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Audited Consolidated  
Financial Statements

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***Foundation for a Healthy St. Petersburg, Inc.  
and Subsidiaries***

*Years Ended December 31, 2018 and 2017*



**FOUNDATION FOR A HEALTHY ST. PETERSBURG, INC. AND SUBSIDIARIES**

*Audited Consolidated Financial Statements*

*Years Ended December 31, 2018 and 2017*

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*Audited Consolidated Financial Statements*

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## INDEPENDENT AUDITOR'S REPORT

To the Board of Trustees of  
Foundation for a Healthy  
St. Petersburg, Inc.:

We have audited the accompanying consolidated financial statements of Foundation for a Healthy St. Petersburg, Inc. and Subsidiaries (the Organization), which comprise the consolidated balance sheets as of December 31, 2018 and 2017, and the related consolidated statements of operations and changes in net assets, functional expenses, and cash flows for the years then ended, and the related notes to the consolidated financial statements.

### *Management's Responsibility for the Consolidated Financial Statements*

Management is responsible for the preparation and fair presentation of these consolidated financial statements in accordance with accounting principles generally accepted in the United States of America; this includes the design, implementation, and maintenance of internal control relevant to the preparation and fair presentation of consolidated financial statements that are free from material misstatement, whether due to fraud or error.

### *Auditor's Responsibility*

Our responsibility is to express an opinion on these consolidated 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 consolidated financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the consolidated financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the consolidated financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the Organization's preparation and fair presentation of the consolidated financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Organization's internal control. Accordingly, we express no such opinion.

An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the consolidated financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

***Opinion***

In our opinion, the consolidated financial statements referred to above present fairly, in all material respects, the consolidated financial position of Foundation for a Healthy St. Petersburg, Inc. and Subsidiaries as of December 31, 2018 and 2017, and the consolidated changes in their net assets and their cash flows for the years then ended in accordance with accounting principles generally accepted in the United States of America.

***Emphasis of Matter***

As discussed in Note A to the consolidated financial statements, in 2018, the Organization adopted new accounting guidance required by Accounting Standards Update No. 2016-14. Our opinion is not modified with respect to this matter.

PYA, P.C.

Tampa, Florida  
February 27, 2019

**FOUNDATION FOR A HEALTHY ST. PETERSBURG, INC. AND SUBSIDIARIES**

***Consolidated Balance Sheets***  
***(Dollars in Thousands)***

|   | <i>Year Ended December 31,</i> |                   |
|---|--------------------------------|-------------------|
|   | <i>2018</i>                    | <i>2017</i>       |
| <b>ASSETS</b>                           |                                |                   |
| Cash and cash equivalents               | \$ 169                         | \$ 521            |
| Prepaid expenses                        | 122                            | 78                |
| Investments                             | 130,167                        | 144,366           |
| Property, plant and equipment, net      | 595                            | 384               |
| Investment in joint venture             | 41,957                         | 41,957            |
| Other assets                            | 685                            | 658               |
| <b>TOTAL ASSETS</b>                     | <b>\$ 173,695</b>              | <b>\$ 187,964</b> |
| <b>LIABILITIES AND NET ASSETS</b>       |                                |                   |
| Accounts payable and accrued expenses   | \$ 366                         | \$ 468            |
| Grants payable                          | 8,538                          | 1,304             |
| Accrued employee compensation           | 101                            | 123               |
| Estimated third-party settlements       | -                              | 1,697             |
| Employee retirement plan obligations    | 125                            | 90                |
| Other long-term liabilities             | 114                            | 45                |
| <b>TOTAL LIABILITIES</b>                | <b>9,244</b>                   | <b>3,727</b>      |
| <b>NET ASSETS</b>                       |                                |                   |
| Without donor restrictions              | 164,093                        | 182,879           |
| With donor restrictions                 | 358                            | 1,358             |
| <b>TOTAL NET ASSETS</b>                 | <b>164,451</b>                 | <b>184,237</b>    |
| <b>TOTAL LIABILITIES AND NET ASSETS</b> | <b>\$ 173,695</b>              | <b>\$ 187,964</b> |

