PYA
Certified Public Accountants

Audited Consolidated Financial Statements

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

Years Ended December 31, 2017 and 2016

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

Audited Consolidated Financial Statements

Years Ended December 31, 2017 and 2016

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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 (formerly known as Bayfront Health, Education and Research Organization, Inc.) (the Organization), which comprise the consolidated balance sheets as of December 31, 2017 and 2016, and the related consolidated statements of operations and changes in net assets 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, 2017 and 2016, 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.

PYA, P.C.

Knoxville, Tennessee
April 25, 2018

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

Consolidated Balance Sheets
(Dollars in Thousands)

	Year Ended December 31, 2017	Year Ended December 31, 2016
ASSETS		
Cash and cash equivalents	**$ 521**	$ 772
Prepaid expenses	**78**	143
Investments	**144,366**	133,377
Property, plant and equipment, net	**384**	391
Investment in joint venture	**41,957**	41,957
Other assets	**658**	1,873
TOTAL ASSETS	**$ 187,964**	$ 178,513
LIABILITIES AND NET ASSETS		
Accounts payable and accrued expenses	**$ 468**	$ 371
Grants payable	**1,304**	1,851
Accrued employee compensation	**123**	82
Estimated third-party settlements	**1,697**	2,510
Employee retirement plan obligations	**90**	3,829
Other long-term liabilities	**45**	32
TOTAL LIABILITIES	**3,727**	8,675
NET ASSETS		
Unrestricted	**182,877**	168,478
Temporarily restricted	**1,360**	1,360
TOTAL NET ASSETS	**184,237**	169,838
TOTAL LIABILITIES AND NET ASSETS	**$ 187,964**	$ 178,513

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

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

	Year Ended December 31, 2017	2016
UNRESTRICTED NET ASSETS - EXCESS OF REVENUE, GAINS AND SUPPORT OVER EXPENSES:		
Revenue, gains and support:		
Contribution revenue	**$ 72**	$ 111
Net investment income	**3,485**	2,879
Net unrealized gains on trading investments	**18,706**	8,024
TOTAL REVENUE, GAINS AND SUPPORT	**22,263**	11,014
Expenses:		
Salaries and benefits	**1,624**	1,385
Grant expense	**2,731**	3,670
Program distributions	**-**	2,629
Purchased Services	**1,064**	817
Depreciation and amortization	**29**	26
Administrative expenses	**596**	605
TOTAL EXPENSES	**6,044**	9,132
EXCESS OF REVENUE, GAINS AND SUPPORT OVER EXPENSES	**16,219**	1,882
CHANGES IN UNRESTRICTED NET ASSETS:		
Excess of revenue, gains and support over expenses	**16,219**	1,882
Pension-related changes other than net periodic pension cost	**13,793**	(3,290)
Net assets released from restrictions	**-**	2,638
Gain (loss) from operations of discontinued entities	**(15,613)**	2,400
INCREASE IN UNRESTRICTED NET ASSETS	**14,399**	3,630
CHANGES IN TEMPORARILY RESTRICTED NET ASSETS:		
Net assets released from restrictions	-	(2,638)
Net investment income	-	62
Net unrealized gains on investments	-	14
DECREASE IN TEMPORARILY RESTRICTED NET ASSETS	-	(2,562)
INCREASE IN NET ASSETS	**14,399**	1,068
NET ASSETS, BEGINNING OF PERIOD	**169,838**	168,770
NET ASSETS, END OF PERIOD	**$ 184,237**	$ 169,838

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

Consolidated Statements of Cash Flows
(Dollars in Thousands)

