

**HEALTHSPARK FOUNDATION  
AND 2506 LLC**

**CONSOLIDATED FINANCIAL STATEMENTS  
AND SUPPLEMENTARY INFORMATION**

**YEAR ENDED JUNE 30, 2019  
(WITH COMPARATIVE TOTALS FOR JUNE 30, 2018)**



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**HEALTHSPARK FOUNDATION AND 2506 LLC  
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(WITH COMPARATIVE TOTALS FOR JUNE 30, 2018)**

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## INDEPENDENT AUDITORS' REPORT

Board of Directors  
HealthSpark Foundation  
Board of Managers  
2506 LLC  
Colmar, Pennsylvania

### **Report on the Financial Statements**

We have audited the accompanying consolidated financial statements of HealthSpark Foundation (a nonprofit organization) and 2506 LLC (collectively, the Organization), which comprise the consolidated statement of financial position as of June 30, 2019, and the related consolidated statements of activities and changes in net assets and cash flows for the year then ended, and the related consolidated notes to the financial statements.

### ***Management's Responsibility for the 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.

### ***Auditors' Responsibility***

Our responsibility is to express an opinion on these consolidated financial statements based on our audit. We conducted our audit 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 auditors' 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 entity'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 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 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 financial position of the Organization as of June 30, 2019, and the changes in their net assets and their cash flows for the year 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, The HealthSpark Foundation adopted Accounting Standards Update No. 2016-14, *Not-for-Profit Entities (Topic 958): Presentation of Financial Statements of Not-for-Profit Entities*. Our opinion is not modified with respect to that matter.

**Report on Summarized Comparative Information**

We have previously audited HealthSpark Foundation's and 2506 LLC's 2018 financial statements, and we expressed an unmodified audit opinion on those audited financial statements in our report dated December 14, 2018. In our opinion, the summarized comparative information presented herein as of and for the year ended June 30, 2018, is consistent, in all material respects, with the audited financial statements from which it has been derived.

**Report on Supplementary Information**

Our audit was conducted for the purpose of forming an opinion on such consolidated financial statements as a whole. The 2019 supplementary information as reflected in the table of contents is presented for purposes of additional analysis and is not a required part of the consolidated 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 2019 consolidated financial statements. The information has been subjected to the auditing procedures applied in the audit of the consolidated financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the consolidated financial statements or to the consolidated financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the 2019 information is fairly stated in all material respects in relation to the consolidated financial statements as a whole.



**CliftonLarsonAllen LLP**

Plymouth Meeting, Pennsylvania  
November 22, 2019

**HEALTHSPARK FOUNDATION AND 2506 LLC**  
**CONSOLIDATED STATEMENT OF FINANCIAL POSITION**  
**JUNE 30, 2019**  
**(WITH COMPARATIVE TOTALS FOR JUNE 30, 2018)**

	2019	2018
<b>ASSETS</b>		
Cash and Cash Equivalents	\$ 375,317	\$ 285,282
Prepaid and Other Current Assets	34,945	23,593
Investments	36,950,822	37,060,081
Beneficial Interest in Remainder Trust	835,379	817,412
Other Investments	497,804	541,877
Beneficial Interest in Perpetual Trust	202,563	204,710
Property and Equipment, Net	5,474,461	5,619,172
Total Assets	\$ 44,371,291	\$ 44,552,127
<b>LIABILITIES AND NET ASSETS</b>		
<b>LIABILITIES</b>		
Grants Payable	\$ 50,000	\$ -
Accounts Payable and Accrued Expenses	82,776	104,251
Notes Payable, Net of Refinancing Fees	3,275,208	3,378,991
Deferred Tax Liability	18,916	24,619
Interest Rate Swap Liability	309,973	247,100
Security Deposits	14,731	15,481
Other Liabilities in Connection with North Penn Hospital	497,804	541,877
Total Liabilities	4,249,408	4,312,319
<b>NET ASSETS</b>		
Without Donor Restrictions		
Undesignated	38,735,456	38,899,201
Board Designated	84,310	54,310
Total Net Assets Without Donor Restrictions	38,819,766	38,953,511
With Donor Restrictions	1,302,117	1,286,297
Total Net Assets	40,121,883	40,239,808
Total Liabilities and Net Assets	\$ 44,371,291	\$ 44,552,127

See accompanying Notes to Consolidated Financial Statements.

**HEALTHSPARK FOUNDATION AND 2506 LLC**  
**CONSOLIDATED STATEMENT OF ACTIVITIES AND CHANGES IN NET ASSETS**  
**YEAR ENDED JUNE 30, 2019**  
**(WITH COMPARATIVE TOTALS FOR JUNE 30, 2018)**