**FOUNDATION FOR A HEALTHY ST. PETERSBURG, INC. AND SUBSIDIARIES**

***Consolidated Statements of Operations and Changes in Net Assets  
(Dollars in Thousands)***

|  | <i>Year Ended December 31,</i> |             |
|--|--------------------------------|-------------|
|  | <i>2018</i>                    | <i>2017</i> |
| NET ASSETS WITHOUT DONOR RESTRICTIONS -<br>EXCESS (DEFICIT) OF REVENUE, GAINS (LOSSES)<br>AND SUPPORT OVER EXPENSES: |                                |             |
| Revenue, gains and support:  |                                |             |
| Net investment income  | \$ 6,931                       | \$ 3,485    |
| Change in fair value of charitable trust   | (18)                           | 72          |
| Net unrealized gains (losses) on trading investments   | (13,678)                       | 18,706      |
| TOTAL REVENUE, GAINS (LOSSES) AND SUPPORT  | (6,765)                        | 22,263      |
| Expenses:  |                                |             |
| Salaries and benefits  | 1,944                          | 1,624       |
| Grant expense  | 10,934                         | 2,731       |
| Purchased services   | 1,706                          | 1,064       |
| Depreciation and amortization  | 31                             | 29          |
| Administrative expenses  | 678                            | 596         |
| TOTAL EXPENSES   | 15,293                         | 6,044       |
| EXCESS (DEFICIT) OF REVENUE,<br>GAINS (LOSSES) AND SUPPORT OVER EXPENSES   | (22,058)                       | 16,219      |
| CHANGES IN NET ASSETS WITHOUT DONOR<br>RESTRICTIONS:   |                                |             |
| Excess (deficit) of revenue, gains (losses) and support over<br>expenses   | (22,058)                       | 16,219      |
| Pension-related changes other than net periodic pension cost   | -                              | 13,793      |
| Net assets released from restrictions  | 1,000                          | -           |
| Gain (loss) from operations of discontinued entities   | 2,272                          | (15,613)    |
| INCREASE (DECREASE) IN NET ASSETS WITHOUT<br>DONOR RESTRICTIONS  | (18,786)                       | 14,399      |
| CHANGES IN NET ASSETS WITH DONOR<br>RESTRICTIONS:  |                                |             |
| Net assets released from restrictions  | (1,000)                        | -           |
| DECREASE IN NET ASSETS WITH DONOR<br>RESTRICTIONS  | (1,000)                        | -           |
| INCREASE (DECREASE) IN NET ASSETS  | (19,786)                       | 14,399      |
| NET ASSETS, BEGINNING OF PERIOD  | 184,237                        | 169,838     |
| NET ASSETS, END OF PERIOD  | \$ 164,451                     | \$ 184,237  |

*See notes to consolidated financial statements.*

**FOUNDATION FOR A HEALTHY ST. PETERSBURG, INC. AND SUBSIDIARIES**

***Consolidated Statement of Functional Expenses***  
***(Dollars in Thousands)***

***Year Ended December 31, 2018***

|                                    | <i>Program</i>   | <i>Management<br/>and General</i> | <i>Total</i>     |
|------------------------------------|------------------|-----------------------------------|------------------|
| Grants                             | \$ 10,934        | \$ -                              | \$ 10,934        |
| Salaries and benefits              | 1,317            | 627                               | 1,944            |
| Direct community investment        | 698              | -                                 | 698              |
| Professional and contract services | 176              | 433                               | 609              |
| Program services                   | 385              | -                                 | 385              |
| Office operations                  | 163              | 91                                | 254              |
| Property and excise taxes          | -                | 170                               | 170              |
| Organizational memberships         | 105              | -                                 | 105              |
| Travel, conferences, and meetings  | 113              | 18                                | 131              |
| Depreciation and amortization      | 17               | 14                                | 31               |
| Other                              | -                | 32                                | 32               |
| Total functional expenses          | <u>\$ 13,908</u> | <u>\$ 1,385</u>                   | <u>\$ 15,293</u> |



