

**HEALTHSPARK FOUNDATION  
AND 2506 LLC**

**CONSOLIDATED FINANCIAL STATEMENTS  
AND SUPPLEMENTARY INFORMATION**

**YEAR ENDED JUNE 30, 2020  
(WITH COMPARATIVE TOTALS FOR JUNE 30, 2019)**



[CLAconnect.com](http://CLAconnect.com)

WEALTH ADVISORY  
OUTSOURCING  
AUDIT, TAX, AND  
CONSULTING

**HEALTHSPARK FOUNDATION AND 2506 LLC  
TABLE OF CONTENTS  
YEAR ENDED JUNE 30, 2020  
(WITH COMPARATIVE TOTALS FOR JUNE 30, 2019)**

<b>INDEPENDENT AUDITORS' REPORT</b>	<b>1</b>
<b>CONSOLIDATED FINANCIAL STATEMENTS</b>	
<b>CONSOLIDATED STATEMENT OF FINANCIAL POSITION</b>	<b>3</b>
<b>CONSOLIDATED STATEMENT OF ACTIVITIES AND CHANGES IN NET ASSETS</b>	<b>4</b>
<b>CONSOLIDATED STATEMENT OF CASH FLOWS</b>	<b>5</b>
<b>NOTES TO CONSOLIDATED FINANCIAL STATEMENTS</b>	<b>6</b>
<b>SUPPLEMENTARY INFORMATION</b>	
<b>SCHEDULE OF GRANTS</b>	<b>19</b>
<b>CONSOLIDATING STATEMENT OF FINANCIAL POSITION</b>	<b>20</b>
<b>CONSOLIDATING STATEMENT OF ACTIVITIES AND CHANGES IN NET ASSETS     (DEFICIT)</b>	<b>21</b>



## 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, 2020, 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, 2020, 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.

**Report on Summarized Comparative Information**

We have previously audited HealthSpark Foundation's and 2506 LLC's 2019 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, 2019, 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 2020 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 2020 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 2020 information is fairly stated in all material respects in relation to the consolidated financial statements as a whole.



**CliftonLarsonAllen LLP**

Plymouth Meeting, Pennsylvania  
November 18, 2020

**HEALTHSPARK FOUNDATION AND 2506 LLC**  
**CONSOLIDATED STATEMENT OF FINANCIAL POSITION**  
**JUNE 30, 2020**  
**(WITH COMPARATIVE TOTALS FOR JUNE 30, 2019)**

	2020	2019
<b>ASSETS</b>		
Cash and Cash Equivalents	\$ 538,428	\$ 375,317
Prepaid and Other Current Assets	239,333	34,945
Investments	36,303,288	36,950,822
Beneficial Interest in Remainder Trust	884,620	835,379
Other Investments	490,226	497,804
Beneficial Interest in Perpetual Trust	198,179	202,563
Property and Equipment, Net	5,335,028	5,474,461
Total Assets	\$ 43,989,102	\$ 44,371,291
<b>LIABILITIES AND NET ASSETS</b>		
<b>LIABILITIES</b>		
Grants Payable	\$ -	\$ 50,000
Accounts Payable and Accrued Expenses	102,715	82,776
Notes Payable, Net of Refinancing Fees	3,166,124	3,275,208
Deferred Tax Liability	48,223	18,916
Interest Rate Swap Liability	358,613	309,973
Security Deposits	13,530	14,731
Other Liabilities in Connection with North Penn Hospital	490,226	497,804
Total Liabilities	4,179,431	4,249,408
<b>NET ASSETS</b>		
Without Donor Restrictions		
Undesignated	38,461,437	38,735,456
Board Designated	1,260	84,310
Total Net Assets Without Donor Restrictions	38,462,697	38,819,766
With Donor Restrictions	1,346,974	1,302,117
Total Net Assets	39,809,671	40,121,883
Total Liabilities and Net Assets	\$ 43,989,102	\$ 44,371,291

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, 2020**  
**(WITH COMPARATIVE TOTALS FOR JUNE 30, 2019)**