	2019			2018
	Without Donor Restrictions	With Donor Restrictions	Total	
<b>REVENUE</b>				
Interest and Dividends	\$ 169,298	\$ -	\$ 169,298	\$ 553,702
Income from Perpetual Trust	8,800	-	8,800	8,800
Rental	352,803	-	352,803	269,859
Contributions	3,323	-	3,323	3,323
Change in Beneficial Interest in Remainder Trust	-	17,967	17,967	75,041
Change in Beneficial Interest in Perpetual Trust	-	-	-	1,409
Net Realized and Unrealized Gains	1,919,911	-	1,919,911	1,648,754
Other Income	563	-	563	-
Total Revenue	<u>2,454,698</u>	<u>17,967</u>	<u>2,472,665</u>	<u>2,560,888</u>
<b>EXPENSES</b>				
Program Grants	480,210	-	480,210	448,326
Other Program Activities	1,267,011	-	1,267,011	1,223,812
Total Program Expenses	<u>1,747,221</u>	<u>-</u>	<u>1,747,221</u>	<u>1,672,138</u>
Management and General	267,119	-	267,119	281,844
Total Expenses	<u>2,014,340</u>	<u>-</u>	<u>2,014,340</u>	<u>1,953,982</u>
<b>EXCESS OF REVENUE OVER EXPENSE</b>	440,358	17,967	458,325	606,906
<b>OTHER INCOME</b>				
Change in Value of Interest Rate Swap	(62,873)	-	(62,873)	156,439
Net Operating Revenue	<u>377,485</u>	<u>17,967</u>	<u>395,452</u>	<u>763,345</u>
<b>NONOPERATING EXPENSE</b>				
North Penn Hospital Related Expenses	(511,230)	-	(511,230)	(81,016)
Total Nonoperating Expense	<u>(511,230)</u>	<u>-</u>	<u>(511,230)</u>	<u>(81,016)</u>
<b>CHANGE IN NET ASSETS</b>	(133,745)	17,967	(115,778)	682,329
Net Assets - Beginning of Year	<u>38,953,511</u>	<u>1,286,297</u>	<u>40,239,808</u>	<u>39,557,479</u>
<b>NET ASSETS - END OF YEAR</b>	<u>\$ 38,819,766</u>	<u>\$ 1,304,264</u>	<u>\$ 40,124,030</u>	<u>\$ 40,239,808</u>

See accompanying Notes to Consolidated Financial Statements.

**HEALTHSPARK FOUNDATION AND 2506 LLC**  
**CONSOLIDATED STATEMENT OF CASH FLOWS**  
**YEAR ENDED JUNE 30, 2019**  
**(WITH COMPARATIVE TOTALS FOR JUNE 30, 2018)**

	2019	2018
<b>CASH FLOWS FROM OPERATING ACTIVITIES</b>		
Change in Net Assets	\$ (115,778)	\$ 682,329
Adjustments to Reconcile Change in Net Assets to Net Cash Used by Operating Activities:		
Depreciation	202,813	198,791
Net Realized and Unrealized Gain on Investments	(1,919,911)	(1,648,754)
Change in Beneficial Interest in Remainder Trust	(17,967)	(75,041)
Change in Beneficial Interest in Perpetual Trust	-	(1,409)
Change in Value of Interest Rate Swap	62,873	(156,439)
(Increase) Decrease in:		
Prepaid and Other Current Assets	(11,352)	(10,299)
Increase (Decrease) in:		
Grants Payable	50,000	(35,000)
Accounts Payable and Accrued Expenses	(21,475)	42,534
Deferred Tax Liability	(5,703)	24,619
Security Deposit	(750)	(1,666)
Other Liabilities	(44,073)	6,366
Net Cash Used by Operating Activities	(1,821,323)	(973,969)
 <b>CASH FLOWS FROM INVESTING ACTIVITIES</b>		
Purchase of Property and Equipment, Net	(58,102)	(23,710)
Purchases of Investments	(19,663,107)	(22,490,761)
Proceeds from Sale of Investments	21,692,277	23,250,264
Increase (Decrease) in Other Investments	44,073	(6,366)
Net Cash Provided by Investment Activities	2,015,141	729,427
 <b>CASH FLOWS FROM FINANCING ACTIVITIES</b>		
Repayments on Notes Payable	(103,783)	(100,409)
Net Cash Used by Financing Activities	(103,783)	(100,409)
 <b>NET INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS</b>	90,035	(344,951)
Cash and Cash Equivalents - Beginning of Year	285,282	630,233
 <b>CASH AND CASH EQUIVALENTS - END OF YEAR</b>	\$ 375,317	\$ 285,282
 <b>SUPPLEMENTARY DISCLOSURE OF CASH FLOW INFORMATION</b>		
Interest Paid	\$ 109,743	\$ 119,372

See accompanying Notes to Consolidated Financial Statements.

**HEALTHSPARK FOUNDATION AND 2506 LLC**  
**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS**  
**JUNE 30, 2019**

**NOTE 1 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES**

**Nature of Operations**

The consolidated financial statements include the accounts of HealthSpark Foundation (the Foundation) and 2506 LLC. 2506 LLC is a Pennsylvania single-member limited liability company owned by the Foundation.

The Foundation is a nonprofit organization exempt from federal income taxes under Section 501(c)(3) of the Internal Revenue Code (IRC), and is classified as a private foundation in accordance with the IRC. The Foundation is the successor to the North Penn Hospital.

In 2018 the Foundation adopted an updated strategic plan that will guide the Foundation's work through 2023. This plan affirms the value of the Foundation's work launched in the previous strategic plan approved in 2015. The current plan builds on past successes engaging community nonprofits in high-level thinking designed to leverage core talents and resources through partnering, collaboration, and perhaps merger.

The Foundation updated its mission statement to reflect that it invests in systems change opportunities in Montgomery County, Pennsylvania to promote consumer access to safety net services and leverage public and private resources promoting quality outcomes. The updated mission statement continues to support efforts to reduce health disparities affecting particularly those experiencing poverty. Building on its past investments enhancing access to safe and affordable housing, improving food security and adequate nutrition, and enhancing access to quality health care and supportive services, the Foundation seeks opportunities to enhance the financial resiliency of the safety net system over the next ten years through a series of targeted investments intended to build upon each other.

The Foundation is designed to exist in perpetuity, so its commitment is long-term. The Foundation invests its time, expertise, and resources in finding innovative solutions to the complex challenges facing the health and human services systems and helps to build the capacity of the organizations delivering services.