**FOUNDATION FOR A HEALTHY ST. PETERSBURG, INC. AND SUBSIDIARIES**

***Consolidated Statements of Cash Flows***  
***(Dollars in Thousands)***

|   | <i>Year Ended December 31,</i> |                 |
|---|--------------------------------|-----------------|
|   | <i>2018</i>                    | <i>2017</i>     |
| <b>CASH FLOWS FROM OPERATING ACTIVITIES:</b>  |                                |                 |
| Increase (decrease) in net assets   | \$ (19,786)                    | \$ 14,399       |
| Adjustments to reconcile increase (decrease) in net assets<br>to net cash used in operating activities: |                                |                 |
| Depreciation and amortization   | 31                             | 29              |
| Pension-related changes other than net periodic cost  | -                              | (13,793)        |
| Net realized and unrealized losses (gains) on investments   | 12,316                         | (19,024)        |
| Investment earnings reinvested  | (3,300)                        | (3,163)         |
| Distributions from investment accounts  | 5,183                          | 11,198          |
| Increase (decrease) in cash due to changes in:  |                                |                 |
| Prepaid expenses and other assets   | (44)                           | 65              |
| Other assets  | (27)                           | 1,215           |
| Accounts payable and accrued expenses   | (102)                          | 97              |
| Accrued employee compensation   | (22)                           | 41              |
| Grants payable  | 7,234                          | (547)           |
| Estimated third-party settlements   | (1,697)                        | (813)           |
| Employee retirement plan obligations  | 35                             | 10,054          |
| Other long-term liabilities   | 69                             | 13              |
| Total adjustments   | <u>19,676</u>                  | <u>(14,628)</u> |
| NET CASH USED IN OPERATING ACTIVITIES   | <u>(110)</u>                   | <u>(229)</u>    |
| <b>CASH FLOWS FROM INVESTING ACTIVITIES:</b>  |                                |                 |
| Purchases of property, plant and equipment  | <u>(242)</u>                   | <u>(22)</u>     |
| NET CASH USED IN<br>INVESTING ACTIVITIES  | <u>(242)</u>                   | <u>(22)</u>     |
| DECREASE IN<br>CASH AND CASH EQUIVALENTS  | <u>(352)</u>                   | <u>(251)</u>    |
| CASH AND CASH EQUIVALENTS,<br>BEGINNING OF PERIOD   | <u>521</u>                     | <u>772</u>      |
| CASH AND CASH EQUIVALENTS,<br>END OF PERIOD   | <u>\$ 169</u>                  | <u>\$ 521</u>   |

## FOUNDATION FOR A HEALTHY ST. PETERSBURG, INC. AND SUBSIDIARIES

### *Notes to Consolidated Financial Statements*

#### *Years Ended December 31, 2018 and 2017*

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#### NOTE A--ORGANIZATION AND SIGNIFICANT ACCOUNTING POLICIES

*Organization:* Foundation for a Healthy St. Petersburg, Inc. (FHSP) is a Florida not-for-profit corporation that operates a charitable foundation to end differences in health due to social and structural disadvantages to improve population health. Prior to April 1, 2013, FHSP served as the parent company of a multi-facility health system and was the sole corporate member or sole shareholder for the following subsidiary organizations:

- Bayfront Medical Center, Inc., and its subsidiaries (the Hospital).
- Bayfront Enterprises, Inc. (Enterprises).
- Bayfront Health Foundation, Inc. (the Foundation).
- Bayfront Insurance Solutions, Ltd. (BISL).

Effective April 1, 2013, substantially all of the assets of FHSP, the Hospital, and Enterprises (the Healthcare Entities), excluding certain items of working capital such as cash and accounts receivable, as well as certain real property, were acquired by Bayfront HMA Healthcare Holdings, LLC (Bayfront HMA), a joint venture owned 80% by a subsidiary of Health Management Associates, Inc. (HMA) (now Community Health Systems, Inc.) and 20% by a newly formed wholly-owned subsidiary of FHSP, FHSP Holdings, LLC (formerly known as Bayfront HERO Holdings, LLC) (FHSP Holdings), for approximately \$202,300,000. This event is referred to as the "Sale Transaction." A portion of the proceeds from the Sale Transaction (approximately \$84,000,000) were placed in escrow to repay FHSP's outstanding debt obligations (including accrued interest) and to fund the cost of terminating a related interest rate swap agreement. Also, approximately \$41,957,000 of the proceeds were paid to HMA by FHSP Holdings for a 20% share in Bayfront HMA, which is accounted for on the cost basis under Financial Accounting Standards Board (FASB) Accounting Standards Codification (ASC) Topics 323, *Investments - Equity Method and Joint Ventures* and 320, *Investments - Debt and Equity Securities*, since FHSP Holdings does not exert significant influence over Bayfront HMA Healthcare Holdings, LLC and the fair market value is not readily determinable. During 2018 and 2017, there have been no identifiable events or changes in circumstances that would indicate the investment is impaired or would have had a significant adverse effect on the value.