	2020			2019
	Without Donor Restrictions	With Donor Restrictions	Total	
<b>REVENUE</b>				
Interest and Dividends	\$ 75,495	\$ -	\$ 75,495	\$ 169,298
Income from Perpetual Trust	9,600	-	9,600	8,800
Rental	378,742	-	378,742	352,803
Contributions	3,323	-	3,323	3,323
Change in Beneficial Interest in Remainder Trust	-	49,241	49,241	17,967
Change in Beneficial Interest in Perpetual Trust	-	(4,384)	(4,384)	(2,147)
Net Realized and Unrealized Gains	1,381,446	-	1,381,446	1,919,911
Other Income	328	-	328	563
Total Revenue	<u>1,848,934</u>	<u>44,857</u>	<u>1,893,791</u>	<u>2,470,518</u>
<b>EXPENSES</b>				
Program Grants	487,320	-	487,320	480,210
Other Program Activities	1,307,376	-	1,307,376	1,267,011
Total Program Expenses	<u>1,794,696</u>	<u>-</u>	<u>1,794,696</u>	<u>1,747,221</u>
Management and General	281,693	-	281,693	267,119
Total Expenses	<u>2,076,389</u>	<u>-</u>	<u>2,076,389</u>	<u>2,014,340</u>
<b>EXCESS OF REVENUE OVER EXPENSE</b>	(227,455)	44,857	(182,598)	456,178
<b>OTHER INCOME</b>				
Change in Value of Interest Rate Swap	(48,640)	-	(48,640)	(62,873)
Net Operating Revenue	<u>(276,095)</u>	<u>44,857</u>	<u>(231,238)</u>	<u>393,305</u>
<b>NONOPERATING EXPENSE</b>				
North Penn Hospital Related Expenses	(80,974)	-	(80,974)	(511,230)
Total Nonoperating Expense	<u>(80,974)</u>	<u>-</u>	<u>(80,974)</u>	<u>(511,230)</u>
<b>CHANGE IN NET ASSETS</b>	(357,069)	44,857	(312,212)	(117,925)
Net Assets - Beginning of Year	<u>38,819,766</u>	<u>1,302,117</u>	<u>40,121,883</u>	<u>40,239,808</u>
<b>NET ASSETS - END OF YEAR</b>	<u>\$ 38,462,697</u>	<u>\$ 1,346,974</u>	<u>\$ 39,809,671</u>	<u>\$ 40,121,883</u>

See accompanying Notes to Consolidated Financial Statements.

**HEALTHSPARK FOUNDATION AND 2506 LLC**  
**CONSOLIDATED STATEMENT OF CASH FLOWS**  
**YEAR ENDED JUNE 30, 2020**  
**(WITH COMPARATIVE TOTALS FOR JUNE 30, 2019)**

	2020	2019
<b>CASH FLOWS FROM OPERATING ACTIVITIES</b>		
Change in Net Assets	\$ (312,212)	\$ (117,925)
Adjustments to Reconcile Change in Net Assets to Net Cash Used by Operating Activities:		
Depreciation	207,286	202,813
Net Realized and Unrealized Gain on Investments	(1,381,446)	(1,919,911)
Change in Beneficial Interest in Remainder Trust	(49,241)	(17,967)
Change in Beneficial Interest in Perpetual Trust	4,384	2,147
Change in Value of Interest Rate Swap	48,640	62,873
(Increase) Decrease in:		
Prepaid and Other Current Assets	(204,388)	(11,352)
Increase (Decrease) in		
Grants Payable	(50,000)	50,000
Accounts Payable and Accrued Expenses	19,938	(21,475)
Deferred Tax Liability	29,307	(5,703)
Security Deposit	(1,201)	(750)
Other Liabilities	(7,578)	(44,073)
Net Cash Used by Operating Activities	(1,696,511)	(1,821,323)
<b>CASH FLOWS FROM INVESTING ACTIVITIES</b>		
Purchase of Property and Equipment, Net	(67,852)	(58,102)
Purchases of Investments	(14,064,599)	(19,663,107)
Proceeds from Sale of Investments	16,093,579	21,692,277
Increase in Other Investments	7,578	44,073
Net Cash Provided by Investment Activities	1,968,706	2,015,141
<b>CASH FLOWS FROM FINANCING ACTIVITIES</b>		
Repayments on Notes Payable	(109,084)	(103,783)
Net Cash Used by Financing Activities	(109,084)	(103,783)
<b>NET INCREASE IN CASH AND CASH EQUIVALENTS</b>	163,111	90,035
Cash and Cash Equivalents - Beginning of Year	375,317	285,282
<b>CASH AND CASH EQUIVALENTS - END OF YEAR</b>	\$ 538,428	\$ 375,317
<b>SUPPLEMENTAL DISCLOSURE OF CASH FLOW INFORMATION</b>		
Interest Paid	\$ 111,361	\$ 109,743

