

THE PHILADELPHIA FOUNDATION
CONSOLIDATED FINANCIAL STATEMENTS
AND SUPPLEMENTARY INFORMATION
YEARS ENDED DECEMBER 31, 2018 AND 2017

CliftonLarsonAllen LLP



WEALTH ADVISORY | OUTSOURCING | AUDIT, TAX, AND CONSULTING



**THE PHILADELPHIA FOUNDATION
TABLE OF CONTENTS
YEARS ENDED DECEMBER 31, 2018 AND 2017**

INDEPENDENT AUDITORS' REPORT	1
CONSOLIDATED FINANCIAL STATEMENTS	
CONSOLIDATED STATEMENTS OF FINANCIAL POSITION	3
CONSOLIDATED STATEMENTS OF ACTIVITIES	4
CONSOLIDATED STATEMENTS OF FUNCTIONAL EXPENSES	6
CONSOLIDATED STATEMENTS OF CASH FLOWS	8
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS	9
SUPPLEMENTARY INFORMATION	
SCHEDULE OF CONSOLIDATED NET ASSETS	28
NOTES TO SCHEDULE OF CONSOLIDATED NET ASSETS	29
CONSOLIDATING STATEMENT OF FINANCIAL POSITION	30
CONSOLIDATING STATEMENT OF ACTIVITIES	31



INDEPENDENT AUDITORS' REPORT

Board of Managers
The Philadelphia Foundation
Philadelphia, Pennsylvania

Report on the Financial Statements

We have audited the accompanying consolidated financial statements of The Philadelphia Foundation (a nonprofit corporation), which comprise the consolidated statements of financial position as of December 31, 2018 and 2017, the related consolidated statements of activities, functional expenses, and cash flows for the years then ended, and the related notes to the consolidated 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 audits. We conducted our audits in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the consolidated financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the consolidated financial statements. The procedures selected depend on the 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

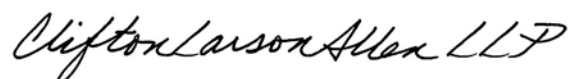
In our opinion, the consolidated financial statements referred to above present fairly, in all material respects, the financial position of The Philadelphia Foundation as of December 31, 2018 and 2017, and the changes in its net assets and its cash flows for the years then ended in accordance with accounting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

Change in Accounting Principle

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

Report on Supplementary Information

Our audits were conducted for the purpose of forming an opinion on the consolidated financial statements as a whole. The supplementary information on pages 28 through 32 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 derived from and relates directly to the underlying accounting and other records used to prepare the 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 financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the information is fairly stated in all material respects in relation to the consolidated financial statements as a whole.



CliftonLarsonAllen LLP

Plymouth Meeting, Pennsylvania
June 20, 2019

THE PHILADELPHIA FOUNDATION
CONSOLIDATED STATEMENTS OF FINANCIAL POSITION
DECEMBER 31, 2018 AND 2017

	2018	2017
ASSETS		
Cash and Cash Equivalents	\$ 24,654,393	\$ 15,155,107
Certificates of Deposit	5,121,423	1,739,330
Contributions Receivable	45,145,433	34,514,102
Prepaid Expenses and Other Assets	296,452	202,510
Total	75,217,701	51,611,049
Nonendowment Investments:		
Equities	12,298,214	10,862,654
Fixed Income	30,786,093	10,001,135
Other	19,750,785	19,647,906
Total Nonendowment Investments	62,835,092	40,511,695
Real Estate Held for Sale	-	15,852,000
Endowment Investments:		
Equities	202,866,452	216,920,347
Fixed Income	98,180,833	88,579,235
Cash Surrender Value of Life Insurance	376,324	407,246
Cash Equivalents	27,144,134	10,125,698
Other	66,805,124	57,544,328
Total Endowment Investments	395,372,867	373,576,854
Split-Interest Agreements	9,022,763	11,354,390
Property and Equipment	910,693	895,836
Total Assets	\$ 543,359,116	\$ 493,801,824
LIABILITIES AND NET ASSETS		
LIABILITIES		
Accounts Payable and Accrued Liabilities	\$ 1,136,918	\$ 1,187,142
Grants Payable	3,350,477	1,475,269
Liabilities Under Split-Interest Agreements	2,291,339	2,731,387
Liabilities Under Agency Accounts	9,691,932	10,446,460
Deferred Rent and Lease Incentive Liability	963,230	817,663
Total Liabilities	17,433,896	16,657,921
NET ASSETS		
Without Donor Restrictions:		
For Grant Endowments	302,014,034	301,617,087
For Grantmaking	62,956,074	33,971,001
For Administrative Endowment and Operations	4,734,177	5,387,433
Total Without Donor Restrictions	369,704,285	340,975,521
With Donor Restrictions	156,220,935	136,168,382
Total Net Assets	525,925,220	477,143,903
Total Liabilities and Net Assets	\$ 543,359,116	\$ 493,801,824

See accompanying Notes to Consolidated Financial Statements.

**THE PHILADELPHIA FOUNDATION
CONSOLIDATED STATEMENT OF ACTIVITIES
YEAR ENDED DECEMBER 31, 2018**

	Without Donor Restrictions	With Donor Restrictions	Total
REVENUE AND SUPPORT			
Gifts, Grants, and Bequests	\$ 59,282,144	\$ 51,971,043	\$ 111,253,187
Investment Income	12,909,451	1,593,230	14,502,681
Net Unrealized and Realized Investment Losses	(27,514,911)	(3,082,025)	(30,596,936)
Change in Value of Perpetual Trust	-	(102,780)	(102,780)
Subtotal	44,676,684	50,379,468	95,056,152
Net Assets Released from Restrictions:			
Satisfaction of Program Restrictions	7,800,574	(7,800,574)	-
Satisfaction of Time Restrictions	20,663,723	(20,663,723)	-
Other Transfers and Adjustments	1,862,618	(1,862,618)	-
Total Revenue and Support	75,003,599	20,052,553	95,056,152
EXPENSES			
Grants	35,459,189	-	35,459,189
Grantmaking	1,562,939	-	1,562,939
Special Program Expenses	3,033,921	-	3,033,921
Development and Donor Services	1,776,116	-	1,776,116
Financial Management	3,542,819	-	3,542,819
Marketing	411,500	-	411,500
Total Expenses	45,786,484	-	45,786,484
CHANGE IN NET ASSETS BEFORE INCOME TAXES	29,217,115	20,052,553	49,269,668
Unrelated Business Income Tax Expense	488,351	-	488,351
CHANGE IN NET ASSETS	28,728,764	20,052,553	48,781,317
Net Assets - Beginning of Year	340,975,521	136,168,382	477,143,903
NET ASSETS - END OF YEAR	\$ 369,704,285	\$ 156,220,935	\$ 525,925,220

See accompanying Notes to Consolidated Financial Statements.