During 2013 and 2014, the Healthcare Entities and the Foundation merged into FHSP, and BISL was dissolved (see Note E). During 2015, FHSP Spark Plug Fund, LLC (FHSP Spark Plug), was organized as a wholly-owned subsidiary of FHSP, and it owns passive investments in start-up companies in the St. Petersburg community.

## FOUNDATION FOR A HEALTHY ST. PETERSBURG, INC. AND SUBSIDIARIES

### *Notes to Consolidated Financial Statements - Continued*

#### *Years Ended December 31, 2018 and 2017*

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FHSP's consolidated financial statements include the accounts and transactions of all of its subsidiaries as of and for the years ended December 31, 2018 and 2017. FHSP and its subsidiaries are collectively referred to as the Organization. The results of operations for any component of the Organization disposed of prior to or during the year ended December 31, 2014 are included in gain (loss) from operations of discontinued entities for the years ended December 31, 2018 and 2017. All significant intercompany transactions among these entities have been eliminated in the consolidated financial statements.

*Use of Estimates:* The preparation of these consolidated financial statements in conformity with accounting principles generally accepted in the United States (GAAP) requires management to make estimates and assumptions that affect the amounts reported in the consolidated financial statements and accompanying notes. Estimates also affect the reported amounts of revenues and expenses during the reporting period. Although estimates are considered to be fairly stated at the time that the estimates are made, actual results could differ from those estimates.

*Functional Expense Allocation:* The costs of programs and management and general expenses are allocated based on estimates of employees' time incurred, usage of resources, and other methods. The program expenses consist of transfers of cash and non-cash assets for their intended purposes, in accordance with FHSP's mission. Management and general expenses include expense not directly identifiable with any other specific function but provide for the overall support and direction of FHSP.

*Grant Expense:* Grant expense is recognized in the period the grant is awarded. Grants payable that are expected to be paid in future years are recorded at the present value of expected future payments. At December 31, 2018 and 2017, grants payable were discounted at 5.5% and 4.5%, respectively.

*Cash and Cash Equivalents:* Cash and cash equivalents include investments in highly liquid investments with a maturity of three months or less when purchased, with the exception of certain money funds classified as investments.

*Property, Plant and Equipment:* Property, plant and equipment are recorded at historical cost, or if donated, at the fair market value on the date of donation. The straight-line method is used to depreciate all property, plant and equipment.

*Investments and Investment Income:* Investments in equity securities with readily determinable fair values and all investments in debt securities are measured at fair value in the accompanying consolidated balance sheets. All investment securities are classified as trading. As such, unrealized gains and losses on investment securities are recognized in the consolidated statements of operations and changes in net assets. The fair value of investments is based on quoted market prices. Investment income or loss (including realized and unrealized gains and losses on investments, interest and dividends) is included in revenue, gains (losses) and support in the period

## FOUNDATION FOR A HEALTHY ST. PETERSBURG, INC. AND SUBSIDIARIES

### *Notes to Consolidated Financial Statements - Continued*

#### *Years Ended December 31, 2018 and 2017*

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earned unless such earnings are subject to donor-imposed restrictions. Investment income restricted by donor stipulations is reported as a change in net assets with donor restrictions.

*Net Assets with Donor Restrictions:* Net assets with donor restrictions are those whose use by the Organization has been limited by donors to a specific time period or purpose. Net assets with donor restrictions at December 31, 2017 are restricted for expenditures related to conferences and primary healthcare. During 2018, net assets released from restriction were related to expenditures for healthcare. Net assets with donor restrictions are restricted for expenditures related to conferences.

*Excess (Deficit) of Revenue, Gains (Losses) and Support Over Expenses:* The consolidated statements of operations and changes in net assets include excess (deficit) of revenue, gains (losses) and support over expenses for the years ended December 31, 2018 and 2017, which is analogous to income from continuing operations for a for-profit enterprise. Changes in net assets without donor restrictions, which are excluded from excess (deficit) of revenue, gains (losses) and support over expenses, principally consist of pension-related changes other than net periodic pension costs and gains and losses associated with discontinued operations associated with the Sale Transaction.