	Year Ended December 31, 2017	2016
CASH FLOWS FROM OPERATING ACTIVITIES AND NONOPERATING GAINS/LOSSES:		
Increase in net assets	$ **14,399**	$ 1,068
Adjustments to reconcile increase in net assets to net cash used in operating activities and net nonoperating gains/losses:		
Depreciation and amortization	**29**	26
Pension-related changes other than net periodic cost	**(13,793)**	3,290
Net realized and unrealized gains on investments and assets limited as to use	**(19,024)**	(7,325)
Distributions from investment accounts	**8,035**	15,458
Net loss on the disposal of property, plant and equipment	**-**	1
Increase (decrease) in cash due to changes in:		
Prepaid expenses and other assets	**65**	(94)
Other long-term assets	**1,215**	(472)
Accounts payable and accrued expenses	**97**	(1,024)
Accrued employee compensation	**41**	22
Grants payable	**(547)**	1,851
Estimated third-party settlements	**(813)**	(549)
Employee retirement plan obligations	**10,054**	(15,460)
Other liabilities	**13**	(11)
Total adjustments	**(14,628)**	(4,287)
NET CASH USED IN OPERATING ACTIVITIES AND NET NONOPERATING GAINS/LOSSES	**(229)**	(3,219)
CASH FLOWS FROM INVESTING ACTIVITIES:		
Purchases of property, plant and equipment	**(22)**	(40)
Cash from assets limited as to use	**-**	2,499
NET CASH (USED IN) PROVIDED BY INVESTING ACTIVITIES	**(22)**	2,459
DECREASE IN CASH AND CASH EQUIVALENTS	**(251)**	(760)
CASH AND CASH EQUIVALENTS, BEGINNING OF PERIOD	**772**	1,532
CASH AND CASH EQUIVALENTS, END OF PERIOD	$ **521**	$ 772

NOTE A--ORGANIZATION AND SIGNIFICANT ACCOUNTING POLICIES

Organization: Foundation for a Healthy St. Petersburg, Inc. (formerly known as Bayfront Health, Education and Research Organization, 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 and 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 Healthcare Holdings, LLC, 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 2017 and 2016, 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 D). During 2015, FHSP Spark Plug Fund, LLC (FHSP Spark Plug), was organized as a wholly-owned subsidiary of FHSP. FHSP Spark Plug had no activity during 2017 and 2016 but will own passive investments in start-up companies in the St. Petersburg community when operations commence.

FHSP's consolidated financial statements include the accounts and transactions of all of its subsidiaries as of and for the years ended December 31, 2017 and 2016. 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 from operations of discontinued entities for the years ended December 31, 2017 and 2016. 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.

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, 2017, grants payable were discounted at 4.5%.

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

Temporarily Restricted Net Assets: Temporarily restricted net assets are those whose use by the Organization has been limited by donors to a specific time period or purpose. Temporarily restricted net assets are maintained primarily for the purpose of educational scholarships. These assets were distributed in 2016 in accordance with donor restrictions. Temporarily restricted net assets at December 31, 2017 are restricted for expenditures related to conferences and primary healthcare.

Excess of Revenue, Gains and Support Over Expenses: The consolidated statements of operations and changes in net assets include excess of revenue, gains and support over expenses for the years ended December 31, 2017 and 2016, which is analogous to income from continuing operations for a for-profit enterprise. Changes in unrestricted net assets, which are excluded from excess of revenue, gains and support over expenses, principally consist of pension-related changes other than net periodic pension cost 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 Holdings and FHSP Spark Plug are organized as separately taxable limited liability companies. At December 31, 2017, tax returns for 2014 through 2016 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 and 2016, the Organization had deferred tax assets of $152,905 and $593,000, respectively, reported as other assets in the consolidated balance sheets.

FHSP is a private foundation under Section 501(c)(3) of the Internal Revenue Code. FHSP is tax-exempt under Section 501(c)(3) 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. The current minimum distribution requirement is $8,125,000, to be distributed by December 31, 2018. During 2017 and 2016, qualifying distributions were approximately $27,729,000 and $23,113,000, respectively, and include grant and other charitable distributions paid during the year and certain administrative expenses, including funding for pension plan terminations. Distributions in excess of the minimum distribution requirement for a given year are allowed to be carried forward to future periods, up to five years. Approximately $14,571,000 of the 2017 qualifying distributions were carried forward from 2016.

Third-Party Settlements: Net patient service revenue is recognized at the estimated net realizable amounts from patients, third-party payers, and others for services rendered, including estimated retroactive revenue adjustments under reimbursement agreements with third-party payers. Retroactive adjustments are accrued on an estimated basis in the period the related services are rendered and adjusted in future periods as final settlements are determined.

Certain components of FHSP's discontinued 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). An estimate for the Hospital's estimated exposure for RAC audit activity is recorded by the Organization as of December 31, 2017 and 2016, and is included in estimated third-party settlements in the accompanying consolidated balance sheets. Due to the complexity of the laws and regulations governing the Medicare and Medicaid programs, there is at least a reasonable possibility that the ultimate outcome of the RAC audit activity will exceed the amounts recognized by the Organization. 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.

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.