See accompanying Notes to Consolidated Financial Statements.

**HEALTHSPARK FOUNDATION AND 2506 LLC**  
**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS**  
**JUNE 30, 2020**

**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 2018-2020 the Foundation adopted an updated strategic plan and mission, vision, and set of guiding principles that will guide the Foundation's work through 2023. The current plan builds on past successes engaging community nonprofits in transformative partnerships that have the capacity to grow a more equitable and financially resilient social safety net.

The Foundation updated its mission statement to reflect that it invests in advancing systems change opportunities in Montgomery County, Pennsylvania to promote a more just and financially resilient social safety net. The updated mission statement continues to support efforts to reduce health disparities affecting those experiencing poverty and historically marginalized communities. 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 strengthen the financial resiliency of the safety net system and to achieve racial and social justice over the next ten years.

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, 2020**

**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, 2020. IRC Section 4940(a), however, generally imposes a 2% tax on net investment income, which includes gains realized on the sale of investments. For the year ended June 30, 2020, Section 4940(e) provides a possible 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, 2020. Excise tax amounted to \$61,495 for the year ended June 30, 2020. Effective for years beginning after December 31, 2019, IRC Section 4940(a) imposes a flat tax rate of 1.39%.

The Foundation records a deferred excise tax liability on 1.39% of net unrealized investment gains. At June 30, 2020, the Foundation recorded a deferred excise tax liability on 1.39% of net unrealized investment gains in 2020 in the amount of \$48,223.

**HEALTHSPARK FOUNDATION AND 2506 LLC**  
**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS**  
**JUNE 30, 2020**

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

**Income Taxes (Continued)**

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.

**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.

**HEALTHSPARK FOUNDATION AND 2506 LLC**  
**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS**  
**JUNE 30, 2020**

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

**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

**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 nonoperating 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, 2019, from which the summarized information was derived.

**Subsequent Events**

In preparing these financial statements, HealthSpark Foundation and 2506 LLC have evaluated events and transactions for potential recognition or disclosures through November 18, 2020, the date the financial statements were available to be issued.

**HEALTHSPARK FOUNDATION AND 2506 LLC**  
**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS**  
**JUNE 30, 2020**

**NOTE 2 LIQUIDITY**

As of June 30, 2020, 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	\$ 538,428
Investments	36,303,288
Less: Net Assets With Donor Restrictions	<u>(1,346,974)</u>
Total	<u><u>\$ 35,494,742</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, 2020 is as follows:

	<u>Cost</u>	<u>Market</u>
Mutual Funds	\$ 7,198,168	\$ 7,066,839
Partnerships/Joint Ventures	23,648,229	27,299,442
Cash Equivalents	<u>1,937,007</u>	<u>1,937,007</u>
	<u><u>\$ 32,783,404</u></u>	<u><u>\$ 36,303,288</u></u>
Unrealized Appreciation		
End of Year		\$ 3,519,884
Beginning of Year		<u>2,530,402</u>
Change in Unrealized Appreciation		989,482
Realized Net Gain for the Year		<u>391,964</u>
Net Realized and Unrealized Gains on Investments		1,381,446
Interest and Dividends, Net of Investment Fees		<u>75,495</u>
Total Return		<u><u>\$ 1,456,941</u></u>