*Income Taxes:* FHSP is exempt from federal income tax, pursuant to Section 501(a) as organizations described in Section 501(c)(3) of the Internal Revenue Code of 1986, as amended. FHSP Spark Plug is organized as a separately taxable limited liability company. During 2018, FHSP Holdings converted from a taxable limited liability company to a non-taxable entity. At December 31, 2018, tax returns for 2015 through 2017 are subject to examination by the Internal Revenue Service. With respect to any taxable income or unrelated business income generated, the Organization records income taxes using the liability method under which deferred tax assets and liabilities are determined based on the differences between the financial accounting and tax bases of assets and liabilities. Deferred tax assets or liabilities at the end of each period are determined using the currently enacted tax rate expected to apply to taxable income in the period that the deferred tax asset or liability is expected to be realized or settled. As of December 31, 2017, the Organization had deferred tax assets of \$152,905, reported as other assets in the consolidated balance sheets. Deferred tax assets were eliminated in 2018 when FHSP Holdings converted to a non-taxable entity.

FHSP is tax-exempt under Section 501(c)(3) of the Internal Revenue Code as a private foundation but is subject to various operating restrictions and an excise tax on net investment income. Among other requirements and restrictions, FHSP is required to distribute a minimum of 5% of its investment assets annually for charitable purposes. Violations of these restrictions may give rise to taxes and penalties. During 2018 and 2017, qualifying distributions exceeded the required minimum distribution amount and included grant and other charitable distributions paid during the year and certain administrative expenses, including funding for pension plan terminations. Distributions

## FOUNDATION FOR A HEALTHY ST. PETERSBURG, INC. AND SUBSIDIARIES

### *Notes to Consolidated Financial Statements - Continued*

#### *Years Ended December 31, 2018 and 2017*

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in excess of the minimum distribution requirement for a given year are allowed to be carried forward to future periods, up to five years.

*Third-Party Settlements:* Certain components of FHSP's discontinued healthcare operations are subject to certain audit activities being performed by the designated recovery audit contractor (RAC) commissioned by the Centers for Medicare and Medicaid Services (CMS). Gain (loss) from operations of discounted entities includes retroactive adjustments from final and tentative settlements from reimbursement agreements with third-party payers. An estimate for the Hospital's estimated exposure for RAC audit activity is recorded by the Organization as of December 31, 2017, and is included in estimated third-party settlements in the accompanying consolidated balance sheets. In the opinion of management, any additional exposures related to RAC audit activity will not have a significant impact on the financial position of the Organization. An estimated settlement refund receivable was recorded at December 31, 2018. The receivable was fully reserved due to the contingent nature of the settlement.

Laws and regulations governing the Medicare and Medicaid programs are extremely complex and subject to interpretation. As a result, there is at least a reasonable possibility that recorded estimates will change by a material amount in the near term.

*Reclassifications:* Certain 2017 amounts have been reclassified in the consolidated financial statements to conform to 2018 presentation.

*Recently Adopted Accounting Principle:* In August 2016, the Financial Accounting Standards Board (FASB) issued Accounting Standards Update (ASU) No. 2016-14, *Not-for-Profit Entities: Presentation of Financial Statements of Not-for-Profit Entities*, which requires not-for-profit entities to present two classes of net assets in the financial statements, rather than the three classes required by current standards. The two classes of net assets under the ASU are "net assets with donor restrictions" and "net assets without donor restrictions." ASU 2016-14 also adds enhanced disclosures, including composition of net assets with donor restrictions and quantitative and qualitative information that communicate the availability of financial assets to meet cash expenditures within one year of the balance sheet date. This ASU was adopted in 2018 and impacted consolidated financial statement presentation and disclosures. The ASU has been applied retrospectively to all periods presented.

*Recently Issued Accounting Principles:* In February 2016, the FASB issued ASU No. 2016-02, *Leases*, which requires balance sheet recognition of a liability and right-to-use asset for substantially all leases. ASU 2016-02 is effective for fiscal years beginning after December 15, 2019 and requires a modified retrospective transition approach for leases existing at the date of adoption. Management is currently evaluating the impact of the adoption of this standard on the consolidated financial statements.