Donor-Restricted Gifts: Unconditional promises to give cash and other assets to the Organization are reported at fair value at the date the promise is received. Conditional promises to give and indications of intentions to give are reported at fair value at the date the gift is received. The gifts are reported as temporarily restricted support if they are received with donor stipulations that limit the use of the donated assets. When a donor restriction expires, that is, when a stipulated time restriction ends or a purpose restriction is accomplished, temporarily restricted net assets are reclassified as unrestricted net assets and reported in the consolidated statements of operations and changes in net assets as net assets released from restrictions. When funds are disbursed for purposes for which both restricted and unrestricted net assets are available, restricted amounts are expended first. Donor-restricted contributions whose restrictions are met within the same year as received are reported as unrestricted contributions in the accompanying consolidated financial statements.

Recently Issued Accounting Pronouncements: In February 2016, the FASB issued Accounting Standards Update (ASU) No. 2016-01, *Financial Instruments - Overall*, which, among other items, requires reporting the change in fair value of equity investments as a component of net income rather than as a change in net assets. ASU 2016-01 is effective for years beginning after December 15, 2017. Management is currently evaluating the impact of the adoption of this standard on the consolidated financial statements.

In May 2014, the FASB issued ASU No. 2014-09, *Revenue from Contracts with Customers*, which supersedes current revenue recognition guidance under GAAP. ASU 2014-09 requires the recognition of revenue when services are performed at an amount equal to what the entity expects to receive for those services. This update defines a five-step process for revenue recognition that may require more judgment and estimates than required under existing GAAP. ASU 2014-09 is effective for years beginning after December 15, 2017 and will require implementation using either a retrospective approach that adjusts all prior years or a retrospective approach with the cumulative effect reported in the year of adoption. Management is currently evaluating the impact of the adoption of this standard on the consolidated financial statements.

In August 2016, the FASB issued ASU No. 2016-04, *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. ASU 2016-14 is effective for fiscal years beginning after December 15, 2017, and early adoption is permitted. Management is currently evaluating the impact of the adoption of this standard on the consolidated financial statements.

NOTE B--INVESTMENTS

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

	2017	*2016*
Funds held in custodial accounts	$ 143,966	$ 132,977
Other Investments	400	400
	$ 144,366	$ 133,377

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:

	2017	*2016*
Vanguard Bond Index Fund Long-Term	10.4%	
Vanguard World Fund Mega Cap Growth	14.8%	12.6%
Vanguard World Fund Mega Cap Value	16.2%	16.7%
Vanguard Bond Index Fund Total	13.7%	13.1%
Vanguard FTSE Developed Markets	22.6%	21.4%

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

	2017	2016
Nonoperating gains:		
Interest and dividends	$ 3,259	$ 3,746
Realized gains and losses, net	318	(712)
Investment fees	(92)	(93)
Change in unrealized gains and losses, net	18,706	8,038
	$ 22,191	$ 10,979

NOTE C--PROPERTY, PLANT AND EQUIPMENT

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

	2017	2016
Land	$ 315	$ 315
Buildings and leasehold improvements	3	2
Equipment	123	102
	441	419
Less: Accumulated depreciation	(57)	(28)
	$ 384	$ 391

NOTE D--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.

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 E--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. During 2017, FHSP paid the final funding contribution to the Plan of approximately $43,500,000. Plan assets consisted primarily of index funds, hedge funds and bond funds at December 31, 2016.

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

	2017	*2016*
Change in benefit obligation:		
Benefit obligation at beginning of period	$ 42,492	$ 42,274
Interest cost	567	1,791
Actuarial loss	1,535	1,422
Benefits paid	(44,594)	(2,995)
Benefit obligation at end of period	-	42,492
Change in plan assets:		
Fair value of plan assets at beginning of period	38,717	26,295
Actual return on plan assets	(633)	(146)
Employer contributions	6,510	15,563
Benefits paid	(44,594)	(2,995)
Fair value of plan assets at end of period	-	38,717
Deficiency of fair value of plan assets over benefit obligation	$ -	$ 3,775

	2017	*2016*
Funded status:		
Deficiency of fair value of plan assets over benefit obligation	$ -	$ 3,775
Pension cost included in noncurrent liabilities	$ -	$ 3,775
Amounts recognized consist of:		
Noncurrent liabilities	$ -	$ 3,775
Net amount recognized	$ -	$ 3,775
Amounts recognized in unrestricted net assets:		
Net loss	$ -	$ 25,595
Net amounts recognized in unrestricted net assets	$ -	$ 25,595

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

	2017	*2016*
Interest cost	$ 567	$ 1,791
Expected return on plan assets	(579)	(2,488)
Recognized net actuarial loss	16,541	765
Net periodic pension cost	$ 16,529	$ 68

