

SPACE COAST HEALTH FOUNDATION, INC.

FINANCIAL STATEMENTS AND SUPPLEMENTARY INFORMATION

As of and for the years ended September 30, 2015 and 2014

and

Independent Auditor's Report

SPACE COAST HEALTH FOUNDATION, INC.

BOARD OF DIRECTORS

OFFICERS

James Dwight	Chair
Bill Bancroft	Secretary
Scott Huff	Treasurer

BOARD MEMBERS

Dr. Valerie Browne	Fran Pickett
Linda Dale	Patrice Pilate

EXECUTIVE DIRECTOR

Johnette Gindling

SPACE COAST HEALTH FOUNDATION, INC.

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DAVIES, HOUSER & SECREST, CPA, P.A.

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*Stephen A. Ellis
Todd M. Russell
Matthew D. Trine*

Directors Emeritus

*Floyd C. Lemmon
William R. Kidd
Robert E. Andersen, Jr.*

INDEPENDENT AUDITOR'S REPORT

To the Board of Directors
Space Coast Health Foundation, Inc.

We have audited the accompanying financial statements of Space Coast Health Foundation, Inc. (the Foundation) (a nonprofit organization), which comprise the statements of financial position as of September 30, 2015 and 2014, and the related statements of activities and changes in net assets, and cash flows for the years then ended, and the related notes to the financial statements.

Management's Responsibility for the Financial Statements

Management is responsible for the preparation and fair presentation of these 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 financial statements that are free from material misstatement, whether due to fraud or error.

Auditor's Responsibility

Our responsibility is to express opinions 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 audits to obtain reasonable assurance about whether the financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the 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 entity'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 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 financial statements referred to above present fairly, in all material respects, the financial position of the Foundation as of September 30, 2015 and 2014, and the results of its activities and changes in net assets and cash flows for the years then ended in accordance with accounting principles generally accepted in the United States of America.

Other Matters

Other Information

Our audits were conducted for the purpose of forming an opinion on the financial statements as a whole. The accompanying schedule of expenditures of federal awards and state financial assistance is presented for purposes of additional analysis, as required by Rules of the Florida Department of Financial Services. This schedule is presented for purposes of additional analysis, and is not a required part of the basic financial statements. Such information is the responsibility of management and was derived from and relates directly to the underlying accounting and other records used to prepare the financial statements. The information has been subjected to the auditing procedures applied in the audit of the financial statements, and, certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the financial statements or to the financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the information is fairly stated in all material respects in relation to the financial statements as a whole.

The schedule of functional expenses is presented for purposes of additional analysis and is not a required part of the financial statements. Such information is the responsibility of management and was derived from and relates directly to the underlying accounting and other records used to prepare the financial statements. The information has not been subjected to the auditing procedures applied in the audit of the financial statements, and, accordingly, we express no opinion on it.

Other Reporting Required by *Government Auditing Standards*

In accordance with *Government Auditing Standards*, we have also issued our report, dated January 25, 2016, on our consideration of the Foundation's internal control over financial reporting and our tests of its compliance with certain provisions of laws, regulations, contracts, grant agreements, and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the Foundation's internal control over financial reporting and compliance.



Davies, Houser & Secret, CPA, P.A.
Cocoa, Florida
January 25, 2016

FINANCIAL STATEMENTS

SPACE COAST HEALTH FOUNDATION, INC.

STATEMENTS OF FINANCIAL POSITION

September 30, 2015 and 2014

<u>ASSETS</u>	<u>2015</u>	<u>2014</u>
Current assets:		
Cash and cash equivalents	\$ 789,469	\$ 658,413
Short-term investments	275,000	279,988
Assets limited as to use - required for current liabilities	5,683,806	5,987,734
Other receivables	178,189	152,805
Prepaid expenses	<u>46,344</u>	<u>957,258</u>
Total current assets	<u>6,972,808</u>	<u>8,036,198</u>
Property and equipment, net	<u>12,726</u>	<u>20,509</u>
Other assets:		
Investments	39,477,865	48,431,416
Note receivable - long-term (Note 13)	173,803	0
Indemnity escrow receivable (Note 4)	<u>8,362,816</u>	<u>8,360,778</u>
Total other assets	<u>48,014,484</u>	<u>56,792,194</u>
Total assets	<u>\$ 55,000,018</u>	<u>\$ 64,848,901</u>
<u>LIABILITIES AND NET ASSETS</u>		
Current liabilities:		
Accounts payable	\$ 243,500	\$ 262,146
Accrued payroll and benefits	138,320	117,896
Patient refund payable	0	201,758
Deferred revenue	500,000	500,000
Due to third-party payers	1,670,388	1,680,841
Grants payable	20,000	114,286
Other current liabilities (Note 5)	<u>559,821</u>	<u>4,715,301</u>
Total current liabilities	3,132,029	7,592,228
Long-term liabilities:		
Sponsorship agreement liability (Note 8)	3,680,811	3,999,387
Accrued professional claims (Note 6)	4,920,917	4,948,308
Accrued pension liability	6,008,199	1,326,256
Other liabilities	<u>59,489</u>	<u>100,532</u>
Total liabilities	<u>17,801,445</u>	<u>17,966,711</u>
Net assets:		
Unrestricted	37,137,381	46,170,306
Temporarily restricted - donor restricted gifts	9,859	109,877
Permanently restricted - donor restricted endowments	<u>51,333</u>	<u>602,007</u>
Total net assets	<u>37,198,573</u>	<u>46,882,190</u>
Total liabilities and net assets	<u>\$ 55,000,018</u>	<u>\$ 64,848,901</u>

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

SPACE COAST HEALTH FOUNDATION, INC.

STATEMENTS OF ACTIVITIES AND CHANGES IN NET ASSETS
For the years ended September 30, 2015 and 2014

	<u>2015</u>	<u>2014</u>
Change in unrestricted net assets:		
Unrestricted revenues and other support:		
Grant and donation revenue	\$ 2,198,711	\$ 2,037,098
Investment income	1,414,541	2,838,747
In-kind revenue	383,744	751,745
Rental and other revenue	14,845	14,796
Assets released from restrictions (Note 12)	<u>250,106</u>	<u>1,024,870</u>
Total unrestricted revenues and other support	<u>4,261,947</u>	<u>6,667,256</u>
Expenses:		
Employee compensation and benefits	1,531,085	1,419,790
Legal fees and assessment fees	167,594	75,386
Insurance	952,614	1,024,419
Professional fees	370,219	434,344
Pension costs	4,884,908	1,705,030
Grant expense	1,386,678	1,120,421
In-kind medical service	79,943	510,455
In-kind rent	303,801	241,290
Supplies, services, and other expenses	<u>185,518</u>	<u>229,687</u>
Total expenses	<u>9,862,360</u>	<u>6,760,822</u>
Excess (deficiency) of revenues and other support over expenses	(5,600,413)	(93,566)
Other gains:		
Third-party settlements (Note 9)	0	764,318
Hospital wind-down net income (Note 9)	202,316	15,766
Gain on sale of assets	<u>0</u>	<u>4,930</u>
Excess (deficiency) of revenues, gains, and other support over expenses and losses	(5,398,097)	691,448
Change in net unrealized gains (losses) on other than trading securities	<u>(3,634,828)</u>	<u>(145,852)</u>
Increase (decrease) in unrestricted net assets	<u>(9,032,925)</u>	<u>545,596</u>
Change in temporarily and permanently restricted net assets:		
Investment income	0	40,774
Refund of temporarily and permanently restricted donated assets (Note 12)	(400,586)	(63,770)
Unrealized gain (loss)	0	(11,417)
Assets released from restrictions and other changes (Note 12)	<u>(250,106)</u>	<u>(1,024,870)</u>
Increase (decrease) in temporarily and permanently restricted net assets	<u>(650,692)</u>	<u>(1,059,283)</u>
Change in net assets	(9,683,617)	(513,687)
Net assets, beginning of the year	<u>46,882,190</u>	<u>47,395,877</u>
Net assets, end of the year	<u>\$ 37,198,573</u>	<u>\$ 46,882,190</u>

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

SPACE COAST HEALTH FOUNDATION, INC.