**HEALTHSPARK FOUNDATION AND 2506 LLC**  
**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS**  
**JUNE 30, 2020**

**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 Partnerships/Joint Ventures/Collective Investments in the portfolio are comprised of commingled funds and hedge funds. The commingled funds are long-only investment funds which have lower fee structures than their mutual fund counterparts. They are priced at minimum on a monthly basis and have daily, weekly, or monthly liquidity. Collective investments, while separately reported by the custodian, are commingled funds.

The hedge funds are structured as limited partnerships. They are designed to mitigate equity risk within the portfolio. These funds are valued monthly and have 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, 2020**

**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, 2020 is as follows:

	Level 1 Quoted Prices	Level 2 Other Significant Observable Inputs	Level 3 Significant Unobservable Inputs	Total
<b>INVESTMENTS</b>				
Mutual Funds	\$ 7,066,839	\$ -	\$ -	\$ 7,066,839
Collective Investment Funds*	-	-	-	-
Partnerships/Joint Ventures*	-	-	-	-
Total	<u>\$ 7,066,839</u>	<u>\$ -</u>	<u>\$ -</u>	7,066,839
*Investments Measured at Fair Value using Net Asset Value per Share				27,299,442
Total Investments				<u>\$ 34,366,281</u>
<b>OTHER INVESTMENTS</b>				
Mutual Funds	<u>\$ -</u>	<u>\$ 490,226</u>	<u>\$ -</u>	<u>\$ 490,226</u>
Beneficial Interest in Remainder Trust	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 884,620</u>	<u>\$ 884,620</u>
Beneficial Interest in Perpetual Trust	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 198,179</u>	<u>\$ 198,179</u>
Interest Rate Swap - Obligation	<u>\$ -</u>	<u>\$ (358,613)</u>	<u>\$ -</u>	<u>\$ (358,613)</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, 2020**

**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, 2019	\$ 835,379	\$ 202,563
Realized and Unrealized Gains (Losses)	49,241	(4,384)
Balances as of June 30, 2020	<u>\$ 884,620</u>	<u>\$ 198,179</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, 2020, the present value of the fair value of the Trust assets was \$884,620 and the change in the fair value for the year ended June 30, 2020 of \$49,241 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, 2020**

**NOTE 6 PROPERTY AND EQUIPMENT**

A summary of property and equipment is as follows at June 30, 2020:

Land	\$ 1,906,479
Land Improvements	712,599
Building	4,538,170
Building Improvements	919,181
Furniture, Fixtures, and Equipment	<u>509,796</u>
Total	8,586,225
Accumulated Depreciation	<u>(3,251,197)</u>
Total Property and Equipment, Net	<u><u>\$ 5,335,028</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, 2020, 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, 2020 was \$207,286.



**HEALTHSPARK FOUNDATION AND 2506 LLC**  
**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS**  
**JUNE 30, 2020**

**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, 2020, the outstanding balance on the note payable was \$3,170,346. The amount of unamortized loan refinancing costs on this note payable for 2020 was \$27,482. Interest expense including the swap arrangement on this note payable for 2020 was \$111,361.

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, 2020, the fair value of the swap agreement was \$358,613, 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, 2020, the outstanding balance on the note payable was \$23,260. 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 2020 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, 2020**

**NOTE 7 NOTES PAYABLE (CONTINUED)**

The minimum annual repayment requirements on the notes payable as of June 30, 2020 are as follows:

<u>Year Ending June 30,</u>	<u>Amount</u>
2021	\$ 120,282
2022	124,856
2023	129,561
2024	2,808,939
2024	3,323
Thereafter	6,645
Total	<u>3,193,606</u>
Less: Unamortized Refinancing Fees	<u>(27,482)</u>
Total, Net of Refinancing Fees	<u><u>\$ 3,166,124</u></u>