2506 LLC is a Pennsylvania single-member limited liability company owned by the Foundation. 2506 LLC is governed by a board of managers appointed by the Foundation. The board of managers is comprised of five individuals, three of whom are tenant representatives. 2506 LLC was established to construct, own, and operate real estate located in Hatfield Township. A multi-tenant nonprofit center, called Community Partners Center, houses the Foundation and five other health and human services agencies serving Montgomery County residents as well as several meeting rooms that are available without cost to nonprofit organizations.

A single-family residential dwelling located in Hatfield Township adjacent to the multi-tenant nonprofit center is master leased to a human services agency that sublets the dwelling to a HUD-qualified low-income family.



**HEALTHSPARK FOUNDATION AND 2506 LLC**  
**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS**  
**JUNE 30, 2019**

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

**Principles of Consolidation**

The consolidated financial statements include the accounts of HealthSpark Foundation and its wholly-owned subsidiary 2506 LLC. All material intercompany transactions and balances have been eliminated.

**Basis of Accounting**

The consolidated financial statements are reported on the accrual basis of accounting in accordance with U.S. generally accepted accounting principles (GAAP). Net assets consist of the following:

*Net Assets Without Donor Restrictions*

Net assets for use in general operations and are not subject to donor or certain grantor imposed restrictions. Net assets generally result from investment income and gains, less expense incurred in providing services and other administrative expenses. At times, the governing board can designate, from net assets without donor restrictions, net assets for various purposes.

*Net Assets With Donor Restrictions*

Some donor-imposed restrictions are temporary in nature, such as those that will be met by the passage of time or other events specified by the donor. Other donor-imposed restrictions are perpetual in nature, where the donor stipulates that resources be maintained in perpetuity.

Donor imposed restrictions are released when a restriction expires; that is, when the stipulated time has elapsed, when the stipulated purpose for which the resource was restricted has been fulfilled, or both.

**Income Taxes**

2506 LLC is a single-member LLC and is considered a disregarded entity for federal income tax purposes. 2506 LLC's activities are reflected in the Foundation's federal income tax return. The Foundation is exempt from federal and state income taxes (except taxes on unrelated business income) under Section 501(c)(3) of the Internal Revenue Code (IRC) and is classified by the Internal Revenue Service as a private foundation. No provision for income taxes is required for the year ended June 30, 2019. IRC Section 4940(a), however, generally imposes a 2% tax on net investment income, which includes gains realized on the sale of investments. Section 4940(e) provides a reduction of the tax to 1% based upon the payout ratio. The Foundation was subject to excise tax at 2% for the fiscal year ended June 30, 2019. Excise tax amounted to \$4,307 for the year ended June 30, 2019.

The Foundation records a deferred excise tax liability on 2% of net unrealized investment gains. At June 30, 2019, the Foundation recorded a deferred excise tax liability on 2% of net unrealized investment gains in 2019 in the amount of \$18,916.

Management has reviewed the tax positions taken or expected to be taken on income tax returns for all open periods and has concluded that there are no significant uncertain tax positions that would require recognition in the financial statements.

**HEALTHSPARK FOUNDATION AND 2506 LLC**  
**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS**  
**JUNE 30, 2019**

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

**Accounting Estimates**

In preparing financial statements in conformity with accounting principles generally accepted in the United States of America management makes estimates and assumptions that affect the reported amounts of assets and liabilities at the date of the financial statements, as well as the reported amounts of revenues and expenses during the reported period. Actual results could differ from those estimates.

**Concentration of Credit Risk**

The Organization occasionally maintains deposits in excess of federally insured limits. Accounting Standards Codification (ASC) 825, *Financial Instruments*, identifies these items as a concentration of credit risk requiring disclosure, regardless of the degree of risk. The risk is managed by monitoring the financial institution in which deposits are made.

**Cash and Cash Equivalents**

The Organization considers all highly liquid instruments purchased with a maturity of three months or less to be cash equivalents.

**Investments**

Investments and other investments are stated at fair value (see Note 3).

**Beneficial Interest in Perpetual Trust**

The beneficial interest in perpetual trust includes the Foundation's respective share of the fair value of the total funds held in trust by others for which the Foundation is the recipient of a portion of the income. This perpetual trust is included in net assets with donor restrictions.

**Beneficial Interest in Remainder Trust**

The beneficial interest in remainder trust includes the Foundation's respective share of the fair value of the total funds held in trust by others for which the Foundation is the remainder beneficiary of a portion of the trust assets which will be distributed to the Foundation for its unrestricted use when the trust terminates. This remainder trust is included in net assets with donor restrictions.

**Property and Equipment**

Property and equipment are stated at cost. Maintenance and repairs are charged to expense. Major additions and improvements which prolong the life of the asset are capitalized.

Depreciation is provided over the estimated useful lives of the assets using the straight-line method of depreciation. The estimated useful lives are as follows:

Land Improvements	15 Years
Building	39 Years
Building Improvements	Lease Term (5 Years)
Furniture, Fixtures, and Equipment	3 to 7 Years

**HEALTHSPARK FOUNDATION AND 2506 LLC**  
**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS**  
**JUNE 30, 2019**

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

**Grants**

Grants are reported as an expense and liability of the Foundation when approved unless conditions required by the grant have not yet been fulfilled. Such conditional grants are recorded when the conditions have been satisfied. Grants are rescinded at the time of board of directors' action.

**Other Liabilities and Expenses in Connection with North Penn Hospital**

The Foundation continues to carry certain liabilities and related assets from the former hospital operations related to deferred compensation. In addition, certain expenses related to the former hospital operations are included in the non-operating expenses of the statement of activities and changes in net assets.

**Expense Allocation**

The costs of providing various program and supporting services have been summarized on a functional basis in the statement of activities and changes in net assets and the schedule of functional expenses. Accordingly, certain costs have been allocated among the programs and supporting services benefited. Management and general expenses include those expenses that are not directly identifiable with any other specific function but provide for the overall support and direction of the Foundation. See Note 12 for additional disclosure on functional expense allocation.