**THE PHILADELPHIA FOUNDATION
CONSOLIDATED STATEMENT OF ACTIVITIES
YEAR ENDED DECEMBER 31, 2017**

	<u>Without Donor Restrictions</u>	<u>With Donor Restrictions</u>	<u>Total</u>
REVENUE AND SUPPORT			
Gifts, Grants, and Bequests	\$ 22,178,351	\$ 34,940,854	\$ 57,119,205
Investment Income	8,743,394	1,654,917	10,398,311
Net Unrealized and Realized Investment Gains	36,519,596	2,392,399	38,911,995
Change in Value of Perpetual Trust	-	166,078	166,078
Subtotal	<u>67,441,341</u>	<u>39,154,248</u>	<u>106,595,589</u>
Net Assets Released from Restrictions:			
Satisfaction of Program Restrictions	4,180,765	(4,180,765)	-
Satisfaction of Time Restrictions	3,939,389	(3,939,389)	-
Other Transfers and Adjustments	<u>1,750,009</u>	<u>(1,750,009)</u>	<u>-</u>
Total Revenue and Support	77,311,504	29,284,085	106,595,589
EXPENSES			
Grants	22,326,828	-	22,326,828
Grantmaking	2,126,841	-	2,126,841
Special Program Expenses	2,620,438	-	2,620,438
Development and Donor Services	1,494,498	-	1,494,498
Financial Management	3,307,560	-	3,307,560
Marketing	<u>393,682</u>	<u>-</u>	<u>393,682</u>
Total Expenses	<u>32,269,847</u>	<u>-</u>	<u>32,269,847</u>
CHANGE IN NET ASSETS BEFORE INCOME TAXES			
	45,041,657	29,284,085	74,325,742
Unrelated Business Income Tax Expense	<u>761,989</u>	<u>-</u>	<u>761,989</u>
CHANGE IN NET ASSETS	44,279,668	29,284,085	73,563,753
Net Assets - Beginning of Year	<u>296,695,853</u>	<u>106,884,297</u>	<u>403,580,150</u>
NET ASSETS - END OF YEAR	<u>\$ 340,975,521</u>	<u>\$ 136,168,382</u>	<u>\$ 477,143,903</u>

See accompanying Notes to Consolidated Financial Statements.

THE PHILADELPHIA FOUNDATION
CONSOLIDATED STATEMENT OF FUNCTIONAL EXPENSES
YEAR ENDED DECEMBER 31, 2018

	Program Services	Support Services			Total
		Management and General	Fundraising	Total	
Grant Expense	\$ 35,459,189	\$ -	\$ -	\$ -	\$ 35,459,189
Salaries and Wages	713,922	1,391,236	787,383	2,178,619	2,892,541
Payroll Taxes and Benefits	187,094	354,622	199,282	553,904	740,998
Advertising	-	23,862	-	23,862	23,862
Auditing Fees	97,399	112,418	28,595	141,013	238,412
Conferences, Conventions, and Meetings	83,631	26,788	23,813	50,601	134,232
Consultants and Contracted Services	1,445,691	845,410	247,144	1,092,554	2,538,245
Depreciation	11,845	20,844	6,053	26,897	38,742
Equipment Rental and Maintenance	59,761	107,769	33,697	141,466	201,227
Insurance	13,863	26,457	7,004	33,461	47,324
Legal Fees	99,348	162,966	27,788	190,754	290,102
Membership and Dues	32,324	34,285	29,508	63,793	96,117
Miscellaneous	6,379	58,687	7,407	66,094	72,473
Taxes, Registration, and Fees	-	93,553	215	93,768	93,768
Occupancy	89,572	348,596	50,428	399,024	488,596
Postage and Shipping	6,057	10,297	2,951	13,248	19,305
Printing and Publications	1,500	27,450	5,038	32,488	33,988
Program Expenses	1,570,340	-	-	-	1,570,340
Public Relations	7,099	30,929	108,151	139,080	146,179
Real Estate Acquisition Costs	-	341,188	-	341,188	341,188
Supplies	12,455	18,884	4,569	23,453	35,908
Telephone	8,729	15,020	4,286	19,306	28,035
Travel	172,162	51,123	32,428	83,551	255,713
Subtotal	40,078,360	4,102,384	1,605,740	5,708,124	45,786,484
Unrelated Business Income Tax Expense	-	488,351	-	488,351	488,351
Total Expenses	<u>\$ 40,078,360</u>	<u>\$ 4,590,735</u>	<u>\$ 1,605,740</u>	<u>\$ 6,196,475</u>	<u>\$ 46,274,835</u>

See accompanying Notes to Consolidated Financial Statements.

THE PHILADELPHIA FOUNDATION
CONSOLIDATED STATEMENT OF FUNCTIONAL EXPENSES
YEAR ENDED DECEMBER 31, 2017

	Program Services	Support Services			Total
		Management and General	Fundraising	Total	
Grant Expense	\$ 22,326,828	\$ -	\$ -	\$ -	\$ 22,326,828
Salaries and Wages	557,495	1,167,342	664,425	1,831,767	2,389,262
Payroll Taxes and Benefits	124,445	266,689	136,782	403,471	527,916
Advertising	162	46,999	18	47,017	47,179
Auditing Fees	95,868	111,016	27,818	138,834	234,702
Conferences, Conventions, and Meetings	89,090	28,196	31,887	60,083	149,173
Consultants and Contracted Services	330,021	255,548	32,829	288,377	618,398
Depreciation	15,752	29,524	8,971	38,495	54,247
Equipment Rental and Maintenance	87,193	156,230	49,086	205,316	292,509
Insurance	11,164	29,126	6,025	35,151	46,315
Legal Fees	116,434	226,141	89,935	316,076	432,510
Membership and Dues	27,750	24,238	9,519	33,757	61,507
Miscellaneous	6,994	298,570	6,323	304,893	311,887
Taxes, Registration, and Fees	6,750	5,408	750	6,158	12,908
Occupancy	71,147	255,500	40,167	295,667	366,814
Postage and Shipping	6,310	10,235	2,832	13,067	19,377
Printing and Publications	4,148	10,851	5,735	16,586	20,734
Program Expenses	3,363,589	-	-	-	3,363,589
Public Relations	3,409	76,398	35,789	112,187	115,596
Real Estate Acquisition Costs	-	627,627	-	627,627	627,627
Supplies	9,248	20,345	3,678	24,023	33,271
Telephone	9,248	15,496	4,327	19,823	29,071
Travel	121,152	39,762	27,513	67,275	188,427
Subtotal	27,384,197	3,701,241	1,184,409	4,885,650	32,269,847
Unrelated Business Income Tax Expense	-	761,989	-	761,989	761,989
Total Expenses	<u>\$ 27,384,197</u>	<u>\$ 4,463,230</u>	<u>\$ 1,184,409</u>	<u>\$ 5,647,639</u>	<u>\$ 33,031,836</u>

See accompanying Notes to Consolidated Financial Statements.

