liabilities and net assets | **$ 647,177,532** | **$ 508,546,038** |

*Note: In compliance with the STATEMENT of FINANCIAL ACCOUNTING STANDARDS ("SFAS") No. 117, "Financial Statements for Not-for-Profit Organizations," the financial information in this report reflects a reclassification of net assets, gains and losses, and expenses. This in no way impacts the distribution policy for the endowment funds.*

# SOUTHWESTERN MEDICAL FOUNDATION
# STATEMENTS OF ACTIVITIES AND CHANGES IN NET ASSETS

## FOR THE YEARS ENDED DECEMBER 31, 2007 AND 2006

| | 2007 | 2006 |
|---|---|---|
| Revenue and support: | | |
| Contributions | $ 134,726,278 | $ 29,320,478 |
| Investment income, net of expenses | 22,182,616 | 15,829,437 |
| Net realized and unrealized gains on investments | 14,342,219 | 46,416,131 |
| Total revenue and support | 171,251,113 | 91,566,046 |
| Expenses: | | |
| Grants and scholarships | 30,756,411 | 20,149,026 |
| Fund-raising, management and general | 2,552,420 | 2,146,349 |
| Total expenses | **33,308,831** | **22,295,375** |
| Excess of revenue and support over expenses | **137,942,282** | **69,270,671** |
| Net assets at beginning of year | 495,890,592 | 426,619,921 |
| Net assets at end of year | **$ 633,832,874** | **$ 495,890,592** |

*Note: As required by FASB Guidelines, the Foundation has included amounts for split-interest agreements that have not matured. In 2007, contributions for split-interest agreements were ($400,500), and in 2006, split-interest agreements were $3,781,740. A complete copy of the independent auditor's report and accompanying notes, as prepared by Whitley Penn, is available upon request.*

# SOUTHWESTERN MEDICAL FOUNDATION
# STATEMENTS OF CASH FLOWS

## FOR THE YEARS ENDED DECEMBER 31, 2007 AND 2006

| | 2007 | 2006 |
|---|---|---|
| Cash flows from operating activities: | | |
| Change in net assets | $ 137,942,282 | 69,270,671 |
| Adjustments to reconcile changes in net assets to net cash used in operating activities: | | |
| Depreciation and amortization | 30,203 | 30,970 |
| Discount on pledges receivable | 4,188,761 | (61,975) |
| Net realized and unrealized gain on investments | (14,342,219) | (46,416,131) |
| Restricted contributions | (138,431,254) | (28,581,200) |
| Restricted investment income | (18,335,549) | (12,391,671) |
| Changes in assets and liabilities: | | |
| Accrued interest and dividends receivable | (4,007,768) | (78,217) |
| Assets held in charitable remainder trusts | (490,669) | (2,081,797) |
| Assets held in charitable gift annuities | 1,281,803 | (523,476) |
| Beneficial interest in perpetual trusts | (33,107) | (445,087) |
| Pledges receivable | (35,201,580) | 1,965,716 |
| Other assets | 351 | 1,654,755 |
| Grants and scholarships payable | 953,750 | 42,500 |
| Accrued liabilities | 92,934 | (27,111) |
| Liability under split-interest agreements | (357,472) | (731,380) |
| Net cash used in operating activities | **(66,709,534)** | **(18,373,433)** |
| Cash flows from investing activities: | | |
| Proceeds from sale of investments | 173,716,123 | 53,343,982 |
| Purchases of investments | (264,809,021) | (75,020,952) |
| Purchases of property, plant and equipment | - | (1,447) |
| Net cash used in investing activities | **(91,092,898)** | **(21,678,417)** |
| Cash flows from financing activities: | | |
| Restricted contributions | 138,431,254 | 28,581,200 |
| Restricted investment income | 18,335,549 | 12,391,671 |
| Net cash provided by financing activities | **156,766,803** | **40,972,871** |
| Net increase (decrease) in cash and cash equivalents | **(1,035,629)** | **921,021** |
| Cash and cash equivalents at beginning of year | 2,350,481 | 1,429,460 |
| Cash and cash equivalents at end of year | **$ 1,314,852** | **$ 2,350,481** |

*A complete copy of the independent auditor's report and accompanying notes, as prepared by Whitley Penn, is available upon request.*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