**FOUNDATION FOR A HEALTHY ST. PETERSBURG, INC. AND SUBSIDIARIES**

*Notes to Consolidated Financial Statements - Continued*

*Years Ended December 31, 2018 and 2017*

NOTE B--INVESTMENTS

Investments stated at fair value at December 31 include (in thousands):

|                                  | <u>2018</u>       | <u>2017</u>       |
|----------------------------------|-------------------|-------------------|
| Funds held in custodial accounts | \$ 129,767        | \$ 143,966        |
| Other Investments                | 400               | 400               |
|                                  | <u>\$ 130,167</u> | <u>\$ 144,366</u> |

At December 31, the Organization held the following position in an individual security held in a custodial account which exceeded 10% of all funds held in custodial accounts:

|                                     | <u>2018</u> | <u>2017</u> |
|-------------------------------------|-------------|-------------|
| Vanguard Bond Index Fund Long-Term  | 11.7%       | 10.4%       |
| Vanguard World Fund Mega Cap Growth | 13.5%       | 14.8%       |
| Vanguard World Fund Mega Cap Value  | 16.4%       | 16.2%       |
| Vanguard Total Bond Market ETF      | 16.0%       | 13.7%       |
| Vanguard FTSE Developed Markets     | 20.6%       | 22.6%       |

Investment income and gains on investments are reported net of related expenses and comprised of the following for the year ended December 31 (in thousands):

|  | <u>2018</u>       | <u>2017</u>      |
|--|-------------------|------------------|
| Interest and dividends                     | \$ 5,667          | \$ 3,259         |
| Realized gains and losses, net             | 1,362             | 318              |
| Investment fees                            | (98)              | (92)             |
| Change in unrealized gains and losses, net | (13,678)          | 18,706           |
|  | <u>\$ (6,747)</u> | <u>\$ 22,191</u> |

NOTE C--AVAILABILITY AND LIQUIDITY

The following represents the Organization's financial assets at December 31 (in thousands):

|                           | <u>2018</u> | <u>2017</u> |
|---------------------------|-------------|-------------|
| Cash and cash equivalents | \$ 169      | \$ 521      |
| Investments               | 130,167     | 144,366     |
| Total financial assets    | 130,336     | 144,887     |

**FOUNDATION FOR A HEALTHY ST. PETERSBURG, INC. AND SUBSIDIARIES**

*Notes to Consolidated Financial Statements - Continued*

*Years Ended December 31, 2018 and 2017*

|  | <i>2018</i> | <i>2017</i> |
|--|-------------|-------------|
| Less:  |             |             |
| Net assets with donor restrictions   | 358         | 1,358       |
| Financial assets available to meet<br>general expenditures over the next twelve months | \$ 129,978  | \$ 143,529  |

The Organization evaluates operating cash needs on a regular basis to determine the amounts of investments to liquidate to meet cash obligations. The remaining financial assets are invested in accordance with the Organization’s investment policies.

**NOTE D--PROPERTY, PLANT AND EQUIPMENT**

Property, plant and equipment consist of the following as of December 31 (in thousands):

|                                      | <i>2018</i> | <i>2017</i> |
|--------------------------------------|-------------|-------------|
| Land                                 | \$ 315      | \$ 315      |
| Buildings and leasehold improvements | 219         | 3           |
| Equipment                            | 149         | 123         |
|                                      | 683         | 441         |
| Less: Accumulated depreciation       | (88)        | (57)        |
|                                      | \$ 595      | \$ 384      |

**NOTE E--PROFESSIONAL LIABILITY**

Due to its previous status as a healthcare entity, the Organization is exposed to professional liability claims for services provided prior to the effective date of the Sale Transaction. Prior to April 1, 2013, the Organization obtained professional liability insurance coverage through BISL, its wholly-owned captive insurance company. BISL provided coverage for all claims reported prior to April 1, 2013 through a series of annual retrospectively-rated, claims-made insurance policies which included a combination of self-insurance retention and excess commercial insurance at various levels over the years.

Effective April 4, 2013, BISL entered into a novation agreement in which the liability for all claims covered under policies issued by BISL were assumed by National Fire & Marine Insurance Company, a commercial insurer, in exchange for \$21,200,000.

Effective April 1, 2013, the Organization purchased “tail insurance” from a commercial insurance provider to cover against any claims not yet made as of March 31, 2013.

## FOUNDATION FOR A HEALTHY ST. PETERSBURG, INC. AND SUBSIDIARIES

### Notes to Consolidated Financial Statements - Continued

#### Years Ended December 31, 2018 and 2017

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Due to the transfer of risk to the commercial insurer, the Organization has not recorded any reserves or allowances for future losses for professional liability in the consolidated financial statements. The Organization may be liable for losses in excess of coverage limits; however, in the opinion of management, the coverage limits are adequate to provide for estimated losses from all asserted and unasserted claims.

