# PHILADELPHIA HEALTH PARTNERSHIP

## FINANCIAL STATEMENTS

## YEARS ENDED DECEMBER 31, 2018 AND 2017

CliftonLarsonAllen LLP

WEALTH ADVISORY | OUTSOURCING | AUDIT, TAX, AND CONSULTING

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# INDEPENDENT AUDITORS' REPORT

Board of Directors
Philadelphia Health Partnership
Philadelphia, Pennsylvania

We have audited the accompanying financial statements of Philadelphia Health Partnership, which comprise the statements of financial position as of December 31, 2018 and 2017, 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.

### *Auditors' Responsibility*

Our responsibility is to express an opinion 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. Those standards require that we plan and perform the audit 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 auditors' 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.

Board of Directors
Philadelphia Health Partnership

***Opinion***

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of Philadelphia Health Partnership as of December 31, 2018 and 2017, and the changes in its net assets and its cash flows for the years then ended in accordance with accounting principles generally accepted in the United States of America.

***Change in Accounting Principle***

As discussed in Note 1 to the financial statements, management has adopted Accounting Standards Update (ASU) No. 2016-14, *Presentation of Financial Statements of Not-for-Profit Entities.* Our opinion is not modified with respect to this matter.

CliftonLarsonAllen LLP

**CliftonLarsonAllen LLP**

Plymouth Meeting, Pennsylvania
June 6, 2019

**PHILADELPHIA HEALTH PARTNERSHIP**
**STATEMENTS OF FINANCIAL POSITION**
**DECEMBER 31, 2018 AND 2017**

| | 2018 | 2017 |
|---|---|---|
| **ASSETS** | | |
| Cash and Cash Equivalents | $ 82,887 | $ 172,294 |
| Prepaid Federal Excise Tax | - | 17,180 |
| Prepaid Expenses | 6,042 | 10,283 |
| Investments | 42,316,262 | 46,240,375 |
| Deposits | 20,000 | 20,000 |
| Furniture and Equipment, Net of Accumulated Depreciation of $35,925 in 2018 and $30,535 in 2017 | 2,695 | 8,086 |
| Total Assets | $ 42,427,886 | $ 46,468,218 |
| **LIABILITIES AND NET ASSETS** | | |
| **LIABILITIES** | | |
| Accounts Payable and Accrued Expenses | $ 91,889 | $ 62,618 |
| Grants Payable | 645,000 | 1,000,000 |
| Rent Payable | 3,630 | 7,686 |
| Deferred Federal Excise Tax Liability | 51,000 | 160,000 |
| Total Liabilities | 791,519 | 1,230,304 |
| **NET ASSETS** | | |
| Without Donor Restrictions | 41,636,367 | 45,237,914 |
| Total Liabilities and Net Assets | $ 42,427,886 | $ 46,468,218 |

*See accompanying Notes to Financial Statements.*

**PHILADELPHIA HEALTH PARTNERSHIP**
**STATEMENTS OF ACTIVITIES AND CHANGES IN NET ASSETS**
**YEARS ENDED DECEMBER 31, 2018 AND 2017**

| | 2018 | 2017 |
|---|---|---|
| **REVENUE** | | |
| Interest, Dividends, and Capital Gains Distributions | $ 1,102,202 | $ 589,088 |
| Net Realized Gain on Investments | 2,574,852 | 512,858 |
| Net Earnings from Investments in Partnerships | 36,951 | 154,890 |
| Subtotal | 3,714,005 | 1,256,836 |
| Less: Investment Advisory Fees | 69,724 | 65,978 |
| Total Revenue | 3,644,281 | 1,190,858 |
| **EXPENSES** | | |
| Program Grants | 975,703 | 914,223 |
| Other Program Activities | 580,511 | 453,145 |
| Total Program Expenses | 1,556,214 | 1,367,368 |
| Operations and Governance | 133,615 | 194,679 |
| Federal Excise Tax Expense | 90,376 | 28,478 |
| Total Expenses | 1,780,205 | 1,590,525 |
| **CHANGE IN NET ASSETS BEFORE UNREALIZED (LOSS) GAIN ON INVESTMENTS** | 1,864,076 | (399,667) |
| Unrealized (Loss) Gain on Investments, Net of Deferred Federal Excise Tax Benefit (Expense) of $109,000 in 2018 and ($118,000) in 2017 | (5,465,623) | 5,360,578 |
| **CHANGE IN NET ASSETS** | (3,601,547) | 4,960,911 |
| Net Assets Without Donor Restrictions – Beginning of Year | 45,237,914 | 40,277,003 |
| **NET ASSETS WITHOUT DONOR RESTRICTIONS – END OF YEAR** | $ 41,636,367 | $ 45,237,914 |