THE PHILADELPHIA FOUNDATION
CONSOLIDATED STATEMENTS OF CASH FLOWS
YEARS ENDED DECEMBER 31, 2018 AND 2017

	2018	2017
CASH FLOWS FROM OPERATING ACTIVITIES		
Change in Net Assets	\$ 48,781,317	\$ 73,563,753
Adjustments to Reconcile Change in Net Assets to Net Cash Provided By Operating Activities:		
Depreciation	38,742	54,247
Amortization of Discount on Contributions Receivable	(2,203,449)	(1,406,136)
Contribution of Real Estate Held for Sale	-	(15,852,000)
Gain on Sale of Real Estate	(648,000)	-
Change in Value of Split-Interest Agreements	2,695,788	(2,087,416)
Unrealized Loss (Gain) on Investments	36,973,665	(28,503,868)
Realized Gain on Sale of Investments	(6,273,949)	(10,574,205)
(Increase) Decrease in:		
Contributions Receivable	(8,427,882)	8,022,915
Prepaid Expenses and Other Assets	(93,942)	60,119
Increase (Decrease) in:		
Accounts Payable and Accrued Liabilities	(50,224)	303,464
Grants Payable	1,875,208	571,141
Liabilities Under Split-Interest Agreements	(440,048)	480,970
Liabilities Under Agency Accounts	(754,528)	1,538,986
Deferred Rent and Lease Incentive Liability	145,567	787,221
Net Cash Provided by Operating Activities	71,618,265	26,959,191
CASH FLOWS FROM INVESTING ACTIVITIES		
Purchases of Nonendowment Investments	(57,255,708)	(9,196,975)
Proceeds from Sale of Nonendowment Investments	33,115,218	8,702,333
Purchases of Endowment Investments	113,142,817	(176,039,680)
Proceeds from Sale of Endowment Investments	(163,935,605)	155,626,048
Proceeds from the Sale of Real Estate	16,500,000	-
Purchases of Property and Equipment	(53,599)	(946,589)
Net Purchase of Certificates of Deposit	(3,267,941)	(975,000)
Net Cash Used by Investing Activities	(61,754,818)	(22,829,863)
CASH FLOWS FROM FINANCING ACTIVITIES		
Subject to Annuity Agreements	58,833	820,972
Payments on Annuity Contracts	(422,994)	(498,943)
Net Cash (Used) Provided by Financing Activities	(364,161)	322,029
INCREASE IN CASH AND CASH EQUIVALENTS	9,499,286	4,451,357
Cash and Cash Equivalents - Beginning of Year	15,155,107	10,703,750
CASH AND CASH EQUIVALENTS - END OF YEAR	\$ 24,654,393	\$ 15,155,107
SUPPLEMENTAL INFORMATION		
Income Taxes Paid	\$ 586,000	\$ 715,000
NONCASH TRANSACTION		
Contribution of Real Estate Held for Sale	\$ -	\$ 15,852,000

See accompanying Notes to Consolidated Financial Statements.

**THE PHILADELPHIA FOUNDATION
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
DECEMBER 31, 2018 AND 2017**

NOTE 1 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Organization and Principles of Consolidation

The Philadelphia Foundation (TPF) is a community foundation established in 1918 primarily to serve the Greater Philadelphia region. The Philadelphia Foundation, Inc. (TPF, Inc.), a nonprofit corporation formed in 1992, acts as trustee for a portion of TPF's assets. The members of the Board of Managers of TPF also serve as the Board of Directors of TPF, Inc. (Board of Managers). TPF and TPF, Inc. receive contributions, manage endowment and nonendowment funds, lead programs, and make grants to meet community needs.

TPF and TPF, Inc. are comprised of approximately 900 individual funds, which are classified into six different categories according to donor intent. These include funds with donor-imposed restrictions as to use: designated, donor advised, scholarship and administrative endowment; and funds with no or lesser restrictions: field of interest and undesignated. The board of managers is responsible for approval of all grants.

TPF Properties LLC was formed on October 10, 2017, with TPF, Inc. as the sole member. TPF Properties LLC owns and manages donated real estate properties which were held for sale as of December 31, 2017. TPF Properties LLC was organized exclusively for charitable purposes in accordance with Section 501(c)(3) of the Internal Revenue Code. Accordingly, all TPF Properties LLC activity is reported under TPF, Inc.

TPF Special Assets Fund (SAF), a nonprofit corporation, was incorporated as a Type I supporting organization to TPF on December 17, 2002, to receive, manage, and distribute assets, primarily real estate, in support of TPF.

The Lenfest Institute for Journalism, LLC (the Institute), formerly known as The Institute for Journalism in New Media, LLC, was formed on December 17, 2015, with SAF as the sole member. The Institute was organized solely and exclusively for educational and other tax-exempt purposes of SAF in accordance with Section 501(c)(3) of the Internal Revenue Code. Accordingly, all Institute activity is reported under SAF.

The Harry R. Halloran, Jr. Charitable Trust (Halloran Trust) was formed as a Type I supporting organization to TPF on June 3, 2013, to make grants for charitable purposes that support the mission of TPF.

Delaware Charitable Assets, Inc. (DCA), a nonprofit corporation, was incorporated as a Type I supporting organization to TPF on October 26, 2015, to make grants for charitable purposes that support the mission of TPF.

The Dr. Rudolph Masciantonio Foundation for Classical Studies (Masciantonio Foundation), a charitable trust controlled by TPF, was established on December 1, 2017, to promote Classical Studies. An Internal Revenue Service application is in process to treat Masciantonio Foundation as a Type I supporting organization to TPF.

**THE PHILADELPHIA FOUNDATION
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
DECEMBER 31, 2018 AND 2017**

NOTE 1 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Organization and Principles of Consolidation (Continued)

The accompanying consolidated financial statements include the accounts of TPF, TPF, Inc., SAF, Halloran Trust, DCA, and Masciantonio Foundation and are collectively referred to as the Foundation. All inter-company accounts have been eliminated.

Use of Estimates

The preparation of consolidated financial statements in conformity with U.S. generally accepted accounting principles requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the consolidated financial statements and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates.

Tax-Exempt Status

TPF, TPF, Inc., SAF, Halloran Trust, and DCA (the Foundation) are exempt from federal income taxes under Section 501(c)(3) of the Internal Revenue Code (the Code). TPF is treated as a publicly supported, tax-exempt community foundation as defined in Sections 509(a)(1) and 170(b)(1)(A)(vi) of the Code. In addition, the IRS has determined that TPF, Inc. is a component part of TPF and is exempt as such. SAF, the Halloran Trust and DCA are recognized as tax-exempt supporting organizations under section 509(a)(3) of the code. Certain unrelated business income is subject to Federal income taxes. The Foundation follows the income tax standard for uncertain tax positions. The application of this standard has no impact on the Foundation's consolidated financial statements.

The Institute is a single-member LLC with SAF as the sole member. The Institute is a disregarded entity for tax purposes, and all activity will be reported under SAF.

The Foundation engages in investments that produce unrelated business income. The associated unrelated business income tax is generated primarily from earnings on leveraged investments (primarily hedge funds) as well as ownership of private company stock. As of December 31, 2018 and 2017, the Foundation had prepaid taxes of \$202,966 and \$105,077, respectively, which is included in prepaid expenses and other assets in the accompanying consolidated statements of financial position.

Cash and Cash Equivalents

Cash equivalents include liquid investments with initial maturities of three months or less. Such investments consist of short-term notes and are recorded at cost which approximates fair value. For purposes of the consolidated statements of cash flows, cash and cash equivalents do not include cash and cash equivalents included within endowment investments.

THE PHILADELPHIA FOUNDATION
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
DECEMBER 31, 2018 AND 2017

NOTE 1 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Certificates of Deposit

Certificates of deposit have maturities of up to one year and are valued in the consolidated statements of financial position at their original purchase price plus accrued interest.