**NOTE 8 NET ASSETS**

Net assets with donor restrictions as of June 30, 2020 are as follows:

Beneficial Interest in Perpetual Trusts	\$ 198,179
Other Permanent Restrictions	264,175
Beneficial Interest in Remainder Trust - Time Restriction	884,620
Total	<u><u>\$ 1,346,974</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, 2020**

**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 their financial exposure is likely limited to the amount awarded by the jury, 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>
2021	\$ 252,507
2021	242,848
2023	<u>209,972</u>
Total	<u><u>\$ 705,327</u></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**

The Foundation sponsors the HealthSpark Foundation 401(k) Profit Sharing Plan and Trust for its 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, 2020, the Foundation contributed \$14,785 in matching contributions and \$6,900 in profit sharing contributions.

**HEALTHSPARK FOUNDATION AND 2506 LLC**  
**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS**  
**JUNE 30, 2020**

**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, 2020. Comparative totals are included for the year ended June 30, 2019.

	2020						2019 Total
	Program Activity			Management and General		Total	
	Grants	Facility	Total	General	Total		
Program Grants	\$ 487,320	\$ -	\$ 487,320	\$ -	\$ 487,320	\$ 480,210	
Program, Evaluation, and Communication Consulting	342,242	-	342,242	-	342,242	252,746	
Salaries	277,305	47,382	324,687	119,513	444,200	435,541	
Payroll Taxes/Employee Benefits	80,548	16,318	96,866	16,078	112,944	104,975	
Professional Services:							
Legal Fees	593	7,973	8,566	11,787	20,353	13,519	
Audit	-	-	-	20,388	20,388	20,498	
Accounting	-	-	-	1,610	1,610	24,708	
Other Consulting	2,601	-	2,601	15,910	18,511	49,265	
Temporary Help	-	-	-	-	-	16,320	
Occupancy	4,589	-	4,589	1,377	5,966	20,578	
Utilities and Security	-	33,268	33,268	-	33,268	37,802	
Telephone and Communications	13,402	951	14,353	1,895	16,248	18,423	
Office Supplies and Software Maintenance	15,586	-	15,586	4,040	19,626	18,705	
Building Maintenance	-	81,792	81,792	-	81,792	101,888	
Insurance	6,025	10,814	16,839	3,816	20,655	20,354	
Meeting and Travel	32,586	-	32,586	13,793	46,379	49,853	
Dues and Subscriptions	11,012	-	11,012	803	11,815	15,293	
Depreciation	20,506	178,617	199,123	8,163	207,286	202,813	
Interest	-	118,530	118,530	-	118,530	116,912	
Excise Tax (Credit)	-	-	-	61,495	61,495	4,307	
Miscellaneous	4,736	-	4,736	1,025	5,761	9,630	
Total Operating Expenses	<u>\$ 1,299,051</u>	<u>\$ 495,645</u>	<u>\$ 1,794,696</u>	<u>\$ 281,693</u>	<u>\$ 2,076,389</u>	<u>\$ 2,014,340</u>	
North Penn Hospital Related Expenses	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 80,974</u>	<u>80,974</u>	<u>\$ 511,230</u>	

**HEALTHSPARK FOUNDATION AND 2506 LLC**  
**SCHEDULE OF GRANTS**  
**YEAR ENDED JUNE 30, 2020**  
**(SEE INDEPENDENT AUDITORS' REPORT)**