*See accompanying Notes to Financial Statements.*

**PHILADELPHIA HEALTH PARTNERSHIP**
**STATEMENTS OF CASH FLOWS**
**YEARS ENDED DECEMBER 31, 2018 AND 2017**

| | 2018 | 2017 |
|---|---|---|
| **CASH FLOWS FROM OPERATING ACTIVITIES** | | |
| Change in Net Assets | $ (3,601,547) | $ 4,960,911 |
| Adjustments to Reconcile Change in Net Assets to Net Cash Used by Operating Activities: | | |
| Net Realized Gain on Investments | (2,574,852) | (512,858) |
| Net Unrealized Loss (Gain) on Investments | 5,574,623 | (5,478,578) |
| Net Earnings from Investments in Partnerships | (36,951) | (154,890) |
| Deferred Federal Excise Tax (Benefit) Expense | (109,000) | 118,000 |
| Depreciation | 5,391 | 5,391 |
| (Increase) Decrease in Assets: | | |
| Prepaid Federal Excise Tax | 17,180 | 11,617 |
| Prepaid Expenses | 4,241 | (3,948) |
| Increase (Decrease) in Liabilities: | | |
| Accounts Payable and Accrued Expenses | 29,271 | 12,411 |
| Rent Payable | (4,056) | (2,834) |
| Grants Payable | (355,000) | (1,000,000) |
| Net Cash Used by Operating Activities | (1,050,700) | (2,044,778) |
| **CASH FLOWS FROM INVESTING ACTIVITIES** | | |
| Purchase of Investments | (10,352,472) | (10,222,287) |
| Proceeds from Sale of Investments | 9,213,243 | 9,423,588 |
| Proceeds from Distribution of Investments | 2,100,522 | 2,409,356 |
| Net Cash Provided by Investing Activities | 961,293 | 1,610,657 |
| **DECREASE IN CASH AND CASH EQUIVALENTS** | (89,407) | (434,121) |
| Cash and Cash Equivalents – Beginning of Year | 172,294 | 606,415 |
| **CASH AND CASH EQUIVALENTS – END OF YEAR** | $ 82,887 | $ 172,294 |
| **SUPPLEMENTAL DISCLOSURE OF CASH FLOW INFORMATION** | | |
| Cash Paid During the Year for Federal Excise Tax on Investment Income | $ 48,715 | $ 16,201 |

*See accompanying Notes to Financial Statements.*

## NOTE 1 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

**Nature of Operations**

Philadelphia Health Partnership (the Foundation) is a Pennsylvania nonprofit, nonstock corporation that was incorporated on May 9, 1997. From 1997 through 2017, the Foundation operated under the name “First Hospital Foundation”. Effective January 1, 2018, the Foundation began operating under its current name. The Foundation is governed by a self-perpetuating board of directors composed of citizens of the greater Philadelphia region. The Foundation’s mission is to improve the health and well-being of underserved Philadelphians by supporting access to quality care and services.

**Basis of Presentation**

The accompanying financial statements of the Foundation have been prepared in accordance with accounting principles generally accepted in the United States of America (U.S. GAAP), which requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. Accordingly, actual results could differ from those estimates.