**Prior Year Information**

The financial statements include certain prior year summarized comparative information in total, but not by net asset class. Such information does not include sufficient detail to constitute a presentation in conformity with generally accepted accounting principles. Accordingly, such information should be read in conjunction with the Organization's audited financial statements for the year ended June 30, 2018, from which the summarized information was derived.

**Change in Accounting Principle**

In 2019, the Foundation adopted, FASB issued Accounting Standards Update (ASU) 2016-14, *Not-for-Profit Entities (Topic 958) – Presentation of Financial Statements of Not-for-Profit Entities*. ASU 2016-14 provides for additional disclosure requirements and modifies net assets reporting. The standard requires the Foundation to reclassify its net assets (i.e. unrestricted, temporary restricted, and permanently restricted) into two categories: net assets without donor restrictions and net assets with donor restrictions, among other requirements. As a result of adopting this standard, certain prior year amounts were reclassified to conform to the presentation requirements. The ASU has been applied retrospectively to all periods presented, except the liquidity disclosure (Note 2), which resulted in no change to the total previously reported net assets.

**Subsequent Events**

In preparing these financial statements, HealthSpark Foundation and 2506 LLC have evaluated events and transactions for potential recognition or disclosures through November 22, 2019, the date the financial statements were available to be issued.

**HEALTHSPARK FOUNDATION AND 2506 LLC**  
**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS**  
**JUNE 30, 2019**

**NOTE 2 LIQUIDITY**

As of June 30, 2019, the following financial assets could be readily made available within one year of the statement of financial position date to meet general expenditures:

Cash and Cash Equivalents	\$ 375,317
Investments	36,950,822
Less: Net Assets With Donor Restrictions	<u>(1,302,117)</u>
Total	<u><u>\$ 36,024,022</u></u>

The Organization regularly monitors its liquidity required to meet its operating needs and other contractual commitments, while also striving to maximize the investment of its available funds. For the purpose of analyzing resources available to meet general expenditures over a 12-month period, the Foundation considers all expenditures related to its ongoing mission-related activities as well as the conduct of services undertaken to support those activities to be general expenditures.

The Organization has various sources of liquidity at its disposal, including cash and cash equivalents, marketable debt and equity securities. As part of its liquidity management, the Organization has a goal to maintain financial assets on hand to meet three months' worth of normal operating expenses.

**NOTE 3 LONG-TERM INVESTMENTS**

A summary of investments at June 30, 2019 is as follows:

	<u>Cost</u>	<u>Market</u>
Mutual Funds	\$ 7,893,026	\$ 7,943,041
Collective Investment Funds	1,667,004	1,997,319
Partnerships/Joint Ventures	24,828,540	26,978,612
Cash Equivalents	<u>31,850</u>	<u>31,850</u>
	<u><u>\$ 34,420,420</u></u>	<u><u>\$ 36,950,822</u></u>
Unrealized Appreciation		
End of Year		\$ 2,530,402
Beginning of Year		<u>1,247,806</u>
Change in Unrealized Appreciation		1,282,596
Realized Net Gain for the Year		<u>637,315</u>
Net Realized and Unrealized Gains on Investments		1,919,911
Interest and Dividends, Net of Investment Fees		<u>169,275</u>
Total Return		<u><u>\$ 2,089,186</u></u>

**HEALTHSPARK FOUNDATION AND 2506 LLC**  
**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS**  
**JUNE 30, 2019**

**NOTE 3 LONG-TERM INVESTMENTS (CONTINUED)**

In 2017, the Foundation hired Meketa Fiduciary Management, LLC (MFM) (an affiliate of Meketa Investment Group) as its Outsourced Chief Investment Officer (OCIO). MFM provides general consulting and private markets advisory services. MFM has discretion over investing. Among other things, MFM assumes decision-making authority to hire and terminate investment managers across public and private markets, to implement the Foundation's asset allocation directives, and to manage investment manager transitions

The Foundation aims to prioritize portfolio liquidity whenever possible and will only invest in strategies without daily liquidity for compelling reasons. Currently, two of those reasons involve lower fees, and accessing risk mitigation strategies that are not available in vehicles that possess daily liquidity.

The mutual funds possess daily liquidity and are SEC regulated funds. These funds are priced at the end of each trading day.

The commingled funds are long-only investment funds. The Foundation invests in the funds due to a lower fee structure than the same strategy that is available in a mutual fund form. These funds are priced on a monthly basis and have liquidity either daily, weekly or monthly.

The three hedge fund strategies are designed to mitigate equity risk in the portfolio. The Foundation is a limited partner in these funds. These funds are valued on a monthly basis and possess monthly liquidity.

**NOTE 4 FAIR VALUE OF FINANCIAL INSTRUMENTS**

The Organization utilized various methods to measure the fair value of its financial instrument on a recurring basis. Generally accepted accounting principles establish a hierarchy that prioritizes inputs to valuation methods. The three levels of inputs are described below:

*Level 1* – Unadjusted quoted prices in active markets for identical assets or liabilities that the Foundation has the ability to access.

*Level 2* – Observable inputs other than quoted prices included in Level 1 that are observable for the asset or liability, either directly or indirectly. These inputs may include quoted prices for the identical instrument on an inactive market, prices for similar instruments, interest rates, prepayment speeds, credit risk, yield curves, default rates, and similar data.

**HEALTHSPARK FOUNDATION AND 2506 LLC**  
**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS**  
**JUNE 30, 2019**

**NOTE 4 FAIR VALUE OF FINANCIAL INSTRUMENTS (CONTINUED)**

*Level 3* – Unobservable inputs for the asset or liability, to the extent relevant observable inputs are not available, representing the Organization’s own assumptions about the assumptions a market participant would use in valuing the asset or liability, and would be based on the best information available.