#### NOTE F--EMPLOYEES' RETIREMENT PLANS

*Employees' Retirement Plan of Bayfront Medical Center, Inc.:* Effective December 31, 1995, the Organization froze its noncontributory defined benefit pension plan (the Plan), except with respect to active participants who had both completed 20 years of credited service and affirmatively elected to continue to vest in their benefits. Effective April 1, 2013, all remaining active participants were terminated from employment and accrual of benefits was discontinued at that time. During 2017, the Board of Trustees at FHSP approved to terminate the Plan effective immediately and FHSP paid the final funding contribution to the Plan of approximately \$43,500,000.

**The following sets forth changes to the Plan's projected benefit obligation and assets for the year ended December 31 and the funded status as of December 31 (in thousands), based on an actuarial analysis using a December 31 measurement date:**

|   | <u>2017</u>     |
|---|-----------------|
| Change in benefit obligation:                                   |                 |
| Benefit obligation at beginning of period                       | \$ 42,492       |
| Interest cost   | 567             |
| Actuarial loss  | 1,535           |
| Benefits paid   | <u>(44,594)</u> |
| Benefit obligation at end of period                             | -               |
| Change in plan assets:  |                 |
| Fair value of plan assets at beginning of period                | 38,717          |
| Actual return on plan assets                                    | (633)           |
| Employer contributions  | 6,510           |
| Benefits paid   | <u>(44,594)</u> |
| Fair value of plan assets at end of period                      | -               |
| Deficiency of fair value of plan assets over benefit obligation | <u>\$ -</u>     |



## FOUNDATION FOR A HEALTHY ST. PETERSBURG, INC. AND SUBSIDIARIES

### Notes to Consolidated Financial Statements - Continued

#### Years Ended December 31, 2018 and 2017

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The following summarizes components of the Plan's net periodic benefit cost for the year ended December 31 (in thousands):

|                                | <u>2017</u>      |
|--------------------------------|------------------|
| Interest cost                  | \$ 567           |
| Expected return on plan assets | (579)            |
| Recognized net actuarial loss  | 16,541           |
| Net periodic pension cost      | <u>\$ 16,529</u> |

The following summarizes the Plan's changes in assets without donor restrictions for the year ended December 31 (in thousands):

|                              | <u>2017</u>        |
|------------------------------|--------------------|
| Net loss                     | \$ 2,748           |
| Amortization of net loss     | (28,343)           |
| Settlement curtailment       | 11,802             |
| Net periodic pension benefit | <u>\$ (13,793)</u> |

The following summarizes assumptions used to determine the Plan's net periodic pension costs for the year ended December 31:

|  | <u>2017</u> |
|--|-------------|
| Weighted-average discount rate                   | 4.00%       |
| Rate of increase in future compensation levels   | N/A         |
| Expected long-term rate of return on plan assets | 4.00%       |

*Retirement Plan of FHSP:* Beginning in 2015, the Organization also sponsors a 457(f) deferred compensation plan for certain employees. For both of the years ended December 31, 2018 and 2017, approximately \$35,000 was recognized as deferred compensation and is included in employee retirement plan obligations on the consolidated balance sheets.

#### NOTE G--OPERATING LEASE

Total rent expense incurred under the Organization's operating lease totaled approximately \$130,000 for the year ended December 31, 2018 and is included in administrative expenses on the consolidated statements of operations and changes in net assets. Rent expense in 2017 was not significant. Future minimum annual lease payments are as follows (in thousands):

## FOUNDATION FOR A HEALTHY ST. PETERSBURG, INC. AND SUBSIDIARIES

### Notes to Consolidated Financial Statements - Continued

#### Years Ended December 31, 2018 and 2017

| <u>Year Ending December 31,</u> |                 |
|---------------------------------|-----------------|
| 2019                            | \$ 205          |
| 2020                            | 205             |
| 2021                            | 222             |
| 2022                            | 226             |
| 2023                            | 231             |
| Thereafter                      | 1,186           |
|                                 | <u>\$ 2,275</u> |

Deferred rent consists of the excess of the rental expenses over the payments required by the lease and is included in other long-term liabilities in the consolidated balance sheets. As of December 31, 2018, the deferred rent liability balance was approximately \$94,000. There was no deferred rent liability at December 31, 2017.