STATEMENTS OF CASH FLOWS
For the years ended September 30, 2015 and 2014

	<u>2015</u>	<u>2014</u>
Cash flows from operating activities:		
Change in net assets	\$ (9,683,617)	\$ (513,687)
Adjustments to reconcile change in net assets to net cash provided by operating activities:		
Depreciation	7,783	5,320
Net realized and unrealized loss (gain) on investments - other than trading	3,199,230	(1,772,616)
Gain on sale of assets	0	(4,930)
Investment income from escrow receivable	(2,038)	(5,224)
(Increase) decrease in operating assets:		
Change in other receivables	(199,187)	(14,037)
Change in prepaids	910,914	741,796
Increase (decrease) in operating liabilities:		
Change in accounts payable	(18,646)	(77,662)
Change in accrued payroll and benefits	20,424	15,179
Change in patient refund payable	(201,758)	7,449
Change in third-party payers	(10,453)	(158,717)
Change in grants payable	(94,286)	114,286
Change in other current liabilities	(4,155,480)	2,536,085
Change in sponsorship agreement liability	(318,576)	(200,810)
Change in accrued professional claims	(27,391)	981,031
Change in accrued pension liability	4,681,943	(6,716,999)
Change in other liabilities	(41,043)	(60,898)
Net cash used in operating activities	<u>(5,932,181)</u>	<u>(5,124,434)</u>
Cash flows from investing activities:		
Purchase of new assets	0	(11,702)
Proceeds from sale of assets	0	10,000
Net sale (purchase) of investments	(720,679)	1,935,039
Assets transferred from (to) short-term investments	4,988	1,157,704
Assets transferred from (to) long-term investments	6,475,000	(5,667,225)
Change in assets limited as to use	305,966	(832,126)
Net cash provided by (used in) investing activities	<u>6,065,275</u>	<u>(3,408,310)</u>
Cash flows from financing activities:		
Decrease (increase) in escrow receivables	(2,038)	8,341,619
Net cash (used in) provided by financing activities	<u>(2,038)</u>	<u>8,341,619</u>
Net increase (decrease) in cash and cash equivalents	131,056	(191,125)
Cash and cash equivalents, beginning of year	<u>658,413</u>	<u>849,538</u>
Cash and cash equivalents, end of year	<u>\$ 789,469</u>	<u>\$ 658,413</u>

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

SPACE COAST HEALTH FOUNDATION, INC.

NOTES TO FINANCIAL STATEMENTS

As of and for the years ended September 30, 2015 and 2014

NOTE 1 - REPORTING ENTITY AND RELATED ORGANIZATIONS

Reporting Entity - Space Coast Health Foundation, Inc. (the Foundation) is a Florida not-for-profit corporation qualifying as a charitable organization under Section 501(c)(3) of the Internal Revenue Code. The Foundation was formerly known as Wuesthoff Health System, Inc. and Affiliates (Wuesthoff). On October 1, 2010, Wuesthoff sold substantially all of its assets to Brevard HMA Holdings, LLC, and its affiliates (Brevard HMA). The proceeds of the sale, as well as cash, receivables, and investments held by Wuesthoff, along with the assets of Wuesthoff Health System Foundation, Inc., were combined and became the assets of the Foundation. These assets are being used to benefit the local community's health needs, as determined by the Foundation's Board of Directors.

Prior to the October 1, 2010, sale, Wuesthoff was a community-based healthcare system in Brevard County, Florida. Its principal activities included the operation of two general acute care hospitals. It also controlled various entities providing healthcare services in the primary service area of Brevard County, Florida. Prior to the sale, Wuesthoff's consolidated financial statements included the accounts of the following controlled affiliates:

- Wuesthoff Memorial Hospital, Inc. (Memorial) and Subsidiary, including the operations of Wuesthoff Medical Center - Rockledge (Rockledge), Wuesthoff Brevard Cardiology Group, Inc. (BCG) (collectively, the Hospital), and Wuesthoff Medical Center - Melbourne (Medical Center)
- Wuesthoff Health Services, Inc. (Health Services)
- Wuesthoff Health System Foundation, Inc. (the WHS Foundation)
- Wuesthoff Assisted Living at IRCC, Inc. (WAL)
- Wuesthoff Progressive Care Center, Inc. (PCC)
- Wuesthoff Family Physicians, Inc. (Family Physicians)
- Care Span, Inc. (Care Span)

Except for cash, receivables, and investments of Wuesthoff and the WHS Foundation, all assets were sold and activities of Wuesthoff ceased on October 1, 2010. Most of the activities of the Foundation, during the years ended September 30, 2011 and 2012, were centered on settling working capital accounts of Wuesthoff by collecting receivables and paying payables associated with the activities of Wuesthoff. During the year ended September 30, 2011, the Foundation and Brevard HMA agreed that the Child Protection Team and the Children's Advocacy Center of Brevard programs were more suited to be run by the non-profit Foundation. Consequently, the assets, liabilities, and the activities of these two programs, as of and for the years ended September 30, 2015 and 2014, are included in the financial statements.

NOTE 1 - REPORTING ENTITY AND RELATED ORGANIZATIONS (continued)

Although operations of the controlled affiliates ceased on October 1, 2010, some of the entities continue to exist as controlled organizations of the Foundation. During the year ended September 30, 2012, all affiliates, except the 1941 Foundation, Inc., formerly known as Wuesthoff Health Systems Foundation, Inc., were merged into three wind-down entities:

SCHF Not-for-profit Wind Down, Inc.

SCHF For-profit Wind Down, Inc. (dissolved during the year ended September 30, 2014)

SCHF Physician Practice Wind Down, Inc.

The Foundation is currently in the process of winding down and terminating all of these entities. The Foundation is also in the process of reclassifying its tax status from a 509(a)(3) supporting organization to another type of 501(c)(3) organization.

NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Basis of Presentation - The accompanying financial statements have been prepared on the accrual basis of accounting and are prepared in conformity with the disclosure and display requirements set forth in the "Not-for-Profit Entities" topic of the Financial Accounting Standards Board (FASB) Accounting Standards Codification (ASC). The FASB ASC requires classification of net assets and revenues, expenses, gains, and losses to be recorded, based on the existence or absence of donor-imposed restrictions. In the accompanying financial statements, net assets are reported as follows:

Unrestricted - Net assets that are not subject to donor-imposed restrictions.

Temporarily Restricted - Net assets whose use by the Foundation is subject to donor-imposed stipulations that can be fulfilled by actions of the Foundation pursuant to those stipulations or that expire with the passage of time.

Permanently Restricted - Net assets subject to donor-imposed stipulations that they be maintained permanently by the Foundation.

Revenue and Support Recognition - Federal, state, and local contracts are considered exchange transactions and are recognized as earned. Funds advanced from these contracts to the Foundation prior to being earned are considered deferred revenue. Public support received by the Foundation is considered available for unrestricted use, unless specifically restricted by the donor.