The inputs methodology used for valuing securities are not necessarily an indication of the risk associated with investing in those securities.

The fair value of the interest rate swap agreement is determined based on a proprietary model developed by the financial institution involved that uses primarily market observable inputs, such as yield curves and rate volatilities and, accordingly, is classified using Level 2 inputs.

The summary of inputs used to value the Organization’s financial statements as of June 30, 2019 is as follows:

	Level 1 Quoted Prices	Level 2 Other Significant Observable Inputs	Level 3 Significant Unobservable Inputs	Total
<b>INVESTMENTS</b>				
Mutual Funds	\$ 7,943,041	\$ -	\$ -	\$ 7,943,041
Collective Investment Funds*	-	-	-	-
Partnerships/Joint Ventures*	-	-	-	-
Total	<u>\$ 7,943,041</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 7,943,041</u>
*Investments Measured at Fair Value using Net Asset Value per Share				28,975,931
Total Investments				<u>\$ 36,918,972</u>
<b>OTHER INVESTMENTS</b>				
Mutual Funds	<u>\$ -</u>	<u>\$ 497,804</u>	<u>\$ -</u>	<u>\$ 497,804</u>
Beneficial Interest in Remainder Trust	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 835,379</u>	<u>\$ 835,379</u>
Beneficial Interest in Perpetual Trust	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 202,563</u>	<u>\$ 202,563</u>
Interest Rate Swap - Obligation	<u>\$ -</u>	<u>\$ (309,973)</u>	<u>\$ -</u>	<u>\$ (309,973)</u>

The Beneficial Interests in Perpetual Trust and Remainder Trust are measured at the estimated future cash flows which involve unobservable inputs. As a result, the present value technique is a Level 3 input.

**HEALTHSPARK FOUNDATION AND 2506 LLC**  
**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS**  
**JUNE 30, 2019**

**NOTE 4 FAIR VALUE OF FINANCIAL INSTRUMENTS (CONTINUED)**

The classification of other investments included in the table above is not meant to be indicative of the classification of investments in the underlying portfolios of these other investments into the fair value hierarchy. The classification is based upon the Organization's classification of its investments in these other investments, where there is no public market for these securities and these investments are subject to various withdrawal restrictions. Although certain of these other investments may contain investments in publicly held securities (Level 1), there are no active market quotations for the investments which contain such publicly held securities.

The mutual funds are valued at the published net asset value per share as of the reporting date. There are no restrictions on when the Foundation may redeem shares from the Fund.

The changes in investments measured at fair value for which the Foundation used Level 3 inputs to determine fair value are as follows:

	Beneficial Interest in Remainder Trust	Beneficial Interest in Perpetual Trust
Balances as of July 1, 2018	\$ 817,412	\$ 204,711
Realized and Unrealized Gains (Losses)	17,967	-
Balances as of June 30, 2019	<u>\$ 835,379</u>	<u>\$ 204,711</u>

**NOTE 5 BENEFICIAL INTEREST IN REMAINDER TRUST**

In November 2012, the Foundation was notified that it has a 1/8 remainder interest in a trust. The 1/8 interest in the Trust at the time of contribution was approximately \$1.5 million. The 1/8 interest in this Trust was reduced by 50% due to the income beneficiary's right to withdraw up to 50% of the Trust assets until the time of the beneficiary's death. The Foundation's proportionate share of the Trust assets at the date of the contribution was based on the present value of its remainder interest using the Trust's assumed rate of return (7.75%) net of the estimated distribution rate (3.5%) to the income beneficiary. Based on a discount rate of 4.25%, the contribution recorded in November 2012 was \$514,647 and classified as a net asset with donor restriction. At the date the Trust terminates, 1/8 of the Trust assets will be distributed to the Foundation for its use without donor restrictions.

As of June 30, 2019, the present value of the fair value of the Trust assets was \$835,379 and the change in the fair value for the year ended June 30, 2019 of \$17,967 is reflected as a change in beneficial interest in remainder trust in the statement of activities and changes in net assets.

**HEALTHSPARK FOUNDATION AND 2506 LLC**  
**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS**  
**JUNE 30, 2019**

**NOTE 6 PROPERTY AND EQUIPMENT**

A summary of property and equipment is as follows at June 30, 2019:

Land	\$ 1,906,479
Land Improvements	708,599
Building	4,498,957
Building Improvements	919,181
Furniture, Fixtures, and Equipment	<u>503,507</u>
Total	8,536,723
Accumulated Depreciation	<u>(3,062,262)</u>
Total Property and Equipment, Net	<u><u>\$ 5,474,461</u></u>

The Foundation acquired real estate located in Hatfield Township and constructed a nonprofit center housing purely public health and human services agencies as well as the Foundation itself. The construction of this center was completed in March 2008 and the cost of the land and construction of the building totaled approximately \$7.1 million. In December 2006, the Foundation transferred the deed and ownership of the land and any improvements to 2506 LLC in exchange for a note receivable. In addition, the Foundation financed certain construction costs related to the center. As of June 30, 2019, 2506 LLC has an outstanding note payable to the Foundation of \$2,441,286 in conjunction primarily with the acquisition of the property and certain construction costs. All intercompany borrowings and related interest between the Foundation and 2506 LLC have been eliminated in these consolidated financial statements.

On August 15, 2011, 2506 LLC acquired real estate adjacent to the existing multi-tenant nonprofit center for the purpose of expanding parking for the center and providing housing for a low-income family. Montgomery County Department of Housing and Community Development (MCDHCD) provided funding in the amount of \$49,843 for improvements and repairs to the residence in order to provide additional living space to accommodate a larger low-income family. In consideration for this funding, 2506 LLC entered into a mortgage agreement with MCDHCD (see Note 7).