The following summarizes the Plan's changes in unrestricted net assets for the years ended December 31:

	2017	*2016*
Net loss	$ 2,748	$ 4,055
Amortization of net loss	(28,343)	(765)
Settlement curtailment	11,802	-
Net periodic pension (benefit)/obligation	$ (13,793)	$ 3,290

The following summarizes assumptions used to determine the Plan obligation as of December 31:

	2017	*2016*
Weighted-average discount rate	N/A	4.00%
Rate of increase in future compensation levels	N/A	N/A

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

	2017	*2016*
Weighted-average discount rate	4.00%	4.30%
Rate of increase in future compensation levels	N/A	N/A
Expected long-term rate of return on plan assets	4.00%	6.50%

The following summarizes the allocation of Plan assets as of December 31, 2016:

Equity mutual funds	93%
Fixed income mutual funds	5%
Other mutual funds	1%
Cash and cash equivalents	1%
	100%

The accumulated benefit obligation as of December 31, 2016 was approximately $42,500,000.

The table below summarizes the fair values of the Hospital's pension plan assets as of December 31, 2016:

	Carrying Value	*Quoted Prices in Active Markets (Level 1)*	*Significant Other Observable Inputs (Level 2)*	*Significant Unobservable Inputs (Level 3)*
December 31, 2016				
Mutual funds	$ 209,138	$ 209,138	$ -	$ -
Equity mutual funds	36,030,026	36,030,026	-	-
Fixed income mutual funds	1,912,546	1,912,546	-	-
Cash and cash equivalents	565,195	565,195	-	-
TOTAL ASSETS	$ 38,716,905	$ 38,716,905	$ -	$ -

The Plan's Level 1 assets included trading investments in index funds, hedge funds and bond funds and are valued at the quoted market prices.

Prior to termination, the Plan used a formal investment policy for managing assets. The policy's primary investment goal related to the Plan's assets was to allow for the eventual settlement of the Plan's obligations to its beneficiaries. To meet this primary objective, the policy was designed to structure a portfolio to: a) provide liquidity to meet the Plan benefit payments and expenses payable from the Plan under the Employee Retirement Income Security Act of 1974 (ERISA); b) offer a reasonable probability of achieving growth of assets that will assist in closing the Plan's funding gap; and c) manage the Plan's assets in a liability framework. To achieve these objectives, the policy used a combination of "return-seeking" and "liability-hedging" investment vehicles. The mix of each type of investment grouping changed along a glide path as the funded status of the Plan changed.

Retirement Plan of FHSP: Beginning in 2015, the Organization also sponsors a 457(f) deferred compensation plan for certain employees. During the years ended December 31, 2017 and 2016, approximately $35,000 and $54,000, respectively, was recognized as deferred compensation and is included in employee retirement plan obligations on the consolidated balance sheets.

NOTE F--FAIR VALUE MEASUREMENTS

ASC Topic 820 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:

	Carrying Value	*Quoted Prices in Active Markets (Level 1)*	*Significant Other Observable Inputs (Level 2)*	*Significant Unobservable Inputs (Level 3)*
December 31, 2017				
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	$ 144,366,357	$ 144,066,357	$ -	$ 300,000
December 31, 2016				
Cash and cash equivalents	$ 9,848,286	$ 9,848,286	$ -	$ -
Mutual Funds	65,376,039	65,376,039	-	-
Mutual Funds- Fixed Income	57,752,291	57,752,291	-	-
Other	400,000	100,000	-	300,000
TOTAL ASSETS	$ 133,376,616	$ 133,076,616	$ -	$ 300,000

A reconciliation of the beginning and ending balances for the year ended December 31, 2017, of the net assets whose fair value has been determined using significant unobservable inputs (Level 3) is as follows:

	Fair Value Measurement Using Significant Unobservable Inputs (Level 3)	
	Private Equity	*Total*
Beginning Balance - January 1, 2017	$ 300,000	$ 300,000
Purchases, issuances, sales, and settlements	-	-
Ending Balance - December 31, 2017	$ 300,000	$ 300,000

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.

NOTE G--RELATED PARTY TRANSACTION

During the year ended December 31, 2016, FHSP Holdings received a distribution of $630,000, 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 H--SUBSEQUENT EVENTS

Subsequent events have been evaluated through the date of the Independent Auditor's Report, which is the date the 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, 2017 consolidated financial statements.