**PROGRAM GRANTS**

Access Services (2)	\$ 33,000
ACLAMO Family Centers	3,000
Arcadia University	3,000
Bethel AME Church of Ardmore	3,000
Bethlehem Baptist Church	3,000
Bucks-Mont Collaborative	3,000
Catholic Social Services Montgomery County	28,500
ElderNet of Lower Merion & Narberth	30,000
Family Service of Montgomery County	3,000
Greater Harleysville and North Penn Senior Services	3,000
Gwynedd-Mercy University	3,000
Indian Valley Public Library	3,000
Inter-Faith Housing Alliance	3,000
Interagency Council of Norristown	3,000
Interfaith Hospitality Network of the Main Line	3,000
Laurel House (2)	3,500
Legal Aid of Southeastern Pennsylvania (2)	31,820
Manna on Main Street (3)	33,250
Maternal and Child Health Consortium of Chester County	3,000
Mattie N Dixon Community Cupboard Inc.	250
Mission Kids Child Advocacy Center (2)	33,000
Montgomery County Association for the Blind	3,000
Montgomery County Community College Foundation	3,000
Norristown Ministries Inc. Hospitality Center	3,000
Pennsylvania Health Access Network (2)	8,000
Philanthropy Network Greater Philadelphia	10,000
Pottstown Cluster of Religious Communities (2)	3,000
Public Citizens for Children and Youth	3,000
Regional Housing Legal Services	3,000
Retired & Senior Volunteer Program of Montgomery County, Inc.	3,000
Senior Adult Activities Center of Montgomery County	3,000
The Council of Southeast Pennsylvania, Inc.	3,000
The Deaf-Hearing Communication Centre	3,000
The Lincoln Center for Family and Youth	3,000
The Montgomery County Foundation, Inc. (2)	95,000
The Open Link	3,000
The Partnership TMA	3,000
The Philip Jaisohn Memorial Foundation (2)	33,000
TPF Special Assets Fund (Lenfest Institute)	5,000
TriCounty Community Network (3)	56,000
Willow Grove Community Development Corporation	3,000
Women's Center of Montgomery County	3,000
YWCA Tri-County Area	3,000
	<hr/>
Total Program Grants	<u>\$ 487,320</u>

**HEALTHSPARK FOUNDATION AND 2506 LLC**  
**CONSOLIDATING STATEMENT OF FINANCIAL POSITION**  
**JUNE 30, 2020**  
(SEE INDEPENDENT AUDITORS' REPORT)

<b>ASSETS</b>	<u>Foundation</u>	<u>2506 LLC</u>	<u>Elimination</u>	<u>Total</u>
Cash and Cash Equivalents	\$ 249,406	\$ 289,022	\$ -	\$ 538,428
Prepaid and Other Current Assets	250,578	22,991	(34,236)	239,333
Investments	36,303,288	-	-	36,303,288
Beneficial Interest in Remainder Trust	884,620	-	-	884,620
Note Receivable - Related Party	2,441,286	-	(2,441,286)	-
Other Investments	490,226	-	-	490,226
Beneficial Interest in Perpetual Trust	198,179	-	-	198,179
Property and Equipment, Net	63,149	5,271,879	-	5,335,028
	<u>                  </u>	<u>                  </u>	<u>                  </u>	<u>                  </u>
Total Assets	<u>\$ 40,880,732</u>	<u>\$ 5,583,892</u>	<u>\$ (2,475,522)</u>	<u>\$ 43,989,102</u>
 <b>LIABILITIES AND NET ASSETS (DEFICIT)</b>				
<b>LIABILITIES</b>				
Grants Payable	\$ -	\$ -	\$ -	\$ -
Accounts Payable and Accrued Expenses	91,979	44,972	(34,236)	102,715
Notes Payable - Related Party	-	2,441,286	(2,441,286)	-
Notes Payable, Net of Refinancing Fees	-	3,166,124	-	3,166,124
Deferred Tax Liability	48,223	-	-	48,223
Interest Rate Swap Liability	-	358,613	-	358,613
Security Deposits	-	13,530	-	13,530
Other Liabilities in Connection with				
North Penn Hospital	490,226	-	-	490,226
Total Liabilities	<u>630,428</u>	<u>6,024,525</u>	<u>(2,475,522)</u>	<u>4,179,431</u>
 <b>NET ASSETS (DEFICIT)</b>				
Without Donor Restrictions:				
Undesignated	38,902,070	(440,633)	-	38,461,437
Board Designated	1,260	-	-	1,260
Total Net Assets Without Donor Restrictions	<u>38,903,330</u>	<u>(440,633)</u>	<u>-</u>	<u>38,462,697</u>
With Donor Restrictions	1,346,974	-	-	1,346,974
Total Net Assets (Deficit)	<u>40,250,304</u>	<u>(440,633)</u>	<u>-</u>	<u>39,809,671</u>
	<u>                  </u>	<u>                  </u>	<u>                  </u>	<u>                  </u>
Total Liabilities and Net Assets (Deficit)	<u>\$ 40,880,732</u>	<u>\$ 5,583,892</u>	<u>\$ (2,475,522)</u>	<u>\$ 43,989,102</u>