Depreciation expense for the year ended June 30, 2019 was \$202,813



**HEALTHSPARK FOUNDATION AND 2506 LLC**  
**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS**  
**JUNE 30, 2019**

**NOTE 7 NOTES PAYABLE**

The Foundation and 2506 LLC were jointly liable for a note payable to a bank which was collateralized by a mortgage agreement on the property located in Hatfield Township. On April 21, 2014, that obligation was refinanced with a \$3,800,000 million note payable based on a 25-year amortization schedule with interest at a tax-free floating rate of 30-day LIBOR plus 100 basis points. All outstanding interest and principal is due April 21, 2024. As of June 30, 2019, the outstanding balance on the note payable was \$3,283,276. The amount of unamortized loan refinancing costs on this note payable for 2019 was \$34,651. Interest expense including the swap arrangement on this note payable for 2019 was \$109,743.

The Foundation and 2506 LLC are subject to compliance of financial covenants under the terms of the loan agreement. One financial covenant requires that the Foundation and 2506 LLC maintain a tangible net worth of not less than \$10 million. In addition, the Foundation and 2506 LLC are required to meet an annual minimum debt service coverage ratio of 1:1 or greater. This covenant is based solely on the operating results of 2506 LLC. Management is not aware of any violations of the covenants.

In conjunction with the refinancing of the note payable, the Foundation and 2506 LLC entered into a revised swap agreement with the notional amount of \$3.8 million, whereby the Foundation and 2506 LLC pay a fixed interest rate of 3.7% and receive a variable interest rate (LIBOR plus 100 basis points). As of June 30, 2019, the fair value of the swap agreement was \$309,973, in favor of the Bank. This swap agreement expires on April 21, 2024.

A note payable to Montgomery County Department of Housing and Community Development (MCHCD) is payable based on a 15-year amortization schedule with no interest on the outstanding principal balance. The principal balance of the mortgage is forgivable based upon equal monthly amortization of the original mortgage principal over 15 years contingent on the property being maintained as a low-income single-family residence. As of June 30, 2019, the outstanding balance on the note payable was \$26,583. 2506 LLC may not sell, transfer, convey, or assign the mortgaged property while there is an outstanding mortgage principal balance. No interest is charged on the principal balance outstanding. The note payable forgiven in accordance with the agreement was \$3,323 for 2019 and is included within contributions without donor restrictions in the consolidated statement of activities and changes in net assets.

**HEALTHSPARK FOUNDATION AND 2506 LLC**  
**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS**  
**JUNE 30, 2019**

**NOTE 7 NOTES PAYABLE (CONTINUED)**

The minimum annual repayment requirements on the notes payable as of June 30, 2019 are as follows:

<u>Year Ending June 30,</u>	<u>Amount</u>
2020	\$ 115,608
2021	120,282
2022	124,856
2023	129,561
2024	2,808,939
Thereafter	<u>10,613</u>
Total	3,309,859
Less: Unamortized Refinancing Fees	<u>(34,651)</u>
Total, Net of Refinancing Fees	<u><u>\$ 3,275,208</u></u>

**NOTE 8 NET ASSETS**

Net assets with donor restrictions as of June 30, 2019 are as follows:

Beneficial Interest in Perpetual Trusts	\$ 202,563
Other Permanent Restrictions	264,175
Beneficial Interest in Remainder Trust - Time Restriction	<u>835,379</u>
Total	<u><u>\$ 1,302,117</u></u>

**NOTE 9 CONTINGENCIES**

The management and administration of the delivery of healthcare services entailed significant risks of liability to North Penn Hospital. As such, North Penn Hospital was subject to various actions and claims arising from the acts or omissions of its employees, providers or other parties. These actions gave rise to malpractice, professional negligence and other related claims against North Penn Hospital and, as successor to the North Penn Hospital, the Foundation. With the exception noted below, the Foundation believes all claims are settled in its favor and the Foundation has not received notice of any new matters.

Management is aware of one outstanding issue related to North Penn Hospital, a claim for compensatory damages in the amount of \$2.5 million for employees' unused and unpaid vacation and personal leave benefits accrued and or earned during their employment at North Penn Hospital. The claim is a class action comprised of four sub-classes. The Foundation does not have professional liability insurance that would cover this claim.

**HEALTHSPARK FOUNDATION AND 2506 LLC  
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS  
JUNE 30, 2019**

**NOTE 9 CONTINGENCIES (CONTINUED)**

On March 6, 2019, the jury reached a verdict awarding one sub-class \$163,494. On August 16, 2019, the Foundation, joined separately by the Pennsylvania Office of Attorney General, filed a timely appeal of the judgement to the Commonwealth Court. The Foundation was required to post security in the amount of 120% of the judgement (\$196,193) in order to prevent execution of the judgement pending appeal. While the ultimate outcome of the Foundation's appeal is not certain, management believes that the March 6, 2019 verdict will be overturned on appeal, and, accordingly, has not recorded any liability in connection with this matter in the accompanying financial statements.

**NOTE 10 COMMITMENTS**

2506 LLC leases space in its building to the Foundation and five health and human services nonprofit organizations. Each tenant signed leases ranging from two to five years, with the last lease expiring in May 2023.

The minimum annual lease commitments are as follows:

<u>Year Ending June 30,</u>	<u>Amount</u>
2020	\$ 243,722
2020	265,956
2021	65,854
2022	45,815
Total	<u>\$ 621,347</u>

The minimum annual lease commitments reflected above in these consolidated financial statements are shown net of the commitment from the Foundation.