**Cash and Cash Equivalents**

Cash and cash equivalents consist of short-term investments with initial maturities of three months or less at the time of purchase, except for those short-term investments managed in accordance with the Foundation’s long-term investment strategy.

**Investments**

Investments are carried at fair value. Investments in equities and bonds are valued using dealer or exchange-quoted market prices. Shares of mutual funds are valued at the net asset value of the shares held by the Foundation at year-end. Investments in money market funds are valued at cost which approximates fair value. The fair value of alternative investments has been estimated using the Net Asset Value (NAV) as reported by the management of the respective alternative investment fund. Financial Accounting Standards Board (FASB) guidance provides for the use of NAV as a Practical Expedient for estimating fair value of alternative investments.

In accordance with Internal Revenue Service regulations, the Foundation is generally required to distribute an amount no less than 5% of its investable assets each year. After considering the long-term expected return on its investment assets and the possible effect of inflation, the Foundation’s board of directors has established stable long-term policies that increase the likelihood of achieving its investment objectives to maintain purchasing power of the investment assets as well as to provide additional real growth through investment return. The Foundation expects that spending policy to allow its investments to grow at least equivalent to the rate of inflation plus the spending rate.

## NOTE 1 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

### Investments (Continued)

The Foundation’s investment process seeks to achieve an after-cost total real rate of return, including investment income as well as capital appreciation, which exceeds the annual distribution with acceptable levels of risk. Funds are invested in a well-diversified asset mix, which includes primarily equity and debt securities, that is intended to result in a consistent inflation-protected rate of return that has sufficient liquidity to make an annual distribution of 5%, while growing the funds if possible. Therefore, the Foundation expects its investment assets, over time, to produce an average rate of return of the consumer price index plus 5% over a period of 7 to 10 years. Actual returns in any given year may vary from this amount. Investment risk is measured in terms of the total investment portfolio; investment assets and allocation between asset classes and strategies are managed to not expose the fund to unacceptable levels of risk.

### Investment Income Recognition

Purchases and sales of securities are recorded on a trade-date basis. Realized and unrealized gains and losses are included in the determination of the change in net assets.

### Investment Risks and Uncertainties

Alternative investments consist of nontraditional, not readily marketable investments, some of which may be structured as limited partnerships, venture capital funds, hedge funds, private equity funds, and real estate funds. The underlying investments of such funds, whether invested in stock or other securities, are generally not currently traded in a public market and typically are subject to restrictions on resale. Values determined by investment managers and general partners of underlying securities that are thinly traded or not traded in an active market may be based on historical cost, appraisals, a review of the investees’ financial results, financial condition and prospects, together with comparisons to similar companies for which quoted market prices are available or other estimates that require varying degrees of judgment.

Because of the inherent uncertainty of valuations, the estimated fair values may differ significantly from the values that would have been used had a ready market for such investments existed or had such investment liquidated, and those differences could be material.

### Furniture and Equipment

The Foundation follows the practice of capitalizing all expenditures for furniture and equipment with a cost in excess of $5,000. Furniture and equipment are carried at cost. Depreciation is computed using the straight-line method over the estimated useful life of the assets, ranging from three to five years.

### Grants Payable

Grants payable are recorded when approved by the board of directors. Grants that are payable over future periods are recorded in the period the grant is first awarded when the recipient is subject only to routine performance requirements. Conditional grants are recognized when the conditions on which they depend are substantially met.

## NOTE 1 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

### Accounting for Uncertainty in Income Taxes

The Foundation recognizes the effect of income tax positions only if those positions are more likely than not of being sustained. Management has determined that the Foundation had no uncertain tax positions that would require financial recognition. The Foundation recognizes accrued interest and penalties associated with uncertain tax positions, if any. There were no income tax related interest and penalties recorded for the years ended December 31, 2018 and 2017.