Contributions - The Foundation reports gifts of cash and other assets as restricted contributions if they are received with donor restrictions 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 statements of activities and changes in net assets as assets released from restrictions. Assets donated with stipulations that they be invested to provide a permanent source of income are reported as permanently restricted contributions. Net assets available for donor-restricted gifts have been restricted for a variety of purposes. Net assets designated for particular use by the Foundation's Board of Directors are reported as unrestricted net assets.

NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

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 statements of financial position at September 30, 2015 and 2014. Investment income or loss (including realized gains and losses on investments, interest, and dividends) is included in the excess (deficiency) of revenues, gains, and other support over expenses and losses, unless the income or loss is restricted by donor or law. Unrealized gains and losses on investments are excluded from the excess (deficiency) of revenues, gains, and other support over expenses, unless the investments are trading securities.

The reduction in carrying amount associated with a decline in market value of an investment below its cost that is determined to be other than temporary is charged to excess of revenues, gains, and other support over expenses and losses, and a new cost basis for the security is established. To determine whether an impairment is other than temporary, the Foundation considers whether it has the ability and intent to hold the investment until a market price recovery and considers whether evidence indicating the cost of the investment is recoverable outweighs evidence to the contrary. Evidence considered in this assessment includes the reasons for the impairment, the severity and duration of the impairment, changes in value subsequent to year end, and forecasted performance of the investee. No such write downs were recorded during the years ended September 30, 2015 and 2014.

Other Gains and Excess of Revenues, Gains, and Other Support over Expenses and Losses - Transactions deemed by the Foundation to be ongoing, major, or central to the organization's purpose of supporting the local community's health needs are reported as unrestricted revenues and other support and expenses. Peripheral or incidental transactions are reported as other gains and losses. Changes in unrestricted net assets, which are excluded from excess of revenues, gains, and other support over expenses and losses consistent with industry practice, include unrealized gains and losses on other-than-trading securities and contributions of long-lived assets (including assets acquired using contributions that, by donor restriction, were to be used for the purpose of acquiring such assets).

Cash and Cash Equivalents - The Foundation considers all unrestricted, highly liquid investments with an original maturity of three months or less, except those classified as investments limited as to use, to be cash equivalents.

Concentrations of Credit Risk - Financial instruments, which potentially subject the Foundation to concentrations of credit risk, consist principally of cash and cash equivalents, assets whose use is limited, and investments. The Foundation maintains its cash and cash equivalents, assets whose use is limited, and investments with what management believes to be high credit quality financial institutions and investment grade securities.

Property and Equipment - The Foundation capitalizes all expenditures for equipment with a value in excess of \$5,000 and a useful life of greater than one year. Property and equipment purchased by the Foundation are recorded at cost, including capitalized interest, if purchased or constructed, and estimated fair market value, if donated. Depreciation is provided using a straight-line method over the estimated useful lives of the assets, which range between 3 to 15 years for equipment and 20 to 40 years for buildings. Upon sale or retirement of furniture and fixtures, the cost and related accumulated depreciation are eliminated from the respective accounts and the resulting gain or loss is included in the statements of activities and changes in net assets.

NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Gifts of long-lived assets such as land, buildings, or equipment are reported as unrestricted support and are included in the excess of revenues, gains, and other support over expenses and losses, unless explicit donor stipulations specify how the donated assets must be used. Gifts of long-lived assets with explicit restrictions that specify how the assets are to be used, and gifts of cash or other assets that must be used to acquire long-lived assets, are reported as restricted support. Absent explicit donor restrictions about how long these long-lived assets must be maintained, expirations of donor restrictions are reported when the donated or acquired long-lived assets are placed in service.

Donated Services and Facilities - Donated services and facilities are reflected as support in the accompanying statements at their estimated fair market values at the date of the receipt. Donated items are reported as unrestricted support unless the donor has restricted the time or purpose for which the asset can be used.

Assets Limited as to Use - Assets limited as to use include assets restricted by donors and assets set aside by the Board of Directors to meet future projected reserve requirements. The assets set aside by the Board of Directors may, at its discretion, subsequently be used for other purposes.

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 the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements. Estimates also affect the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates.

NOTE 3 - INVESTMENTS AND ASSETS LIMITED AS TO USE

The composition of investments and assets limited as to use at September 30, 2015 and 2014, is set forth in the following table:

	2015		2014	
	Cost	Market Value	Cost	Market Value
Short-term investments:				
Cash and equivalents	\$ 0	\$ 0	\$ 4,619	\$ 4,619
Certificate of deposit	275,000	275,000	275,369	275,369
	<u>\$ 275,000</u>	<u>\$ 275,000</u>	<u>\$ 279,988</u>	<u>\$ 279,988</u>
Assets limited as to use:				
Cash and equivalents	\$ 1,035,838	\$ 1,035,838	\$ 1,352,915	\$ 1,352,915
Bond investments managed by US Bank	4,685,351	4,647,968	4,631,475	4,634,819
	<u>\$ 5,721,189</u>	<u>\$ 5,683,806</u>	<u>\$ 5,984,390</u>	<u>\$ 5,987,734</u>
Investments:				
Cash and equivalents	\$ 673,679	\$ 673,679	\$ 9,340,778	\$ 9,340,778
Equity investments managed by Northern Trust	28,743,335	27,500,200	21,712,109	24,072,624
Bond investments managed by Northern Trust	11,493,804	11,303,986	15,186,174	15,018,014
	<u>\$ 40,910,818</u>	<u>\$ 39,477,865</u>	<u>\$ 46,239,061</u>	<u>\$ 48,431,416</u>

NOTE 3 - INVESTMENTS AND ASSETS LIMITED AS TO USE (continued)

Investment income and gains from cash and cash equivalents, and assets limited as to use are included in investment income (loss) on the statements of activities and changes in net assets and are comprised of the following for the years ended:

	<u>2015</u>	<u>2014</u>
Income:		
Interest and dividend income	\$ 978,943	\$ 949,636
Realized gains on sales of investments	<u>435,598</u>	<u>1,929,885</u>
	<u>\$ 1,414,541</u>	<u>\$ 2,879,521</u>
Other changes in net assets:		
Net unrealized gains (losses) on other than trading securities	<u>\$ (3,634,828)</u>	<u>\$ (157,269)</u>

NOTE 4 - INDEMNITY ESCROW RECEIVABLE

A portion of the October 1, 2010, sale proceeds are being held in an escrow account in case any significant unexpected issues arise related to the Wuesthoff asset sale. One third of the escrow funds are scheduled to be released each year starting on the third year from the sale. All earnings on the escrow account are to revert to the Foundation. During the year ended September 30, 2014, the Foundation received escrow fund payments of \$8,341,000. No amount was received during the year ended September 30, 2015. See Note 17 for additional information.

NOTE 5 - OTHER CURRENT LIABILITIES

The Foundation's other current liabilities at September 30, are as follows:

	<u>2015</u>	<u>2014</u>
Other current liabilities:		
Accrued pension and other benefit liabilities	\$ 0	\$ 4,000,000
Accrued professional claims liability	202,867	378,342
Sponsorship agreement liability	318,576	318,576
Workers' compensation and other current liabilities	<u>38,378</u>	<u>18,383</u>
Total other current liabilities	<u>\$ 559,821</u>	<u>\$ 4,715,301</u>

NOTE 6 - COMMITMENTS AND CONTINGENCIES

A. Malpractice Insurance Plan

Wuesthoff had a claims-made professional liability policy, which provided coverage in multiple layers for all medical malpractice claims reported to the insurance carriers during the policy term. Under the policies, Wuesthoff was liable for the first \$2,000,000 for all claims made prior to October 1, 2010, with an aggregate stop-loss that attaches at \$7,000,000. The first excess reinsurance layer would reimburse up to \$10,000,000 per claim and \$10,000,000 in the aggregate per year. The second excess reinsurance layer would reimburse up to \$5,000,000 per claim and \$5,000,000 in the aggregate per year. Losses from asserted claims and from unasserted claims identified under Wuesthoff's incident reporting system were accrued based on estimates that incorporate Wuesthoff's past experience, as well as other considerations, including the nature of each claim or incident and relevant trend factors. Wuesthoff obtained an actuarial estimate of possible losses for incidents not

NOTE 6 - COMMITMENTS AND CONTINGENCIES (continued)

identified by the incident reporting system. The calculation of these amounts is dependent on the significant assumptions made in deriving these estimates, and any changes in the assumptions can materially affect the estimates.