Investments

Investments in equities and fixed income securities are carried at fair value based on quoted market prices. Cash and cash equivalents and temporary investments are carried at cost which approximates fair value. If quoted market prices are not available, fair values of certain investments are based on quoted market prices of comparable instruments. Life insurance contracts are valued at cash surrender value. The Foundation is the beneficiary of two life insurance policies.

In addition, the Foundation invests in alternative investments whose values are not readily available through an outside source. Alternative investments consist of limited partnerships, mutual funds and fund of funds and are recorded at approximate fair value as determined and approved by the managers or valuation committees of the alternative investments based upon judgments, which include, among other factors, restrictions affecting marketability, operating results, financial condition of the issuers and the price of the most recent financing transactions. These alternative investments are included among equities, fixed income securities and other. The role of alternative investments is to increase portfolio diversification through sources of return that are not generally correlated with traditional equity and fixed income markets. In addition, alternative investments can provide relatively consistent returns and principal protection in volatile market environments, thereby reducing overall return volatility of the portfolio. The underlying managers in fund of funds vehicles may engage in the use of derivatives (options/futures/forwards) as part of their investment strategy. Alternative investments are generally less liquid than their traditional equity counterparts, and the Foundation's fund of funds alternative managers may have entry/exit terms and capital lockup periods that range from one month to three years.

The Foundation has private company stock that has no readily available market value and is stated at cost (appraised value at the date of gift) and included in other nonendowment and endowment investments. Additionally, a partial interest in real estate is held in trust for the Foundation. This real estate has no readily available market value and is stated at cost (appraised value at date of gift) and included in other endowment investments. The aggregate carrying amount of the cost basis investments was \$33,050,675 and \$33,050,675 at December 31, 2018 and 2017, respectively.

The net changes in fair value and the realized gains and losses on investments sold are reflected in the consolidated statements of activities as net unrealized and realized investment gains or losses. Investment transactions are recorded on the trade date.

**THE PHILADELPHIA FOUNDATION
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
DECEMBER 31, 2018 AND 2017**

NOTE 1 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Investments (Continued)

Cash and cash equivalents in endowment investments consist of contributions received and temporarily invested and accumulation of cash through planned liquidation of equity and fixed income positions to meet distribution requirements in January of each year.

In general, investments are exposed to various risks, such as interest rate, credit, and overall market volatility risk. Due to the level of risk associated with certain investments, it is reasonably possible that changes in the values of the investments will occur in the near term and that such changes could materially affect the investment balances and the amounts reported in the consolidated statements of financial position.

Split-Interest Agreements

Split-interest agreements are recorded at the fair value of the related investments based on quoted market prices. The Foundation has an interest in one irrevocable perpetual trust which is recorded at fair value based on the Foundation's interest in the underlying assets.

Liabilities Under Split-Interest Agreements

Liabilities under split-interest agreements reflect discounted cash flows owed to the income beneficiaries based on their life expectancy.

Property and Equipment

Property and equipment are carried at cost. Depreciation is calculated primarily using the straight-line method over the following estimated useful lives:

Furniture	7 Years
Computer Equipment	5 Years

Depreciation for leasehold improvements is calculated over the life of the lease.

Liabilities Under Agency Accounts

Liabilities under agency accounts represent funds transferred to the Foundation by charitable organizations and held by the Foundation in separate funds for the benefit of such charities. The related assets are reflected as both nonendowed and endowed investments.

Contributions

Contribution revenue is recorded when a contribution (including verifiable unconditional promises to give) is received. Bequests are recorded as contribution revenue when the respective will has been declared valid. Other contributions are recorded as revenue when the conditions limiting the transfer of assets have been satisfied, typically when the promise becomes irrevocable. Donated securities and other property are recorded at fair value on the date of donation.

THE PHILADELPHIA FOUNDATION
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
DECEMBER 31, 2018 AND 2017

NOTE 1 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Contributions (Continued)

Contributions receivable that are not expected to be collected within one year are recorded at the present value of their estimated future cash flows. The discounts on those amounts are computed using appropriate interest rates applicable to the years in which the promises are received. The rate used for contributions varies from approximately 1.7% to approximately 6.3%. The Foundation provides for uncollectible contributions receivable using the allowance method, which is based on management's judgment concerning historical collectability and analysis of individual contributions receivable. Past due receivables are individually analyzed for collectability and written off when all efforts at collection have been exhausted. As of December 31, 2018 and 2017, an allowance was not necessary.

Classification of Net Assets

The Foundation reports information regarding its financial position and activities according to two classes of net assets as follows:

Net Assets Without Donor Restrictions are not subject to donor-imposed stipulations or, if subject to such stipulations, are also subject to the variance power described below.

Net Assets With Donor Restrictions are subject to donor-imposed stipulations that will be met either by actions of the Foundation or the passage of time. These types of net assets include contributions receivable, life insurance policies, real estate, the Foundation's interest in charitable remainder trusts, the pooled income fund, and grants to be spent over a specific time period. Net assets with donor restrictions are also comprised of net assets subject to donor-imposed stipulations that neither expire by passage of time nor can be fulfilled or otherwise removed by the Foundation. These types of net assets must be maintained in perpetuity by the Foundation.

As explained below, most contributions with donor-imposed restrictions are classified as net assets without donor restrictions.

Substantially all contributions to component funds of TPF and TPF, Inc., including those with donor-imposed restrictions, are subject to the unilateral variance power established by the respective governing documents. The variance power gives the Board of Managers the ability to modify donor restrictions that are incapable of fulfillment.

In addition, absent contrary directions given in the transferring instrument regarding the use of principal, the TPF and TPF Inc.'s governing documents further provide all or part of the principal of any fund may be used subject to certain conditions, including approval of the Board of Managers and trustee holding each fund. Therefore, such contributions are reported as net assets without donor restrictions. However, this classification does not imply that such funds are available for claims of general creditors of the Foundation.

**THE PHILADELPHIA FOUNDATION
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
DECEMBER 31, 2018 AND 2017**

NOTE 1 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Classification of Net Assets (Continued)

Restricted contributions are reported as increases in net assets without donor restrictions if the restrictions expire within the fiscal year in which the contributions are received. When a restriction expires, net assets with donor restrictions are transferred to net assets without donor restrictions. Generally, earnings and gains (losses) on restricted contributions are also considered to be with donor restrictions.

When a contribution is received from a nonprofit organization for the purpose of establishing an endowment fund for the benefit of that organization, it is not considered to be a contribution for financial statement purposes. Such amounts are reflected in the consolidated statements of financial position as liabilities under agency accounts.

Advertising

The Foundation charges the cost of advertising to expense when incurred. Advertising expense was \$23,862 and \$47,179 for the years ended December 31, 2018 and 2017, respectively.

Uniform Prudent Management of Institutional Funds Act

The Uniform Prudent Management of Institutional Funds Act (UPMIFA) provides guidance on the classification of endowment fund net assets for states that have enacted versions of the UPMIFA, and enhances disclosures for endowment funds. Because UPMIFA has not become law in the Commonwealth of Pennsylvania, possible reclassifications of net assets are not required to be made. Disclosure of prevailing law in the Commonwealth of Pennsylvania has been included in Note 5.