### Change in Accounting Principle

The Foundation adopted FASB ASU No. 2016-14, *Presentation of Financial Statements of Not-for-Profit Entities,* in 2018. As it relates to the liquidity and functional expense disclosures, the Foundation is not required to disclose comparative information for 2017. The adoption did not impact the Foundation's financial position as of December 31, 2018 and 2017 or the changes in its net assets for the years then ended.

### Reclassifications

Certain reclassification have been made to the 2017 amounts to conform to the 2018 presentation.

### Subsequent Events

In preparing the financial statements, the Foundation has evaluated events and transactions for potential recognition or disclosure through June 6, 2019, the date the financial statements were available to be issued.

## NOTE 2 FAIR VALUE MEASUREMENTS

FASB standards provide the framework for measuring fair value. The framework provides a fair value hierarchy that prioritizes the inputs to valuation techniques used to measure fair value, and defines fair value as the price that would be received to sell an asset or paid to transfer a liability (i.e. the exit price) in an orderly transaction between market participants.

In determining fair value, the Foundation uses various valuation approaches, including market, income, and/or cost approaches. The hierarchy gives the highest priority to unadjusted quoted prices in active markets for identical assets or liabilities (Level 1 measurements), and the lowest priority to unobservable inputs (Level 3 measurements). The financial instrument's level within the fair value hierarchy is based on the lowest level of any input that is significant to the fair value measurement. The valuation levels are not necessarily an indication of the risk or liquidity associated with the underlying assets and liabilities. The three levels of the fair value hierarchy are described below:

*Level 1* – Quoted prices for identical assets or liabilities in active markets.

## NOTE 2 FAIR VALUE MEASUREMENTS (CONTINUED)

*Level 2* – Quoted prices for similar instruments in active markets; quoted prices for identical or similar instruments in markets that are not active; and model-derived valuations whose inputs are observable or whose significant value drivers are observable. There were no Level 2 investments as of December 31, 2018 and 2017.

*Level 3* – Significant inputs to the valuation model are unobservable. There were no Level 3 investments as of December 31, 2018 and 2017.

Following is a description of the Foundation's valuation methodologies used for assets measured at fair value. There have been no changes in the methodologies used as of December 31, 2018 and 2017.

Quoted market prices, when available, are used by the Foundation to determine the fair value of investment securities. Such investments are included in Level 1.

The Foundation holds alternative investments which have no active markets for these funds and the Foundation is unable to obtain independent valuations from market sources. Therefore, the alternative investments are primarily valued at management's estimated fair value based on amounts provided by the management of the investment entities. Since the fair value for these investments is measured using the NAV per share practical expedient, they are not categorized within the fair value hierarchy.

The preceding methods described may produce a fair value calculation that may not be indicative of net realizable value or reflective of future fair values. Furthermore, although management believes its valuation methods are appropriate and consistent with other market participants, the use of different methodologies or assumptions to determine fair value of certain financial instruments could result in a different fair value measurement at the reporting date.

The following table presents the Foundation's investments measured at fair value on a recurring basis as of December 31:

| | 2018 | 2017 |
|---|---|---|
| Level 1 Investments: | | |
| Fixed Income Funds: | | |
| Bonds | $ 2,376,196 | $ 2,582,582 |
| Equity Funds: | | |
| U.S. Small Cap Equity | 3,481,039 | 4,539,546 |
| U.S. Large Cap Equity | 7,363,967 | 9,530,916 |
| International Equity | 4,531,030 | 6,097,135 |
| Total Level 1 Investments | 17,752,232 | 22,750,179 |
| Investments Measured at Fair Value using Net Asset Value per Share | 22,329,640 | 22,954,914 |
| Cash Equivalents | 2,234,390 | 535,282 |
| Total Investments | $ 42,316,262 | $ 46,240,375 |