Since the operating assets of Wuesthoff were sold and the Foundation no longer provides any healthcare services, insurance coverage known as tail coverage was purchased in conjunction with the asset sale closing. This insurance continues claims-made coverage for a period of five years from the sale covering claims which had been incurred by September 30, 2010, and claims incurred by September 30, 2010, but not reported through September 30, 2015.

The total accrual for self-insured claims, amounting to approximately \$5,100,000 and \$5,300,000, is included in other current liabilities and noncurrent liabilities in the statements of financial position at September 30, 2015 and 2014, respectively. The total accrual includes estimates of the ultimate costs of both reported claims and claims incurred but not reported. Although it is the Foundation's policy to discount these liabilities, variations in payment patterns did not allow for discounting as of September 30, 2015 and 2014. In the opinion of management, adequate provisions have been made for estimated losses from asserted and unasserted claims.

B. Workers' Compensation Insurance

Wuesthoff was self-insured for workers' compensation claims up to \$500,000 per occurrence for 2010. The policy provided for retrospective adjustments to premiums based upon loss history experience factors and payroll classification adjustments by the carrier. Management is of the opinion that any future adjustments to retrospective premiums will be immaterial and no liabilities have been recorded in the accompanying financial statements relating to retrospective adjustments. The Foundation's reserve for workers' compensation claims losses, which are known and estimated by management, as well as an estimate for incurred but not yet reported claims included in other current and non-current liabilities in the statements of financial position, was approximately \$59,000 and \$115,000, as of September 30, 2015 and 2014, respectively. There were no workers' compensation self-insurance losses and loss adjustment expenses included in the Foundation's statements of activities and changes in net assets for the years ended September 30, 2015 and 2014.

C. Regulatory Review

Wuesthoff had conducted licensing and accreditation reviews, under the guidance of external legal counsel. The results of such reviews had been voluntarily disclosed to the Medicare program, Centers for Medicare and Medicaid Services (CMS). CMS has not completely responded to the Foundation regarding the findings. However, based upon the results of the review, management has provided for what it believes to be a reasonable estimate of the exposure to loss associated with the potential repayment to the Medicare program. Foundation management and its legal counsel believe that these matters will be resolved without a material effect on the Foundation's financial position and results of operations.

D. Line of Credit

For tax years ended September 30, 2015 and 2014, the Foundation had an unused line of credit with a financial institution, in the amount of \$100,000 and \$275,000, respectively.

NOTE 7 - PENSION PLANS, OTHER POSTRETIREMENT BENEFITS, AND DEFERRED COMPENSATION

A. Pension Plans

Two noncontributory defined benefit pension plans, which covered substantially all employees during 2002 and prior, were sponsored by the Hospital. Effective December 31, 2001, the Hospital elected to cease benefit accruals under the two noncontributory defined benefit pension plans. The plans provided normal annual retirement benefits based upon years of service and an employee's compensation during the highest 3 consecutive calendar years of earnings during the last 15 years of employment. The Hospital's previous policy was to fund the ERISA minimum requirement. As part of the October 1, 2010, asset sale, the two plans were combined and a contribution of \$13,000,000 was made to the combined plan and was the total amount contributed during the year ended September 30, 2011. The contributions for the years ended September 30, 2015 and 2014, were \$4,000,000 and \$4,100,000, respectively. The funding decision valuations were made based on the actuarial studies performed as of January 1, 2015 and 2014, and the disclosures are based on measurement dates as of September 30, 2015 and 2014.

The Foundation accounts for its pension plan in accordance with relevant accounting literature. This literature requires recognition in the statements of financial position of the funded status of the plans and the recognition in unrestricted net assets of unrecognized gains or losses, prior service costs or credits, and transition assets or obligations existing at the time of adoption. The funded status is measured as the difference between the fair value of plan assets and the projected benefit obligation of the plan.

The projected benefit obligation is the actuarial present value of that portion of the projected benefits attributable to employee service rendered to date. Benefit cost includes the actuarial present value of the portion of the projected benefits attributable to employee service rendered during the year and the interest cost on the benefit obligation. Cumulative net actuarial gains and losses are amortized over the average future service of active participants.

Since the Foundation's plan has been frozen, the projected and accumulated benefit obligations are the same. The measurement date of the plan was September 30, 2015.

The changes in projected benefit obligation for the plan for the years ended September 30, 2015 and 2014, are as follows:

	<u>2015</u>	<u>2014</u>
Projected benefit obligation, beginning of year	\$ 40,345,793	\$ 39,850,318
Service cost	0	0
Interest cost	1,556,259	1,701,060
Actuarial loss (gain)	2,884,361	2,263,246
Benefit and administration payments, as estimated	<u>(3,720,910)</u>	<u>(3,468,831)</u>
Projected benefit obligation, end of year	<u>\$ 41,065,503</u>	<u>\$ 40,345,793</u>

NOTE 7 - PENSION PLANS, OTHER POSTRETIREMENT BENEFITS, AND DEFERRED COMPENSATION (continued)

The change in plan assets for the years ended September 30, 2015 and 2014, included the following components:

	<u>2015</u>	<u>2014</u>
Fair value of plan assets, beginning of year	\$ 35,019,537	\$ 31,813,063
Employer contributions	4,000,000	4,100,000
Benefit payments	(3,720,910)	(3,468,831)
Administrative expense	0	0
Actual return on plan assets	<u>(241,323)</u>	<u>2,575,305</u>
Fair value of plan assets, end of year	<u>\$ 35,057,304</u>	<u>\$ 35,019,537</u>

The actuarially computed net periodic pension cost for the pension plans for the years ended September 30, 2015 and 2014, included the following components:

	<u>2015</u>	<u>2014</u>
Service cost - benefits	\$ 0	\$ 0
Interest cost on projected benefit obligation	1,556,259	1,701,060
Expected return on plan assets	(2,846,418)	(2,592,911)
Amortization of actual gain	<u>341,271</u>	<u>233,020</u>
Net periodic pension cost (benefit)	(948,888)	(658,831)
Settlement recognition of (gain) loss	<u>0</u>	<u>0</u>
Total benefit cost	<u>\$ (948,888)</u>	<u>\$ (658,831)</u>

Estimated employer contributions for next fiscal year are \$0.

Plan assets for the pension plan consist principally of cash and cash equivalents, equity investments and fixed income securities, which are managed by professional investment managers in accordance with an investment policy under the supervision of an independent pension administration committee. During the years ended September 30, 2015 and 2014, due to unfavorable interest rate changes, the plan actuarially increased its funded liability by \$4.8 and \$1.4 million respectively. The plan's investment policy prohibits investments in derivatives, hedge funds, and speculative instruments.