Fair Value Measurement

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

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

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

THE PHILADELPHIA FOUNDATION
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
DECEMBER 31, 2018 AND 2017

NOTE 1 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Fair Value Measurement (Continued)

Level 2 – Quoted prices for similar instruments in active markets; quoted prices for identical or similar instruments in markets that are not active; and model-derived valuations whose inputs are observable or whose significant value drivers are observable.

Level 3 – Significant inputs to the valuation model are unobservable.

Fair Value of Financial Instruments

The fair value of cash and cash equivalents, grants payable, liabilities under split-interest agreements, and liabilities under agency accounts approximate their respective carrying amounts.

The fair value of contributions receivable is estimated by discounting the future cash flows using risk adjusted interest rates applicable to the years in which the promises are received.

The Foundation's endowment and nonendowment investments and split-interest agreements recorded at fair value on a recurring basis are included in Note 6. Determination of the fair value of private company stock and the Foundation's partial interest in real estate could not be made without incurring excessive cost. These investments are valued at cost (appraised value at the date of gift).

Change in Accounting Principle

The Foundation adopted the accounting guidance in FASB Accounting Standards Update (ASU) No. 2016-14, *Presentation of Financial Statements of Not-for-Profit Entities*. ASU 2016-14 provides for additional disclosure requirements and modifies net asset reporting. The standard requires the Foundation to reclassify its net assets (i.e. unrestricted, temporarily restricted, and permanently restricted) into two categories, net assets without donor restrictions and net assets with donor restrictions, among other requirements. With the exception of the disclosure on liquidity, these changes were applied retrospectively to ensure comparability with the prior year presented. The adoption did not impact the Foundation's financial position as of December 31, 2018 and 2017 or the changes in its net assets for the years then ended.

Reclassifications

Certain amounts have been reclassified in 2017 to conform to the 2018 presentation.

Subsequent Events

In preparing these consolidated financial statements, the Foundation has evaluated events and transactions for potential recognition or disclosure through June 20, 2019, the date the consolidated financial statements were available to be issued.

**THE PHILADELPHIA FOUNDATION
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
DECEMBER 31, 2018 AND 2017**

NOTE 2 CONCENTRATION OF CREDIT RISK

Cash and cash equivalents potentially subject the Foundation to a concentration of credit risk. The balances are insured by the Federal Deposit Insurance Corporation (FDIC) up to certain limits. At times, cash in bank deposit accounts and certificates of deposit may exceed FDIC insurable limits.

NOTE 3 CONTRIBUTIONS RECEIVABLE

Contributions receivable include unconditional promises to give at December 31:

	2018	2017
Receivable in Less Than One Year	\$ 19,410,992	\$ 9,921,473
Receivable in One to Five Years	19,509,999	17,165,500
Thereafter	17,000,000	19,000,000
Total	55,920,991	46,086,973
Less: Discounts to Present Value	10,775,558	11,572,871
Net Contribution Receivable	\$ 45,145,433	\$ 34,514,102

As of December 31, 2018 and 2017, contributions receivable included approximately \$9,256,000 and \$9,664,000 (\$14,000,000 and \$15,000,000 undiscounted) from the Philadelphia Eagles, respectively, due under the terms of a sublease and development agreement between the Eagles and the Philadelphia Authority for Industrial Development (PAID). Under this agreement, the Eagles are to make an annual payment of \$1,000,000 to the Foundation's Fund for Children through 2032.

As of December 31, 2018 and 2017, contributions receivable included approximately \$9,563,000 and \$9,937,000 (\$15,000,000 and \$16,000,000 undiscounted) from the Philadelphia Phillies, respectively, due under the terms of a sublease and development agreement between the Phillies and PAID. Under this agreement, the Phillies are to make an annual payment of \$1,000,000 to the Foundation's Fund for Children through 2033.

As of December 31, 2018, contributions receivable included approximately \$25,743,000 (\$26,338,000 undiscounted) of pledges to fund the Institute. As of December 31, 2017, contributions receivable included approximately \$14,070,000 (\$14,244,000 undiscounted) of pledges to fund the Institute.

**THE PHILADELPHIA FOUNDATION
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
DECEMBER 31, 2018 AND 2017**

NOTE 4 OTHER ENDOWMENT INVESTMENTS

Other endowment investments consist of the following at December 31:

	<u>2018</u>	<u>2017</u>
Hedge Funds	\$ 36,990,226	\$ 25,329,139
Private Equity Funds	6,619,941	3,491,842
Real Asset Funds	8,698,842	14,227,232
Real Property	637,501	637,501
Private Company Stock	13,858,614	13,858,614
Total	<u>\$ 66,805,124</u>	<u>\$ 57,544,328</u>

Hedge funds invest primarily in long/short equity strategies and event driven equity and debt arbitrage strategies, corporate actions, and special situations.

The Foundation had uncalled commitments of approximately \$4.1 million and \$2.5 million at December 31, 2018 and 2017, respectively. Such commitments are generally called over a number of years and contain fixed expiration dates or other termination clauses.

NOTE 5 ENDOWMENT ACTIVITY

An endowment is an established fund of cash, securities, or other assets to provide income for the maintenance of the Foundation. The use of the assets of the fund may be with or without donor restrictions. Endowment funds are generally established by donor-restricted gifts or bequests to provide a permanent source of income, or a term endowment, which is to provide income for a specific period. A board-designated endowment, which results from an internal designation, is not donor restricted and is classified as net assets without donor restrictions.

The mission of the Foundation's investment funds is to support current operations through a total return investment strategy and a spending policy set to maintain, and ideally increase, the purchasing power of the endowment, without putting the principal value of these funds at imprudent risk.

The general policy is to diversify investments to provide a balance that will enhance total return while avoiding undue risk concentration in any single asset class or investment category. The investment goals for all investment funds of the Foundation, including both trust and corporate assets, are to: (1) meet payout requirements of endowment funds, (2) provide sufficient liquidity to meet distribution requirements, (3) earn a total return of 5% in excess of inflation as measured by the Consumer Price Index over a five-year time horizon, and (4) earn competitive returns relative to capital market measures. Investment goals and performance are to be computed net of investment management and independent investment consultant fees. The Foundation is guided in its total return policy by Commonwealth of Pennsylvania Act 141, which dictates the amount of allowable distributions to be made from a restricted endowment.

THE PHILADELPHIA FOUNDATION
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
DECEMBER 31, 2018 AND 2017

NOTE 5 ENDOWMENT ACTIVITY (CONTINUED)

For the years ended December 31, 2018 and 2017, TPF and TPF, Inc. endowment distributions (cash payout) were 5% of the average market value, using a 20-quarter trailing average. The payout rate is established by the Board of Managers annually, for the following year. The cash payout includes cash required for grant making and for administrative costs.

Distributions of the Institute's endowment are made in accordance with the gift agreement. On an annual basis, up to 6% of the fair market value of the endowment fund may be spent based on a moving average of the fair market value of the endowment fund as determined by the board of managers of the Institute. The board of managers may from time-to-time adjust the 6% maximum annual draw on the endowment fund for extraordinary circumstances as determined by two-thirds vote of its board of managers, but in no event shall the annual draw exceed 10%. For the year ended December 31, 2018 and 2017, the distribution was 6% and 8%, respectively, of the market value of the endowment fund.