## NOTE 2 FAIR VALUE MEASUREMENTS (CONTINUED)

Information regarding the nature and risk for each major category of Investments Measured at Fair Value using Net Asset Value per Share as a practical expedient as of December 31, 2018 is as follows:

| | Fair Value | Unfunded Commitments | Redemption Frequency | Redemption Notice Period |
|---|---|---|---|---|
| Fixed Income Funds (a) | $ 1,727,537 | $ - | Bi-monthly | 5 Days |
| Equity Funds (a) | 6,924,768 | - | Monthly to Quarterly | 10-60 Days |
| Hedge Funds (b) | 6,708,970 | - | Quarterly to Biennially | 75-95 Days |
| Private Equities (c) | 4,492,870 | 1,850,522 | * | * |
| Real Estate Funds (d) | 2,475,495 | 1,751,925 | * | * |
| Total | $ 22,329,640 | $ 3,602,447 | | |

* The private equity and real estate funds are illiquid assets.

a) This category includes hedge funds investments in securities, commodity interest, other financial assets, and small and mid-cap materials. Investments occur either directly or indirectly through investment in other pooled investment vehicles, including common stocks and derivative stock index instruments such as options on stock indexes, stock index futures and option thereon, and stock index swap agreements. Investments in this category provide liquidity on a monthly basis.

b) This category includes hedge fund investments with an objective of investing to provide investors with maximum appreciation of capital while incurring reasonable risk by investing primarily in a diversified group of investment funds. The investments in this category can be redeemed on an annual basis and are subject to acquisition lock-ups from two to three years.

c) This category includes private equity investments in domestic and international partnerships. These are long-term investments that cannot be redeemed at the discretion of the Foundation. Instead, distributions are received through liquidation of the underlying assets of the funds. Management has estimated that the underlying assets of the funds will be liquidated in approximately 10 years.

d) This category includes real estate funds that invest indirectly in partnerships that primarily invest in real estate investments acquired in secondary market transactions. The partnerships may also originate investments by contributing capital into existing ownership entities holding real property or engaging in privately negotiated transactions or other means of pursuing an investment, and may engage in investments directly or indirectly, through subsidiaries, partnership interest, joint ventures or otherwise. These are long-term investments that cannot be redeemed at the discretion of the Foundation. Instead, distributions are received through the liquidation of the underlying assets of the funds. Management has estimated that the underlying assets of the funds will be liquidated in approximately seven years.

## NOTE 2 FAIR VALUE MEASUREMENTS (CONTINUED)

Investment advisory fees amounted to $69,724 and $65,978 for the years ended December 31, 2018 and 2017, and are not included with professional fees in the statements of activities and changes in net assets.

Net realized gain on investments, net earnings from investments in partnerships, and unrealized (loss) gain on investments are reduced by the management and performance fee charged by the respective individual funds.

## NOTE 3 FEDERAL EXCISE TAXES

The Foundation is a nonoperating private foundation as defined under Section 509(a) of the Internal Revenue Code (IRC). The Foundation is exempt from federal income taxes under Section 501(c)(3) of the IRC, and is subject to a federal excise tax of 2% on its net investment income, as defined, for tax purposes. However, the excise tax is reduced to 1% if certain conditions are met. The Foundation’s rate was 2% for 2018 and 1% for 2017. The Foundation has met its minimum distribution requirement.

Deferred excise taxes principally arise from difference between the cost and fair value of investments at year-end.

## NOTE 4 UNRELATED BUSINESS INCOME TAX

The Foundation is subject to tax on its unrelated business income from business activities of alternative investments.

## NOTE 5 GRANTS PAYABLE

The following summarizes changes in grants payable as of December 31:

| | 2018 | 2017 |
|---|---|---|
| Balance at Beginning of Year | $ 1,000,000 | $ 2,000,000 |
| Grants Authorized | 1,075,962 | 917,503 |
| Grants Paid | (1,430,962) | (1,917,503) |
| Balance at End of Year | $ 645,000 | $ 1,000,000 |

## NOTE 6 FUNCTIONAL CLASSIFICATION OF EXPENSES

The table below presents expenses by both their nature and their function for the year ended December 31, 2018.