NOTE 7 - PENSION PLANS, OTHER POSTRETIREMENT BENEFITS, AND DEFERRED COMPENSATION (continued)

The table below summarizes the fair values of the Foundation's plan assets, as of September 30, 2015, in accordance with the categories described in Note 9.

	<u>Fair Value Measurements at Reporting Date Using</u>			
	<u>Fair Market Value</u>	<u>Quoted Prices in Active Markets for Identical Assets (Level 1)</u>	<u>Significant Other Observable Inputs (Level 2)</u>	<u>Significant Unobservable Inputs (Level 3)</u>
Cash and cash equivalents	\$ 428,773	\$ 0	\$ 428,773	\$ 0
Grantor trust funds invested in equity securities	14,126,274	0	14,126,274	0
Grantor trust funds invested in fixed income securities	<u>20,502,257</u>	<u>0</u>	<u>20,502,257</u>	<u>0</u>
Fair value of plan assets, end of year	<u>\$35,057,304</u>	<u>\$ 0</u>	<u>\$35,057,304</u>	<u>\$ 0</u>

The table below summarizes the fair values of the Foundation's plan assets, as of September 30, 2014, in accordance with the categories described in Note 9.

	<u>Fair Value Measurements at Reporting Date Using</u>			
	<u>Fair Market Value</u>	<u>Quoted Prices in Active Markets for Identical Assets (Level 1)</u>	<u>Significant Other Observable Inputs (Level 2)</u>	<u>Significant Unobservable Inputs (Level 3)</u>
Cash and cash equivalents	\$ 228,602	\$ 0	\$ 228,602	\$ 0
Grantor trust funds invested in equity securities	14,386,060	0	14,386,060	0
Grantor trust funds invested in fixed income securities	<u>20,404,875</u>	<u>0</u>	<u>20,404,875</u>	<u>0</u>
Fair value of plan assets, end of year	<u>\$35,019,537</u>	<u>\$ 0</u>	<u>\$35,019,537</u>	<u>\$ 0</u>

Benefits totaling \$2,782,000 are expected to be transferred to the beneficiaries of the plan during the year ending September 30, 2016.

NOTE 7 - PENSION PLANS, OTHER POSTRETIREMENT BENEFITS, AND DEFERRED COMPENSATION (continued)

B. Other Postretirement Benefits

The Foundation accrues the costs of postretirement benefits during an employee's active working career. Wuesthoff's postretirement benefit program, which provided certain medical services to retirees meeting certain qualifications, was no longer available to employees as of May 1994. However, for participants prior to this date, the Foundation continues to provide this benefit and accrues for estimated future benefits as determined by an external actuary. During the years ended September 30, 2015 and 2014, the Foundation purchased third-party medical insurance to meet this obligation.

	<u>2015</u>	<u>2014</u>
Benefit cost (gain)	\$ <u>(55,000)</u>	\$ <u>26,000</u>
Employer contributions	\$ <u>52,000</u>	\$ <u>61,400</u>

The benefit cost (gain) related to the postretirement benefit plan is included in the Foundation's statements of activities and change in net assets.

The following table summarizes the plan's funded status as of September 30, 2015 and 2014, and amounts recognized in the financial statements as follows:

	<u>2015</u>		<u>2014</u>	
	<u>Pension Benefits</u>	<u>Other Benefits</u>	<u>Pension Benefits</u>	<u>Other Benefits</u>
Benefit obligation	\$ 41,065,503	\$ 288,983	\$ 40,345,793	\$ 396,193
Fair value of plan assets	<u>35,057,304</u>	<u>0</u>	<u>35,019,537</u>	<u>0</u>
Funded status	<u>\$ (6,008,199)</u>	<u>\$ (288,983)</u>	<u>(5,326,256)</u>	<u>(396,193)</u>
Accrued benefit cost	<u>\$ (6,008,199)</u>	<u>\$ (288,983)</u>	<u>\$ (5,326,256)</u>	<u>\$ (396,193)</u>

The accrued benefit costs for pension and other benefits are included in other current and long-term liabilities and accrued pension liability in the statements of financial position at September 30, 2015.

Significant assumptions used to determine the respective benefits are as follows:

<u>Weighted Average Assumptions</u>	<u>Pension Benefits</u>	<u>Other Benefits</u>
Discount rates	4%	4%
Expected return on plan assets	8%	8%
Rate of compensation increase	NA	NA
Healthcare cost and Medicare trend rate - initial	NA	6%
Healthcare cost and Medicare trend rate - ultimate	NA	3%

NOTE 7 - PENSION PLANS, OTHER POSTRETIREMENT BENEFITS, AND DEFERRED COMPENSATION (continued)

The accrued benefit costs for pension and other benefits are included in other current liabilities and accrued pension liability in the statements of financial position at September 30, 2014.

Significant assumptions used to determine the respective benefits are as follows:

<u>Weighted Average Assumptions</u>	<u>Pension Benefits</u>	<u>Other Benefits</u>
Discount rates	4.43%	4%
Expected return on plan assets	8%	8%
Rate of compensation increase	NA	NA
Healthcare cost and Medicare trend rate - initial	NA	6%
Healthcare cost and Medicare trend rate - ultimate	NA	4%

The assumption for the expected long-term rate of return on assets is an estimate based on historical returns for portfolios heavily weighted toward long-term investments, such as long-term bonds and equity securities. The calculation of these pension and postretirement benefits is dependent on the significant assumptions listed above. Any changes in the significant assumptions can materially affect the calculation.

C. Defined Contribution Plan

On January 1, 2002, Wuesthoff established a defined contribution plan (403(b) plan), which covered substantially all of its employees. The Foundation assumed responsibility for this plan after the October 1, 2010, asset sale. Employees are eligible for participation upon completion of one year of service and 1,000 hours in 12 consecutive months. Matching contributions are made up to 3% of eligible compensation. The Foundation had the option to make discretionary, nonparticipating contributions of a percentage of eligible compensation, but no discretionary contributions were made in 2015 and 2014. The Foundation terminated this plan during the fiscal year end September 30, 2015.

NOTE 8 - SPONSORSHIP AGREEMENT LIABILITY

In June 2007, Wuesthoff entered into an agreement with a developer to construct a medical building in North Brevard County, Florida. As part of that agreement, Wuesthoff committed to pay fair rental value and tenant improvement costs for all vacant space through October 2023. The Foundation maintained this commitment after the October 1, 2010, asset sale.

Provisions in the agreement allow for the Foundation to be relieved of the commitment upon the sale of the building. Sales proceeds would also be split between the developer and the Foundation. The Foundation has recorded a current and long-term liability on the statements of financial position as of September 30, 2015 and 2014, for the amount of \$3,999,387 and 4,317,963, respectively. The total liability is based on the present value of expected future cash payments determined under the terms of the sponsorship agreement.

NOTE 9 - THIRD-PARTY SETTLEMENTS AND HOSPITAL WIND-DOWN NET INCOME AND EXPENSE

Income and expenses associated with wrap up of the Wuesthoff activity are reported on the statements of activities and changes in net assets under third-party settlements and Hospital wind-down net income. These amounts are mainly associated with the collection of the Wuesthoff patient and third-party receivables, as well as costs associated with regulatory review of Medicare and Medicaid medical services performed prior to the asset sale of October 1, 2010.

NOTE 10 - FAIR VALUE MEASUREMENTS

FASB ASC 820-10-20 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. FASB ASC 820-10-50 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 following table summarizes the fair value of the Foundation's significant financial assets as of September 30, 2015 and 2014.