Endowment activity by net asset class for the year ended December 31, 2018 is as follows:

	Without Donor Restrictions	With Donor Restrictions	Total
Endowment Assets, Beginning of Year	\$ 310,857,679	\$ 38,602,919	\$ 349,460,598
Investment Return:			
Interest and Dividends, Net of Investment Expense	7,683,932	838,189	8,522,121
Net Realized and Unrealized Losses	<u>(24,726,967)</u>	<u>(3,198,437)</u>	<u>(27,925,404)</u>
Total Investment Return	<u>(17,043,035)</u>	<u>(2,360,248)</u>	<u>(19,403,283)</u>
Contributions	31,522,945	24,910,243	56,433,188
Distributions of Endowment Income	<u>(15,483,007)</u>	<u>(1,702,000)</u>	<u>(17,185,007)</u>
Endowment Assets, End of Year	<u>\$ 309,854,582</u>	<u>\$ 59,450,914</u>	<u>\$ 369,305,496</u>

THE PHILADELPHIA FOUNDATION
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
DECEMBER 31, 2018 AND 2017

NOTE 5 ENDOWMENT ACTIVITY (CONTINUED)

Endowment activity by net asset class for the year ended December 31, 2017 is as follows:

	Without Donor Restrictions	With Donor Restrictions	Total
Endowment Assets, Beginning of Year	\$ 272,836,390	\$ 20,283,626	\$ 293,120,016
Investment Return:			
Investment and Dividends, Net of Investment Expense	5,684,773	697,103	6,381,876
Net Realized and Unrealized Gains	35,828,969	1,974,482	37,803,451
Total Investment Return	41,513,742	2,671,585	44,185,327
Contributions	10,502,818	17,325,799	27,828,617
Distributions of Endowment Income	(13,995,271)	(1,678,091)	(15,673,362)
Endowment Assets, End of Year	<u>\$ 310,857,679</u>	<u>\$ 38,602,919</u>	<u>\$ 349,460,598</u>

The above endowment activity does not include \$26,067,371 and \$24,116,256 of endowment assets shown on the consolidated statements of financial position including agency endowments, cash surrender value of life insurance, real estate, and private company stock at December 31, 2018 and 2017, respectively.

NOTE 6 FAIR VALUE MEASUREMENTS

The Foundation uses fair value measurements to record fair value adjustments to certain assets and to determine fair value disclosures. For additional information on how the Foundation values all other assets refer to Note 1 – Summary of Significant Accounting Policies.

	Carrying Value at December 31, 2018			
	Level 1	Level 2	Level 3	Total
Nonendowment Investments:				
Equities	\$ 12,298,214	\$ -	\$ -	\$ 12,298,214
Fixed Income	30,786,093	-	-	30,786,093
Other	10,192	-	-	10,192
Endowment Investments:				
Equities	152,820,999	-	-	152,820,999
Fixed Income	90,510,400	-	-	90,510,400
Real Asset Funds	7,851,405	-	-	7,851,405
Split-Interest Agreements	8,084,075	-	938,688	9,022,763
	<u>\$ 302,361,378</u>	<u>\$ -</u>	<u>\$ 938,688</u>	303,300,066
Investments Measured at Fair Value Using Net Asset Value per Share Total				<u>103,357,379</u> <u>\$ 406,657,445</u>

THE PHILADELPHIA FOUNDATION
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
DECEMBER 31, 2018 AND 2017

NOTE 6 FAIR VALUE MEASUREMENTS (CONTINUED)

	Carrying Value at December 31, 2017			
	Level 1	Level 2	Level 3	Total
Nonendowment Investments:				
Equities	\$ 10,862,654	\$ -	\$ -	\$ 10,862,654
Fixed Income	10,001,135	-	-	10,001,135
Endowment Investments:				
Equities	169,219,781	-	-	169,219,781
Fixed Income	80,104,349	-	-	80,104,349
Real Asset Funds	13,185,652	-	-	13,185,652
Split-Interest Agreements	10,312,922	-	1,041,468	11,354,390
	<u>\$ 293,686,493</u>	<u>\$ -</u>	<u>\$ 1,041,468</u>	294,727,961
Investments Measured at Fair Value				
Using Net Asset Value per Share				87,129,214
Total				<u>\$ 381,857,175</u>

The following table provides a summary of changes in recurring and nonrecurring fair value of the Foundation's Level 3 financial assets for the year ended December 31, 2018:

	Split-Interest Agreements
Balance at January 1, 2018	\$ 1,041,468
Change in Value of Trusts	(102,780)
Balance at December 31, 2018	<u>\$ 938,688</u>

The following table provides a summary of changes in recurring and nonrecurring fair value of the Foundation's Level 3 financial assets for the year ended December 31, 2017:

	Split-Interest Agreements
Balance at January 1, 2017	\$ 875,390
Change in Value of Trusts	166,078
Balance at December 31, 2017	<u>\$ 1,041,468</u>

There were no assets measured at fair value on a nonrecurring basis at December 31, 2018. Assets measured at fair value on a nonrecurring basis as of December 31, 2017 were as follows:

	Carrying Value at December 31, 2017			
	Level 1	Level 2	Level 3	Total
Real Estate Held for Sale	\$ -	\$ -	\$ 15,852,000	\$ 15,852,000

Assets measured at fair value on a nonrecurring basis include real estate held for sale. Fair value was determined based on multiple valuation methodologies including sales comparison and income capitalization methods.

THE PHILADELPHIA FOUNDATION
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
DECEMBER 31, 2018 AND 2017

NOTE 6 FAIR VALUE MEASUREMENTS (CONTINUED)

Fair value measurements of investments in certain entities that calculate net asset value per share (or its equivalent) as of December 31, 2018:

	Net Asset Value	Unfunded Commitments	Redemption Frequency (if Currently Eligible)	Redemption Notice Period
International Equity Funds	\$ 19,766,917	\$ -	Monthly	5-90 Days
International Equity Funds	5,015,790	-	1 Year	90 Days
International Equity Funds	4,717,617	-	Quarterly	180 Days
Large Cap Equity Funds	12,390,090	-	Monthly	30 Days
Small Cap Equity Funds	5,115,084	-	3 Years	90 Days
Global Bond Funds	6,101,494	-	Monthly	10 Days
High Yield Bond Funds	11,948,738	-	Monthly to Quarterly	6 months - 180 Days
Equity Long/Short Hedge Funds	11,670,508	-	1 to 3 Years	95 Days
Multi-Strategy Hedge Funds	21,105,323	-	Monthly to Semi-annually	45-92 Days
Private Equity Funds & Stock	4,279,410	2,831,401	n/a	n/a
Real Asset Funds	1,246,408	1,249,547	n/a	n/a
Total	<u>\$ 103,357,379</u>	<u>\$ 4,080,948</u>		

Fair value measurements of investments in certain entities that calculate net asset value per share (or its equivalent) as of December 31, 2017:

	Net Asset Value	Unfunded Commitments	Redemption Frequency (if Currently Eligible)	Redemption Notice Period
International Equity Funds	\$ 18,582,288	\$ -	Monthly	5-90 Days
International Equity Funds	3,934,710	-	1 Year	90 Days
International Equity Funds	3,549,900	-	Quarterly	180 Days
Large Cap Equity Funds	13,305,585	-	Monthly	30 Days
Small Cap Equity Funds	3,136,165	-	3 Years	90 Days
Global Bond Funds	5,401,570	-	Monthly	10 Days
High Yield Bond Funds	8,265,232	-	Monthly to Quarterly	40-180 Days
Equity Long/Short Hedge Funds	3,488,879	-	1 to 3 Years	95 Days
Multi-Strategy Hedge Funds	21,840,260	-	Monthly to Annually	45-90 Days
Private Equity Funds & Stock	4,585,189	971,486	n/a	n/a
Real Asset Funds	1,039,436	1,488,545	n/a	n/a
Total	<u>\$ 87,129,214</u>	<u>\$ 2,460,031</u>		

International Equity Funds include investments in funds that are invested in domestic and international common stocks. The unobservable inputs used to determine the fair value of the investments is based on quoted market prices for the underlying securities which comprise the net asset value of the collective fund. The funds provide full disclosure of the underlying holdings, whereby the Foundation is able to verify its account balances.