| | Program Activities | Supporting Activities | Total |
|---|---|---|---|
| Program Grants | $ 975,703 | $ - | $ 975,703 |
| Outsourced Employment Services | 377,259 | 44,556 | 421,815 |
| Insurance | - | 6,726 | 6,726 |
| Professional Services: | | | |
| Accounting | 11,838 | 35,512 | 47,350 |
| Auditing | 6,944 | 20,831 | 27,775 |
| Consulting | 101,624 | - | 101,624 |
| Information Technology | 6,055 | 2,000 | 8,055 |
| Legal | 593 | 592 | 1,185 |
| Office Rent | 34,105 | 11,368 | 45,473 |
| Dues and Subscriptions | 5,582 | - | 5,582 |
| Online Grants Management Database | 3,850 | - | 3,850 |
| Office Expenses | 18,551 | 3,160 | 21,711 |
| Depreciation | 2,695 | 2,696 | 5,391 |
| Miscellaneous Expense | 11,415 | 6,174 | 17,589 |
| Federal Excise Tax Expense | - | 90,376 | 90,376 |
| Total Expenses | $ 1,556,214 | $ 223,991 | $ 1,780,205 |

The financial statements report certain categories of expenses that are attributable to both program and support functions. Therefore, these expenses require allocation on a reasonable basis that is consistently applied. The expenses that are allocated include depreciation and office rent which are allocated on a square-footage basis, as well as outsourced employment services and professional fees, which are allocated on the basis of time and effort.

## NOTE 7 OUTSOURCED EMPLOYMENT SERVICES

The Foundation outsources their employment services to another nonprofit organization. Under the terms of the agreement of services, the Foundation provided a security deposit in the amount of $15,000, which is retained by the organization without the payment of interest. The security deposit is refundable to the Foundation upon the termination of the agreement. Outsourced employment services amounted to $421,815 and $376,861 for the years ended December 31, 2018 and 2017, respectively.

## NOTE 8 CONCENTRATION OF CREDIT RISK

The Foundation's financial instruments that are potentially exposed to concentrations of credit risk consist primarily of cash, cash equivalents, and investments. The Foundation places its cash and cash equivalents with what it believes to be quality financial institutions. The Foundation invests in equity, fixed income, and alternative investments. The Foundation routinely assesses the diversification and financial strength of its cash and investment portfolio. As a consequence, concentrations of credit risk are limited.

## NOTE 9 LEASE COMMITMENTS

The Foundation has an operating lease for office space through September 30, 2019. There is one renewal option to extend the lease for an additional three years. Rent expense is recognized on a straight-line basis and for the years ended December 31, 2018 and 2017 was $45,473 and $44,821, respectively.

The Foundation has an operating lease for an office copier/printer through July 2019. Lease expense is recognized on a straight-line basis and for the years ended December 31, 2018 and 2017 was $1,164.

As of December 31, 2018, the total scheduled future lease payments to be made under the above agreements in 2019 are $37,568.

## NOTE 10 LIQUIDITY

The Foundation structures its financial assets to be available as its general expenditures, liabilities and other obligations come due. In addition, the Foundation invests cash in excess of its monthly requirements in short-term investments.

The Foundation's financial assets available within one year of the statements of financial position date for general expenditures are as follows:

| | |
|---|---|
| Financial Assets at December 31, 2018: | |
| Cash and Cash Equivalents | $ 82,887 |
| Investments | 42,316,262 |
| Total Financial Assets | 42,399,149 |
| Less Amounts not Available to be Used within One Year: | |
| Investments with Redemption Restrictions: | |
| Private Equities - Funds of Funds (Note 2) | 4,492,870 |
| Real Estate Funds (Note 2) | 2,475,495 |
| Hedge Funds | 1,523,383 |
| Subtotal | 8,491,748 |
| Financial Assets Available to Meet Cash Needs for General Expenditures within One Year | $ 33,907,401 |

CliftonLarsonAllen

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