	2015			
	Fair Value Measurements at Reporting Date Using			
	Fair Market Value	Quoted Prices in Active Markets for Identical Assets (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)
Short-term investments:				
Cash and cash equivalents	\$ 0	\$ 0	\$ 0	\$ 0
Certificate of deposit	275,000	275,000	0	0
Assets limited as to use:				
Cash and equivalents	1,035,838	1,035,838	0	0
Equities investment	4,647,968	4,647,968	0	0
Investments:				
Cash and cash equivalents	673,679	673,679	0	0
Grantor trust funds invested in fixed income securities	11,303,986	0	11,303,986	0
Grantor trust funds invested in equity securities	<u>27,500,200</u>	<u>0</u>	<u>27,500,200</u>	<u>0</u>
Total	<u>\$45,436,671</u>	<u>\$ 6,632,485</u>	<u>\$38,804,186</u>	<u>\$ 0</u>

NOTE 10 - FAIR VALUE MEASUREMENTS (continued)

	2014			
	Fair Value Measurements at Reporting Date Using			
	Fair Market Value	Quoted Prices in Active Markets for Identical Assets (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)
Short-term investments:				
Cash and cash equivalents	\$ 4,619	\$ 4,619	\$ 0	\$ 0
Certificate of deposit	275,369	275,369	0	0
Assets limited as to use:				
Cash and equivalents	1,352,915	1,352,915	0	0
Equities investment	4,634,819	4,634,819	0	0
Investments:				
Cash and cash equivalents	9,340,778	9,340,778	0	0
Grantor trust funds invested in fixed income securities	15,018,014	0	15,018,014	0
Grantor trust funds invested in equity securities	<u>24,072,624</u>	<u>0</u>	<u>24,072,624</u>	<u>0</u>
Total	<u>\$54,699,138</u>	<u>\$15,608,500</u>	<u>\$39,090,638</u>	<u>\$ 0</u>

The Foundation's Level 1 assets include investments in cash, certificate of deposit, money market funds, and quoted prices in actively traded equity securities. The Foundation's Level 2 assets include investments in grantor trust funds, which are carried at net asset value as a practical expedient for fair value. The grantor trust funds are invested by various investment managers in publicly traded domestic and foreign debt and equity securities. The investments in the grantor trust funds can be liquidated on a monthly basis at the reported net asset value, given adequate notice of intent to liquidate, as defined in the agreements. There are no unfunded commitments by the Foundation to any of the grantor trust funds in which it invests.

NOTE 11 - EQUIPMENT

At September 30, 2015 and 2014, equipment consisted of the following:

	2015		
	Cost	Accumulated Depreciation	Net
Equipment	<u>\$ 89,665</u>	<u>\$ 76,939</u>	<u>\$ 12,726</u>
	2014		
	Cost	Accumulated Depreciation	Net
Equipment	<u>\$ 89,665</u>	<u>\$ 69,156</u>	<u>\$ 20,509</u>

Depreciation expense was \$7,783 and \$5,320 for the years ended September 30, 2015 and 2014, respectively.

NOTE 12 - TEMPORARILY AND PERMANENTLY RESTRICTED NET ASSETS

Temporarily restricted net assets of the WHS Foundation were available to provide support for the Hospital and Health Services. On September 16, 2010, the Board of Directors resolved to transfer all restricted funds to the Foundation. As a result of the October 1, 2010, asset sale and the termination of healthcare service activity, management has contacted donors to update their intentions for any remaining funds.

As a result of those donor contacts, as well as bylaws compliance due to the October 1, 2010, Hospital sale, certain restricted funds were refunded to donors or transferred to other non-profit organizations, while other funds were transferred to unrestricted funds.

Below is a summary of the net asset activity during the year ended September 30, 2014 and 2015:

	<u>Unrestricted</u>	<u>Temporarily Restricted</u>	<u>Permanently Restricted</u>	<u>Total</u>
Beginning balance, September 30, 2013	\$ 45,624,710	\$ 28,881	\$ 1,742,286	\$ 47,395,877
Adjustment based on prior year investment analysis	(127,244)	40,222	87,022	0
Unrestricted operating loss, for year ended September 30, 2014	(479,274)	0	0	(479,274)
Restricted funds investment income for year ended September 30, 2014:				
Interest and dividends	0	40,774	0	40,774
Unrealized gains	0	0	(11,417)	(11,417)
Refunds and transfers per donor requests	0	0	(63,770)	(63,770)
Release of donor restrictions by donor or bylaws	<u>1,152,114</u>	<u>0</u>	<u>(1,152,114)</u>	<u>0</u>
Ending balance, September 30, 2014	46,170,306	109,877	602,007	46,882,190
Unrestricted operating loss, for year ended September 30, 2015	(9,283,031)	0	0	(9,283,031)
Restricted funds investment income for year ended September 30, 2015:				
Interest and dividends	0	0	0	0
Unrealized gains	0	0	0	0
Refunds and transfers per donor requests	0	(61,415)	(339,171)	(400,586)
Release of donor restrictions by donor or bylaws	<u>250,106</u>	<u>(38,603)</u>	<u>(211,503)</u>	<u>0</u>
Ending balance, September 30, 2015	<u>\$ 37,137,381</u>	<u>\$ 9,859</u>	<u>\$ 51,333</u>	<u>\$ 37,198,573</u>

NOTE 13 - NOTE RECEIVABLE

During the year ended September 30, 2015, the Foundation loaned \$181,725 to a local counseling center to assist with operations. The loan is scheduled to be paid back at \$1,159 per month at 1.9% with a balloon payment due on September 15, 2018. Expected principal payments on this loan are \$7,922, \$10,737, and \$163,066 during the years ending September 30, 2016, 2017, and 2018, respectively.

NOTE 14 - ENDOWMENT FUNDS

The Foundation's Board of Directors is responsible for establishing an investment policy that guides the investment of the pooled endowment portfolio. The investment policy recognizes the long-term nature of endowment funds and seeks to balance present and future support. The investment policy is approved by the Foundation's Board of Directors. The Board of Directors meets with the Foundation's investment advisor periodically to determine an appropriate investment allocation. The endowment investments are allocated to a number of asset classes to minimize investment risk through diversification and to provide enhanced investment performance.

The investment advisor is appointed by the Board of Directors to execute policy and invest the endowment assets in accordance with established policy, but applies its own judgment concerning relative investment values. In particular, the investment advisor is accorded full discretion, within established requirements and policy limits, to select individual investments and diversify its portfolio.

Investment Policy - The investment objective is to preserve the real value, or purchasing power, of the endowment assets and the annual support provided by these assets for an infinite period. The endowment investment policy embraces the total return concept.

The investment program attempts to balance current need and future support so that, in the future, an endowed Foundation program will receive the same value of annual financial support as is currently provided. The Foundation follows the State of Florida Uniform Management of Institutional Funds Act when investing its endowment assets.

With regard to spending rates, the Foundation does not use the corpus of its endowments to provide funding for expenses or to support programs. In those instances where donors have designated the gains from investment of the endowment to specific purposes, these designations are honored; otherwise, the assets are used for unrestricted purposes. Where there is a loss from investments, endowment funds have been adjusted to reflect such losses, impacting the available cash from investments over time. Management advises the Board of Directors of the status of endowments and their gain (loss) on a monthly basis

Diversification - The endowment portfolio is broadly diversified across and within asset classes in order to limit portfolio volatility by avoiding undue concentration of risk in any single asset class or investment category.

Use of Pooled Funds - Investments in pooled funds (for example, mutual funds and common trust funds) are permitted, provided that their investment guidelines do not violate the Board of Directors' endowment investment policies and guidelines.