#### NOTE H--FAIR VALUE MEASUREMENTS

ASC Topic 820, *Fair Value Measurements and Disclosures*, defines fair value as the exit price that would be received to sell an asset or paid to transfer a liability in the principal or most advantageous market in an orderly transaction between market participants on the measurement date. ASC Topic 820 requires investments to be grouped into three categories based on certain criteria as noted below:

- *Level 1:* Fair value is determined by using quoted prices for identical assets or liabilities in active markets.
- *Level 2:* Fair value is determined by using other than quoted prices that are observable for the asset or liability (e.g., quoted prices for identical assets or liabilities in inactive markets, quoted prices for similar assets or liabilities in active markets, observable inputs other than quoted prices, and inputs derived principally from or corroborated by observable market data by correlation or other means).
- *Level 3:* Fair value is determined by using inputs based on management assumptions that are not directly observable.

The table below summarizes the fair values of the Organization's significant financial assets measured on a recurring basis as of December 31:

**FOUNDATION FOR A HEALTHY ST. PETERSBURG, INC. AND SUBSIDIARIES**

*Notes to Consolidated Financial Statements - Continued*

*Years Ended December 31, 2018 and 2017*

|                            | <i>Carrying<br/>Value</i> | <i>Quoted Prices<br/>in Active<br/>Markets<br/>(Level 1)</i> | <i>Significant<br/>Other<br/>Observable<br/>Inputs<br/>(Level 2)</i> | <i>Significant<br/>Unobservable<br/>Inputs<br/>(Level 3)</i> |
|----------------------------|---------------------------|--|--|--|
| <b>December 31, 2018</b>   |                           |  |  |  |
| Cash and cash equivalents  | \$ 2,498,291              | \$ 2,498,291   | \$ -   | \$ -   |
| Mutual Funds               | 86,120,724                | 86,120,724   | -  | -  |
| Mutual Funds- Fixed Income | 41,148,327                | 41,148,327   | -  | -  |
| Other                      | 400,000                   | 100,000  | -  | 300,000  |
| TOTAL ASSETS               | <u>\$ 130,167,342</u>     | <u>\$ 129,867,342</u>  | <u>\$ -</u>  | <u>\$ 300,000</u>  |
| <b>December 31, 2017</b>   |                           |  |  |  |
| Cash and cash equivalents  | \$ 2,792,309              | \$ 2,792,309   | \$ -   | \$ -   |
| Mutual Funds               | 101,525,556               | 101,525,556  | -  | -  |
| Mutual Funds- Fixed Income | 39,648,492                | 39,648,492   | -  | -  |
| Other                      | 400,000                   | 100,000  | -  | 300,000  |
| TOTAL ASSETS               | <u>\$ 144,366,357</u>     | <u>\$ 144,066,357</u>  | <u>\$ -</u>  | <u>\$ 300,000</u>  |

A reconciliation of the beginning and ending balances for the year ended December 31, 2018, of the assets whose fair value has been determined using significant unobservable inputs (Level 3) is as follows:

|  | <i>Fair Value Measurement<br/>Using Significant Unobservable<br/>Inputs (Level 3)</i> |                   |
|--|---|-------------------|
|  | <i>Private Equity</i>   | <i>Total</i>      |
| <b>Beginning Balance - January 1, 2018</b>   | \$ 300,000  | \$ 300,000        |
| Purchases, issuances, sales, and settlements | -   | -                 |
| <b>Ending Balance - December 31, 2018</b>    | <u>\$ 300,000</u>   | <u>\$ 300,000</u> |

The Organization's Level 1 assets include trading investments in domestic and international equities, equity funds, fixed income funds, hedge funds, and high yield investments and are valued at the quoted market prices.

The Organization's Level 3 assets include investments in domestic private companies and are valued using significant unobservable inputs.

## FOUNDATION FOR A HEALTHY ST. PETERSBURG, INC. AND SUBSIDIARIES

### *Notes to Consolidated Financial Statements - Continued*

*Years Ended December 31, 2018 and 2017*

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#### NOTE I--RELATED PARTY TRANSACTION

During the year ended December 31, 2018, FHSP Holdings received a distribution of \$2,269,000, related to its investment in Bayfront HMA. No such distributions were received during 2017. FHSP Holdings recognizes these distributions as unrestricted investment income on the date they are received.

#### NOTE J--SUBSEQUENT EVENTS

Subsequent events have been evaluated through the date of the Independent Auditor's Report, which is the date the consolidated financial statements were available to be issued. During this period, management noted no material recognizable subsequent events that required recognition or disclosure in the December 31, 2018 consolidated financial statements.