Large/Small Cap Equity Funds include investments in funds that are invested in domestic common stocks. The unobservable inputs used to determine the fair value of the investments is based on quoted market prices for the underlying securities which comprise the net asset value of the collective fund. The funds provide full disclosure of the underlying holdings, whereby the Foundation is able to verify its account balances.

THE PHILADELPHIA FOUNDATION
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
DECEMBER 31, 2018 AND 2017

NOTE 6 FAIR VALUE MEASUREMENTS (CONTINUED)

Global Bond Funds include investments in funds that are invested primarily in publicly traded debt obligations. The unobservable inputs used to determine the fair value of the investments is based on quoted market prices for the underlying securities which comprise the net asset value of the collective fund. The funds provide full disclosure of the underlying holdings, whereby the Foundation is able to verify its account balances.

High Yield Bond Funds include investments in funds that are diversified and invested primarily in liquid, dollar-denominated bond securities. The unobservable inputs used to determine the fair value of the investments is based on quoted market prices for the underlying securities which comprise the net asset value of the collective fund. The funds provide full disclosure of the underlying holdings, whereby the Foundation is able to verify its account balances.

Equity Long/Short Hedge Funds is invested primarily in long/short equity managers along with distressed debt managers. The unobservable inputs used to determine the fair value of the fund of hedge funds in this category has been estimated using the net asset value per share of the investments.

Multi-Strategy Hedge Funds are invested primarily in a diversified portfolio of directly originated loan investments, distressed corporate and mortgage bonds and long/short credit. The unobservable inputs used to determine the fair value of the fund of hedge funds in this category has been estimated using the net asset value per share of the investments.

Private Equity Funds include investments in funds that are invested in venture capital, buy-outs, distressed securities, special situation funds, and direct investments in securities of companies. The unobservable inputs used to determine the fair value of the funds of private equity funds and direct investments has been estimated based on the capital account balances reported by the underlying partnerships subject to the capital fund of funds management review and judgment.

Real Asset Funds include investments in funds that are primarily invested in certain real estate funds formed as limited partnerships, limited liability companies, private real estate investment trusts, or similar entities. The unobservable inputs used to determine the fair value of real asset funds is estimated based on the capital account balance reported by the underlying partnerships which estimate the fair value of an investment in an investment company using the net asset value per share of the investments without further adjustment.

NOTE 7 SPLIT-INTEREST AGREEMENTS

During the years ended December 31, 2018 and 2017, contributions of \$58,833 and \$820,972, respectively, were received related to split-interest agreements. Additionally, investment income for the years ended December 31, 2018 and 2017 totaled \$224,478 and \$289,451, respectively. Net unrealized and realized gains of \$2,614,938 and \$1,150,903 related to split-interest agreements were recorded for the years ended December 31, 2018 and 2017, respectively.

**THE PHILADELPHIA FOUNDATION
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
DECEMBER 31, 2018 AND 2017**

NOTE 7 SPLIT-INTEREST AGREEMENTS (CONTINUED)

The Foundation has interests in split-interest agreements as follows at December 31:

	2018	2017
(a) Charitable Remainder Trusts	\$ 1,437,636	\$ 2,965,545
(b) Irrevocable Perpetual Trust	937,261	1,041,468
(c) Pooled Life Income Fund	2,462,385	2,598,444
(d) Charitable Gift Annuities	2,748,832	3,089,553
(e) Charitable Lead Trust	1,436,649	1,659,380
Total	\$ 9,022,763	\$ 11,354,390

- (a) The Foundation is the trustee of several charitable remainder trusts. Under these trust agreements, third-party beneficiaries receive 5% to 8% of the fair market value of the trust's assets, payable quarterly.
- (b) The Foundation is a beneficiary of an irrevocable perpetual trust. The trust assets are held by an outside trustee. Each year, the Foundation records income received from the trust as unrestricted income.
- (c) The Foundation's pooled life income fund allows donors to make tax-deductible gifts to the Foundation while the donor retains the right to either receive income from the donated property for life or grant such right to another individual or individuals.
- (d) The Foundation's charitable gift annuities program allows donors or their designated beneficiaries to receive periodic payments (annuities) for life with the transfer of the remaining assets to the Foundation upon death of the annuitant.
- (e) The Foundation is the trustee and beneficiary of a charitable lead annuity trust. The Foundation receives annual distributions over the 18-year term of the trust.

Liabilities under split-interest agreements amount to \$2,291,339 and \$2,731,387 at December 31, 2018 and 2017, respectively, which equals the estimated share of the split-interest agreements which will go to beneficiaries other than the Foundation.

NOTE 8 PROPERTY AND EQUIPMENT

Property and equipment consists of the following at December 31:

	2018	2017
Leasehold Improvements	\$ 714,229	\$ 660,630
Furniture and Equipment	277,418	277,418
Computers	8,546	8,546
Total	1,000,193	946,594
Less: Accumulated Depreciation	89,500	50,758
Total Property and Equipment	\$ 910,693	\$ 895,836

**THE PHILADELPHIA FOUNDATION
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
DECEMBER 31, 2018 AND 2017**

NOTE 8 PROPERTY AND EQUIPMENT (CONTINUED)

Depreciation expense for the years ended December 31, 2018 and 2017 was \$38,742 and \$54,247, respectively.

NOTE 9 GRANTS PAYABLE

Generally, grants are recorded when approved by the board of managers. The following is a summary of grants authorized and payable at December 31:

<u>Years Ending December 31,</u>	<u>2018</u>	<u>2017</u>
To Be Paid in Less Than One Year	\$ 2,810,177	\$ 1,147,594
To Be Paid in One to Five Years	540,300	327,675
Total	<u>\$ 3,350,477</u>	<u>\$ 1,475,269</u>

As of December 31, 2018 and 2017, the Foundation had no unrecorded grants in which conditions placed on these grants had not been met.

NOTE 10 DEFINED CONTRIBUTION RETIREMENT PLAN

The Foundation has a defined contribution plan which covers all eligible employees. For the years ended December 31, 2018 and 2017, the Foundation contributed 10% of salaries, as defined, for a total contribution of \$226,000 and \$129,770, respectively.