Liquidity - The Foundation advises its investment manager of any anticipated need for liquidity, as such needs become known. The investment advisor is to presume no liquidity needs other than those provided by the Foundation.

Rebalancing - The endowment portfolio is rebalanced monthly upon the Board of Directors' approval to keep asset classes within allowable ranges. The purpose of rebalancing is to control risk and maintain the policy asset allocation within the ranges approved by the Board of Directors. Endowment cash flow will be utilized to implement rebalancing activities to minimize transaction costs.

Reporting and Review - The endowment assets investment policy is reviewed at least annually by the Board of Directors. Monthly investment and performance reports are reviewed by the Board of Directors.

NOTE 14 - ENDOWMENT FUNDS (continued)

Changes in endowment net assets for the fiscal years ended September 30, 2015 and 2014, are as follows:

	2015			
	<u>Unrestricted</u>	<u>Temporarily Restricted</u>	<u>Permanently Restricted</u>	<u>Total</u>
Endowment net assets, beginning of year	\$ 0	\$ 0	\$ 602,007	\$ 602,007
Total investment return	0	0	0	0
Contributions	0	0	0	0
Appropriation of endowment assets for expenditure	0	0	0	0
Other changes (see Note 12)	<u>0</u>	<u>0</u>	<u>(550,674)</u>	<u>(550,674)</u>
Endowment net assets, end of year	<u>\$ 0</u>	<u>\$ 0</u>	<u>\$ 51,333</u>	<u>\$ 51,333</u>

	2014			
	<u>Unrestricted</u>	<u>Temporarily Restricted</u>	<u>Permanently Restricted</u>	<u>Total</u>
Endowment net assets, beginning of year	\$ 0	\$ 0	\$ 1,742,286	\$ 1,742,286
Total investment return	0	0	(11,417)	(11,417)
Contributions	0	0	0	0
Appropriation of endowment assets for expenditure	0	0	0	0
Other changes	<u>0</u>	<u>0</u>	<u>(1,128,862)</u>	<u>(1,128,862)</u>
Endowment net assets, end of year	<u>\$ 0</u>	<u>\$ 0</u>	<u>\$ 602,007</u>	<u>\$ 602,007</u>

NOTE 15 - TAX STATUS

The Foundation is exempt from federal income taxes under Section 501(c)(3) of the Internal Revenue Code and has been recognized as a public charity not subject to the limitations of a private foundation. Therefore, no provision for federal or state income taxes is included in these financial statements. The Foundation has no unrelated business income; however, such status is subject to final determination upon examination of the related tax returns by federal and state taxing authorities. The Foundation's annual informational returns are subject to examination by the IRS, generally three years after they are filed. The four former affiliate organizations now under control of the Foundation: SCHF Not-for-profit Wind Down, Inc., SCHF For-profit Wind Down, Inc., SCHF Physician Practice Wind Down, Inc., and The 1941 Foundation, Inc. had no activity during the fiscal years ended September 30, 2015 and 2014, and the Foundation is in the process of terminating these entities. The Foundation is in the process of reclassifying its tax status from a 509(a)(3) supporting organization to another type of 501(c)(3) organization.

NOTE 16 - PROGRAM, ADMINISTRATION, AND FUNDRAISING EXPENSES

The Foundation expended the following amounts on program, administration, and fundraising expenses:

	<u>2015</u>	<u>2014</u>
Direct costs associated with community healthcare needs	\$ 3,528,401	\$ 1,993,140
Pension and other Hospital wind-down costs	<u>5,686,995</u>	<u>3,570,813</u>
Total Program Costs	9,215,396	5,563,953
Administration Costs	444,648	416,785
Fundraising	<u>0</u>	<u>0</u>
	<u>\$ 9,660,044</u>	<u>\$ 5,980,738</u>

NOTE 17 - SUBSEQUENT EVENTS

The 1941 Foundation, an affiliated organization, was dissolved in October 2015.

Subsequent to September 30, 2015, the Foundation received a portion of the final escrow payment that was scheduled for September 2015. Brevard HMA Holdings, LLC, withheld \$3,694,000 of the payment because it is alleging that certain regulatory agency costs and third-party provider settlement costs should be the responsibility of the Foundation. The Foundation plans to vigorously contest these allegations and believes it will prevail in collecting the full amount due.

The Foundation has evaluated events through January 25, 2016, the date on which the financial statements were available to be issued.

SUPPLEMENTARY INFORMATION

SPACE COAST HEALTH FOUNDATION, INC.

SCHEDULE OF FUNCTIONAL EXPENSES

For the year ended September 30, 2015

With comparative totals for the year ended September 30, 2014

	Child Protection Team	Child Advocacy Center of Brevard	Wind-down & Other	2015 Total	2014 Total
Employee compensation and benefits	\$ 684,635	\$ 366,074	\$ 480,376	\$ 1,531,085	\$ 1,419,790
Legal fees	7,942	0	159,652	167,594	75,386
Insurance	4,149	682	947,783	952,614	1,024,419
Professional fees	45,963	8,682	315,574	370,219	434,344
Pension costs	0	0	4,884,908	4,884,908	1,705,030
Grant expense	0	0	1,386,678	1,386,678	1,120,421
In-kind medical service	0	0	79,943	79,943	510,455
In-kind rent	126,135	67,916	109,750	303,801	241,290
Supplies, services, and other expenses	<u>49,613</u>	<u>19,006</u>	<u>116,899</u>	<u>185,518</u>	<u>229,687</u>
Total direct expenses	918,437	462,360	8,481,563	9,862,360	6,760,822
General and administrative	<u>101,356</u>	<u>50,991</u>	<u>(152,347)</u>	<u>0</u>	<u>0</u>
Total expenses	<u>\$ 1,019,793</u>	<u>\$ 513,351</u>	<u>\$ 8,329,216</u>	<u>\$ 9,862,360</u>	<u>\$ 6,760,822</u>

SPACE COAST HEALTH FOUNDATION, INC.

SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
AND STATE FINANCIAL ASSISTANCE

For the year ended September 30, 2015

Employer Identification Number: 59-2432318

<u>Grantor/Program Title</u>	<u>CFDA/ CSFA Number</u>	<u>State Contract Number</u>	<u>Reimbursable Expenditures</u>
Pass-through federal assistance:			
United States Department of Health and Human Services - Administration for Children and Families: Social Services Block Grant	93.667	CPS78/CPX7B	\$ 260,383
United States Department of Justice - Office for Victims of Crime Services: Crime Victim Assistance	16.575	V013-14297	<u>87,958</u>
Federal totals			<u>348,341</u>
State financial assistance:			
Florida Department of Health - Children's Medical Services: Medical Services for Abused and Neglected Children	64.006	CPS7B/CPX7B	469,193
Department of Highway Services and Motor Vehicles - Motorist Services: Child Abuse Prevention and Intervention License Plate Project	76.067		3,500
Florida Network of Children's Advocacy Center Voluntary Contribution	76.123		1,100
States Courts System - 22300000 - Trial Courts: Florida Network of Children's Advocacy Centers	22.016		<u>142,362</u>
State totals			<u>616,155</u>
Total expenditures of federal awards and state financial assistance			\$ <u><u>964,496</u></u>

Reimbursable expenditures were determined in accordance with generally accepted accounting principles (accrual basis), plus capital additions, if any, less depreciation expense. There are no non-cash amounts included in reimbursable expenditures.



DAVIES, HOUSER & SECREST, CPA, P.A.

Shareholders

Stephen A. Ellis
Todd M. Russell
Matthew D. Trine

Directors Emeritus

Floyd C. Lemmon
William R. Kidd
Robert E. Andersen, Jr.