**HEALTHSPARK FOUNDATION AND 2506 LLC**  
**CONSOLIDATING STATEMENT OF ACTIVITIES AND CHANGES IN NET ASSETS (DEFICIT)**  
**YEAR ENDED JUNE 30, 2020**  
**(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	\$ 126,600	\$ -	\$ 126,600	\$ 891	\$ (51,996)		\$ 75,495
Income from Perpetual Trusts	9,600	-	9,600	-	-		9,600
Rental	-	-	-	458,531	(79,789)		378,742
Contributions	-	-	-	3,323	-		3,323
Change in Beneficial Interest in Remainder Trust	-	49,241	49,241	-	-		49,241
Contributions from Related Party	-	-	-	160,119	(160,119)		-
Change in Beneficial Interest in Perpetual Trust	-	(4,384)	(4,384)	-	-		(4,384)
Net Realized and Unrealized Gains on Investments	1,381,446	-	1,381,446	-	-		1,381,446
Other Income	328	-	328	-	-		328
Total Revenue	<u>1,517,974</u>	<u>44,857</u>	<u>1,562,831</u>	<u>622,864</u>	<u>(291,904)</u>		<u>1,893,791</u>
<b>EXPENSES</b>							
Program Grants	487,320	-	487,320	-	-		487,320
Other Program Activities	873,103	-	873,103	547,641	(113,368)		1,307,376
Total Program Expenses	<u>1,360,423</u>	<u>-</u>	<u>1,360,423</u>	<u>547,641</u>	<u>(113,368)</u>		<u>1,794,696</u>
Management and General	290,956	-	290,956	9,154	(18,417)		281,693
Total Expenses	<u>1,651,379</u>	<u>-</u>	<u>1,651,379</u>	<u>556,795</u>	<u>(131,785)</u>		<u>2,076,389</u>
<b>EXCESS (DEFICIT) OF REVENUE OVER EXPENSE</b>	(133,405)	44,857	(88,548)	66,069	(160,119)		(182,598)
<b>OTHER INCOME</b>							
Change in Value of Interest Rate Swap	-	-	-	(48,640)	-		(48,640)
Net Operating Revenue (Loss)	<u>(133,405)</u>	<u>44,857</u>	<u>(88,548)</u>	<u>17,429</u>	<u>(160,119)</u>		<u>(231,238)</u>
<b>NONOPERATING EXPENSES</b>							
North Penn Hospital Related Expenses	(80,974)	-	(80,974)	-	-		(80,974)
Contribution to Related Party	(160,119)	-	(160,119)	-	160,119		-
Total Nonoperating Expenses	<u>(241,093)</u>	<u>-</u>	<u>(241,093)</u>	<u>-</u>	<u>160,119</u>		<u>(80,974)</u>
<b>CHANGE IN NET ASSETS</b>	(374,498)	44,857	(329,641)	17,429	-		(312,212)
Net Assets (Deficit) - Beginning of Year	<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>
<b>NET ASSETS (DEFICIT) - END OF YEAR</b>	<u>\$ 38,903,330</u>	<u>\$ 1,346,974</u>	<u>\$ 40,250,304</u>	<u>\$ (440,633)</u>	<u>\$ -</u>		<u>\$ 39,809,671</u>

Investment advisory services are offered through CliftonLarsonAllen Wealth Advisors, LLC,  
an SEC-registered investment advisor. | CliftonLarsonAllen LLP