**NOTE 11 RETIREMENT PLAN**

HealthSpark Foundation offers a 401(k) safe harbor retirement plan (The HealthSpark Foundation 401(k) Profit Sharing Plan and Trust) to its eligible employees. Employees are eligible to participate in the plan after 90 days of employment if they are 21 years of age. Participating employees are immediately vested in the plan. The foundation provides employee-matching contributions at an amount equal to 100% of the employee elected deferral that does not exceed 3% of employee compensation for the plan year plus 50% of employee elective deferrals that exceed 3% of compensation for the plan year but does not exceed 5% of the compensation for the plan year. In addition, eligible employees receive a 2% profit sharing contribution based on their compensation for the plan year. Employees must complete 500 hours of service during the plan year to be eligible for the profit-sharing contribution. For the year ended June 30, 2019, the Foundation contributed \$14,635 in matching contributions and \$8,578 in profit sharing contributions.

**HEALTHSPARK FOUNDATION AND 2506 LLC**  
**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS**  
**JUNE 30, 2019**

**NOTE 12 FUNCTIONAL EXPENSES**

The consolidated financial statements report certain categories of expenses that are attributable to one or more areas of the Foundation. Those expenses include salaries and employee benefits, professional fees, occupancy and various other operational expenses. Salaries and benefits are allocated based on estimates of time and effort. Professional fees and all other operating expenses are allocated based on the estimated effect of the services and goods provided to program, administrative and fundraising. The following table presents expenses by both their nature and function for the year ended June 30, 2019. Comparative totals are included for the year ended June 30, 2018.

	2019					2018 Total
	Program Activity			Management and General		
	Grants	Facility	Total	General	Total	
Program Grants	\$ 480,210	\$ -	\$ 480,210	\$ -	\$ 480,210	\$ 448,326
Salaries	294,881	46,154	341,035	94,506	435,541	436,190
Payroll Taxes/Employee Benefits	71,820	13,796	85,616	19,359	104,975	103,775
Professional Services						
Legal Fees	-	-	-	13,519	13,519	12,091
Audit	-	-	-	20,498	20,498	22,235
Accounting	-	-	-	24,708	24,708	24,234
Consulting	258,402	-	258,402	43,609	302,011	222,728
Temporary Help	12,555	-	12,555	3,765	16,320	2,630
Occupancy	4,479	-	4,479	16,099	20,578	8,973
Utilities and Security	-	37,802	37,802	-	37,802	36,216
Telephone and Communications	14,690	1,658	16,348	2,075	18,423	41,202
Office Supplies & Software Maintenance	13,568	-	13,568	5,137	18,705	27,683
Building Maintenance	-	101,049	101,049	839	101,888	72,441
Insurance	8,146	10,882	19,028	1,326	20,354	19,992
Meeting and Travel	45,794	-	45,794	4,059	49,853	59,826
Dues and Subscriptions	14,386	-	14,386	907	15,293	18,022
Depreciation	20,546	173,857	194,403	8,410	202,813	198,790
Interest	-	116,912	116,912	-	116,912	126,541
Excise Tax (Credit)	-	-	-	4,307	4,307	65,619
Miscellaneous	5,091	543	5,634	3,996	9,630	6,467
Total Operating Expenses	<u>\$ 1,244,568</u>	<u>\$ 502,653</u>	<u>\$ 1,747,221</u>	<u>\$ 267,119</u>	<u>\$ 2,014,340</u>	<u>\$ 1,953,981</u>
North Penn Hospital Related Expenses	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 511,230</u>	<u>511,230</u>	<u>\$ 81,016</u>

**HEALTHSPARK FOUNDATION AND 2506 LLC  
SCHEDULE OF GRANTS  
YEAR ENDED JUNE 30, 2019  
(SEE INDEPENDENT AUDITORS' REPORT)**

**PROGRAM GRANTS**

ACLAMO Family Centers	\$	15,000
Bucks-Mont Collaborative		1,500
Catholic Social Services Montgomery County (2)		30,000
Center for Positive Aging in Lower Merion		15,000
Gwynedd-Mercy University (2)		660
Inter-Faith Housing Alliance		18,500
Mission First Housing Group		500
Montgomery County Opportunities Industrialization		50,000
Pennsylvania Assistive Technology Foundation		18,000
Pennsylvania Health Access Network		100,000
Philabundance		50,000
Philanthropy Network Greater Philadelphia		10,000
Pottstown Cluster of Religious Communities (2)		35,500
SHARE Food Program, Inc. (2)		51,500
Sustainable Agriculture & Food Systems Funders		1,000
The Health Care Improvement Foundation		10,000
The Montgomery County Foundation, Inc. (5)		15,650
The Philadelphia Foundation		15,000
TriCounty Community Network		<u>42,400</u>
 Total Program Grants	 \$	 <u><u>480,210</u></u>

**HEALTHSPARK FOUNDATION AND 2506 LLC**  
**CONSOLIDATING STATEMENT OF FINANCIAL POSITION**  
**JUNE 30, 2019**  
(SEE INDEPENDENT AUDITORS' REPORT)