**INDEPENDENT AUDITOR'S REPORT ON INTERNAL CONTROL OVER
FINANCIAL REPORTING AND ON COMPLIANCE AND OTHER MATTERS
BASED ON AN AUDIT OF FINANCIAL STATEMENTS PERFORMED IN
ACCORDANCE WITH GOVERNMENT AUDITING STANDARDS**

Board of Directors
Space Coast Health Foundation, Inc.

We have audited, 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, the financial statements of Space Coast Health Foundation, Inc. (the Foundation), (a nonprofit organization), which comprise the statements of financial position as of September 30, 2015 and 2014, and the related statements of operations and changes in net assets, and cash flows for the years then ended, and the related notes to the financial statements, and have issued our report thereon dated January 25, 2016.

Internal Control over Financial Reporting

In planning and performing our audits of the financial statements, we considered the Foundation's internal control over financial reporting (internal control) to determine the audit procedures that are appropriate in the circumstances for the purpose of expressing our opinion on the financial statements, but not for the purpose of expressing an opinion of the effectiveness of the Foundation's internal control. Accordingly, we do not express an opinion on the effectiveness of the Foundation's internal control.

A deficiency in internal control exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct, misstatements on a timely basis. *A material weakness* is a deficiency, or a combination of deficiencies, in internal control, such that there is a reasonable possibility that a material misstatement of the entity's financial statements will not be prevented or detected and corrected on a timely basis. *A significant deficiency* is a deficiency, or a combination of deficiencies, in internal control, that is less severe than a material weakness, yet important enough to merit attention by those charged with governance.

Our consideration of internal control was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control during our audits that might be material weaknesses or significant deficiencies and, therefore, material weaknesses or significant deficiencies may exist that were not identified. Given these limitations during our audits, we did not identify any deficiencies in internal control that we consider to be material weaknesses. However, material weaknesses may exist that have not been identified.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether the Foundation's financial statements are free from material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audits and, accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards*.

Purpose of this Report

The purpose of this report is intended solely to describe the scope of our testing of internal control and compliance and the results of the testing, and not to provide an opinion of the effectiveness of the organization's internal control or on compliance. This report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the organization's internal control and compliance. Accordingly, this communication is not suitable for any other purpose.



Davies, Houser & Secrest, CPA, P.A.
Cocoa, Florida
January 25, 2016



DAVIES, HOUSER & SECREST, CPA, P.A.

Shareholders

*Stephen A. Ellis
Todd M. Russell
Matthew D. Trine*

Directors Emeritus

*Floyd C. Lemmon
William R. Kidd
Robert E. Andersen, Jr.*

INDEPENDENT AUDITOR'S REPORT ON COMPLIANCE FOR EACH MAJOR STATE PROJECT AND REPORT ON INTERNAL CONTROL OVER COMPLIANCE REQUIRED BY CHAPTER 10.650, RULES OF THE AUDITOR GENERAL

Board of Directors
Space Coast Health Foundation, Inc.

Report on Compliance for Each Major State Project

We have audited the compliance of Space Coast Health Foundation, Inc. (the Foundation), (a nonprofit organization), with the types of compliance requirements described in the *Department of Financial Services' State Projects Compliance Supplement*, that could have a direct and material effect on each of the Foundation's major state projects for the year ended September 30, 2015. The Foundation's major state projects are identified in the summary of auditor's results section of the accompanying schedule of findings and questioned costs.

Management's Responsibility

Management is responsible for compliance with the requirements of laws, regulations, contracts, and grants applicable to its state projects.

Auditor's Responsibility

Our responsibility is to express an opinion on the compliance of each of the Foundation's major state projects based on our audit of the types of compliance requirements referred to above. We conducted our audit of compliance in accordance with auditing standards generally accepted in the United States of America; the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States and Chapter 10.650, Rules of the Auditor General. Those standards and Chapter 10.650, Rules of the Auditor General, require that we plan and perform the audit to obtain reasonable assurance about whether noncompliance with the types of compliance requirements referred to above that could have a direct and material effect on a major state project occurred. An audit includes examining, on a test basis, evidence about the Foundation's compliance with those requirements and performing such other procedures as we considered necessary in the circumstances.

We believe that our audit provides a reasonable basis for our opinion on compliance for each major state project. However, our audit does not provide a legal determination of the Foundation's compliance.

Opinion on Each Major State Project

In our opinion, the Foundation has complied, in all material respects, with the types of compliance requirements referred to above that could have a direct and material effect on each of its major state projects for the year ended September 30, 2015.

Report on Internal Control over Compliance

Management of the Foundation is responsible for establishing and maintaining effective internal control over compliance with the types of compliance requirements referred to above. In planning and performing our audit of compliance, we considered the Foundation's internal control over compliance with the types of requirements that could have a direct and material effect on major state projects to determine the auditing procedures that are appropriate in the circumstances for the purpose of expressing our opinion on compliance for each major state project and to test and report on internal control over compliance in accordance with Chapter 10.650, Rules of the Auditor General, but not for the purpose of expressing an opinion on the effectiveness of internal control over compliance. Accordingly, we do not express an opinion on the effectiveness of the Foundation's internal control over compliance.

A deficiency in internal control over compliance exists when the design or operation of a control over compliance does not allow management or employees, in the normal course of performing their assigned functions, to prevent or detect and correct noncompliance with a type of compliance requirement for a state project on a timely basis. *A material weakness in internal control over compliance* is a deficiency, or a combination of deficiencies, in internal control over compliance, such that there is a reasonable possibility that a material noncompliance with a type of compliance requirement of a state project will not be prevented, or detected and corrected, on a timely basis. *A significant deficiency in internal control over compliance* is a deficiency, or a combination of deficiencies, in internal control over compliance with a type of compliance requirement of a state project that is less severe than a material weakness in internal control over compliance, yet important enough to merit attention by those charged with governance.

Our consideration of internal control over compliance was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control over compliance that might be material weaknesses or significant deficiencies. We did not identify any deficiencies in internal control over compliance that we consider to be material weaknesses. However, material weaknesses may exist that have not been identified.

The purpose of this report on internal control over compliance is solely to describe the scope of our testing of internal control over compliance and the results of that testing based on the requirements of Chapter 10.650, Rules of the Auditor General. Accordingly, this report is not suitable for any other purpose.



Davies, Houser & Secret, CPA, P.A.
Cocoa, Florida
January 25, 2016

SPACE COAST HEALTH FOUNDATION, INC.

SCHEDULE OF FINDINGS AND QUESTIONED COSTS
 STATE FINANCIAL ASSISTANCE PROJECTS
 For the year ended September 30, 2015

I. Summary of Auditor's Results	Answers
1. Type of report issued on financial statements	Unmodified
2. Significant deficiencies in internal control disclosed by the audit of the financial statements	None
3. Noncompliance which is material to the audited financial statements	None
4. Significant deficiencies in internal control over major programs disclosed by the audit	None
5. Type of report on compliance for major programs	Unmodified
6. Audit findings required to be reported under Chapter 10.656 of the Rules of the Auditor General	None No Management Letter Issued
7. Identification of Major State Projects Florida Department of Health - Children's Medical Services: Medical Services Abused and Neglected Children	CSFA #64.006
8. Dollar threshold for type A programs	\$300,000
II. Findings required to be reported in accordance with generally accepted <i>Government Auditing Standards</i>	None
III. Findings and questioned costs for State projects defined under Chapter 10.656(1)(h)4d, Rules of the Auditor General	None
IV. Prior year's audit findings	None