<b>ASSETS</b>	<u>Foundation</u>	<u>2506 LLC</u>	<u>Elimination</u>	<u>Total</u>
Cash and Cash Equivalents	\$ 143,404	\$ 231,913	\$ -	\$ 375,317
Prepaid and Other Current Assets	65,327	4,997	(35,379)	34,945
Investments	36,950,822	-	-	36,950,822
Beneficial Interest in Remainder Trust	835,379	-	-	835,379
Note Receivable - Related Party	2,441,286	-	(2,441,286)	-
Other Investments	497,804	-	-	497,804
Beneficial Interest in Perpetual Trust	202,563	-	-	202,563
Property and Equipment, Net	76,160	5,398,301	-	5,474,461
	<u>                    </u>	<u>                    </u>	<u>                    </u>	<u>                    </u>
Total Assets	<u>\$ 41,212,745</u>	<u>\$ 5,635,211</u>	<u>\$ (2,476,665)</u>	<u>\$ 44,371,291</u>
 <b>LIABILITIES AND NET ASSETS (DEFICIT)</b>				
<b>LIABILITIES</b>				
Grants Payable	\$ 50,000	\$ -	\$ -	\$ 50,000
Accounts Payable and Accrued Expenses	66,080	52,075	(35,379)	82,776
Notes Payable - Related Party	-	2,441,286	(2,441,286)	-
Notes Payable, Net of Refinancing Fees	-	3,275,208	-	3,275,208
Deferred Tax Liability	18,916	-	-	18,916
Interest Rate Swap Liability	-	309,973	-	309,973
Security Deposits	-	14,731	-	14,731
Other Liabilities in Connection with				
North Penn Hospital	497,804	-	-	497,804
Total Liabilities	<u>632,800</u>	<u>6,093,273</u>	<u>(2,476,665)</u>	<u>4,249,408</u>
 <b>NET ASSETS (DEFICIT)</b>				
Without Donor Restrictions				
Undesignated	39,276,568	(541,112)	-	38,735,456
Board Designated	1,260	83,050	-	84,310
Total Net Assets Without Donor Restrictions	<u>39,277,828</u>	<u>(458,062)</u>	<u>-</u>	<u>38,819,766</u>
With Donor Restrictions	1,302,117	-	-	1,302,117
Total Net Assets (Deficit)	<u>40,579,945</u>	<u>(458,062)</u>	<u>-</u>	<u>40,121,883</u>
	<u>                    </u>	<u>                    </u>	<u>                    </u>	<u>                    </u>
Total Liabilities and Net Assets (Deficit)	<u>\$ 41,212,745</u>	<u>\$ 5,635,211</u>	<u>\$ (2,476,665)</u>	<u>\$ 44,371,291</u>

**HEALTHSPARK FOUNDATION AND 2506 LLC**  
**CONSOLIDATING STATEMENT OF ACTIVITIES AND CHANGES IN NET ASSETS (DEFICIT)**  
**YEAR ENDED JUNE 30, 2019**  
**(SEE INDEPENDENT AUDITORS' REPORT)**

	Foundation			2506		Elimination	Total
	Without Donor Restrictions	With Donor Restrictions	Total Foundation	Without Donor Restrictions			
<b>REVENUE</b>							
Interest and Dividends	\$ 227,379	\$ -	\$ 227,379	\$ 23	\$ (58,104)		\$ 169,298
Income from Perpetual Trusts	8,800	-	8,800	-	-		8,800
Rental	-	-	-	433,345	(80,542)		352,803
Contributions	-	-	-	3,323	-		3,323
Change in Beneficial Interest in Remainder Trust	-	17,967	17,967	-	-		17,967
Contributions from Related Party	-	-	-	163,176	(163,176)		-
Change in Beneficial Interest in Perpetual Trust	-	(2,147)	(2,147)	-	-		(2,147)
Net Realized and Unrealized Gains on Investments	1,919,911	-	1,919,911	-	-		1,919,911
Other Income	563	-	563	-	-		563
Total Revenue	<u>2,156,653</u>	<u>15,820</u>	<u>2,172,473</u>	<u>599,867</u>	<u>(301,822)</u>		<u>2,470,518</u>
<b>EXPENSES</b>							
Program Grants	480,210	-	480,210	-	-		480,210
Other Program Activities	820,387	-	820,387	555,915	(109,291)		1,267,011
Total Program Expenses	<u>1,300,597</u>	<u>-</u>	<u>1,300,597</u>	<u>555,915</u>	<u>(109,291)</u>		<u>1,747,221</u>
Management and General	270,430	-	270,430	26,044	(29,355)		267,119
Total Expenses	<u>1,571,027</u>	<u>-</u>	<u>1,571,027</u>	<u>581,959</u>	<u>(138,646)</u>		<u>2,014,340</u>
<b>EXCESS (DEFICIT) OF REVENUE OVER EXPENSE</b>	585,626	15,820	601,446	17,908	(163,176)		456,178
<b>OTHER INCOME</b>							
Change in Value of Interest Rate Swap	-	-	-	(62,873)	-		(62,873)
Net Operating Revenue (Loss)	<u>585,626</u>	<u>15,820</u>	<u>601,446</u>	<u>(44,965)</u>	<u>(163,176)</u>		<u>393,305</u>
<b>NONOPERATING EXPENSES</b>							
North Penn Hospital Related Expenses	(511,230)	-	(511,230)	-	-		(511,230)
Contribution to Related Party	(163,176)	-	(163,176)	-	163,176		-
Total Nonoperating Expenses	<u>(674,406)</u>	<u>-</u>	<u>(674,406)</u>	<u>-</u>	<u>163,176</u>		<u>(511,230)</u>
<b>CHANGE IN NET ASSETS</b>	(88,780)	15,820	(72,960)	(44,965)	-		(117,925)
Net Assets (Deficit) - Beginning of Year	<u>39,366,608</u>	<u>1,286,297</u>	<u>40,652,905</u>	<u>(413,097)</u>	<u>-</u>		<u>40,239,808</u>
<b>NET ASSETS (DEFICIT) - END OF YEAR</b>	<u>\$ 39,277,828</u>	<u>\$ 1,302,117</u>	<u>\$ 40,579,945</u>	<u>\$ (458,062)</u>	<u>\$ -</u>		<u>\$ 40,121,883</u>

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