NOTE 11 LEASE COMMITMENTS

The Foundation leased office space under an operating lease agreement which expired on June 30, 2017. Effective December 15, 2016, the Foundation entered into an operating lease agreement for its new office space. The rent commencement date of the new lease was June 1, 2017, and the lease term expires May 31, 2029. The new lease agreement includes a tenant improvement allowance for property and equipment, and the related unamortized assets and liabilities are recorded under property and equipment and deferred rent and lease liability on the consolidated statements of financial position.

Rent expense was \$302,491 and \$264,501 for the years ended December 31, 2018 and 2017, respectively. The Foundation records periodic rental expense over the life of the lease. Deferred rent was \$304,013 and \$158,446 as of December 31, 2018 and 2017, respectively.

The Foundation also leases equipment under operating leases. Rental expense on leased equipment was \$13,232 and \$11,872 for the years ended December 31, 2018 and 2017, respectively.

**THE PHILADELPHIA FOUNDATION
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
DECEMBER 31, 2018 AND 2017**

NOTE 11 LEASE COMMITMENTS (CONTINUED)

At December 31, 2018, minimum rental payments for all operating leases are as follows:

<u>Year Ending December 31,</u>	<u>Amount</u>
2019	\$ 298,386
2020	314,820
2021	319,594
2022	319,643
2023	317,579
Thereafter	1,812,200
Total	<u>\$ 3,382,222</u>

NOTE 12 NET ASSETS WITH DONOR RESTRICTIONS

Net assets with time or purpose restrictions were as follows at December 31:

	<u>2018</u>	<u>2017</u>
Grants for Donor Restricted Activities	\$ 37,539,264	\$ 7,468,914
S Corporation Stock, Restricted by Terms of the Stock Donation Agreement	18,554,560	18,554,560
Use in Future Periods, Includes Pledges to the Foundation that are Expected to be Received in Subsequent Years and are Usually Considered to be Time Restricted	25,166,139	44,813,984
Total	<u>\$ 81,259,963</u>	<u>\$ 70,837,458</u>

Net assets to be held in perpetuity were as follows at December 31:

	<u>2018</u>	<u>2017</u>
Investments, Held Indefinitely at Historical Cost: Related Income and Gains are Expendable for Scholarship Grants and Reflected in Net Assets without Donor Restrictions	\$ 50,000	\$ 50,000
Partial Interest in a Perpetual Trust, Held by a Third-Party Trustee and Recorded at Fair Value	938,689	1,041,468
Permanent Endowment for the Institute	40,422,472	30,259,501
Contribution Receivable to Fund a Permanent Endowment for the Institute	11,884,046	11,860,092
Private Company Stock, Restricted for Permanent Endowment of the Institute	13,858,614	13,858,614
Masciantonio Foundation	7,807,151	8,261,249
Total	<u>\$ 74,960,972</u>	<u>\$ 65,330,924</u>

**THE PHILADELPHIA FOUNDATION
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
DECEMBER 31, 2018 AND 2017**

NOTE 13 FUNCTIONAL EXPENSES

The financial statements report certain categories of expenses that are attributable to more than one program or supporting function of The Foundation. These expenses require allocation on a reasonable basis that is consistently applied and are allocated on the basis of estimates of department time and usage. Expenses include depreciation and amortization, the president's office, insurance, audit and legal fees, office and occupancy, and information technology department. Also included are salaries and benefits, which are allocated on the basis of estimates of time and effort.

Functional expenses for the years ended December 31:

	<u>2018</u>	<u>2017</u>
Program Services	\$ 40,078,360	\$ 27,384,197
Management and General	4,590,735	4,463,230
Fundraising	<u>1,605,740</u>	<u>1,184,409</u>
Total	<u><u>\$ 46,274,835</u></u>	<u><u>\$ 33,031,836</u></u>

The Foundation serves as fiscal administrator for a number of funds, involving projects and initiatives. In 2018 and 2017, the largest initiative in this category was the Pennsylvania Institute for Instructional Coaching with total expenses of \$288,780 and \$981,253, respectively.

The fund was established by the Annenberg Foundation to support high school literacy and math coaching in selected school districts across Pennsylvania.

NOTE 14 LIQUIDITY AND AVAILABILITY OF RESOURCES

The following reflects The Foundation's financial assets available for expenditure within one year of the balance sheet date. The Foundation's funds consist of endowment and quasi-endowment funds. Income from endowments are restricted for specific purposes and, therefore, not available for general expenditure. Quasi-endowment amounts not available include amounts subject to certain conditions, including approval of the trustee holding each fund and The Foundation's Board of Managers.

Although The Foundation does not intend to spend from its Board Restricted endowments other than amounts appropriated for general expenditure as part of its annual budget approval, amounts could be made available if necessary.

**THE PHILADELPHIA FOUNDATION
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
DECEMBER 31, 2018 AND 2017**

NOTE 14 LIQUIDITY AND AVAILABILITY OF RESOURCES (CONTINUED)

Financial Assets, as of December 31, 2018	\$ 542,151,971
Less:	
Contractual or Donor-Imposed Restrictions Making Financial Assets Unavailable for General Expenditure	(174,321,122)
Quasi Endowment Fund, Primarily for Long-Term Investing	(334,994,130)
Board Restricted	<u>(31,138,443)</u>
 Financial Assets Available Within One Year to Meet Cash Needs for General Expenditures Within One Year	 <u>\$ 1,698,276</u>

THE PHILADELPHIA FOUNDATION
SCHEDULE OF CONSOLIDATED NET ASSETS
DECEMBER 31, 2018
(SEE INDEPENDENT AUDITORS' REPORT)

	Without Donor Restrictions			With Donor Restrictions	Total Net Assets	
	Administrative Endowment and Operations	Grantmaking	Grant Endowments			Total
Funds:						
Designated	\$ -	\$ 4,552,828	\$ 77,509,221	\$ 82,062,049	\$ 1,395,350	\$ 83,457,399
Field of Interest	-	3,291,674	119,934,603	123,226,277	24,171,001	147,397,278
Undesignated	-	729,241	28,501,572	29,230,813	3,171,208	32,402,021
Scholarship	-	1,316,851	18,807,615	20,124,466	50,000	20,174,466
Donor Advised	-	51,109,433	57,285,870	108,395,303	1,119,657	109,514,960
Operating Program	-	6,255	-	6,255	766,070	772,325
Administrative Endowment	2,248,916	-	-	2,248,916	-	2,248,916
Subtotal	<u>2,248,916</u>	<u>61,006,282</u>	<u>302,038,881</u>	<u>365,294,079</u>	<u>30,673,286</u>	<u>395,967,365</u>
Operating Fund and Reserve	<u>1,915,945</u>	<u>395,097</u>	<u>(24,847)</u>	<u>2,286,195</u>	<u>24,848</u>	<u>2,311,043</u>
Total	4,164,861	61,401,379	302,014,034	367,580,274	30,698,134	398,278,408
Other	<u>569,316</u>	<u>1,554,695</u>	<u>-</u>	<u>2,124,011</u>	<u>125,522,801</u>	<u>127,646,812</u>
Total Consolidated Net Assets	<u>\$ 4,734,177</u>	<u>\$ 62,956,074</u>	<u>\$ 302,014,034</u>	<u>\$ 369,704,285</u>	<u>\$ 156,220,935</u>	<u>\$ 525,925,220</u>

**THE PHILADELPHIA FOUNDATION
NOTES TO SCHEDULE OF CONSOLIDATED NET ASSETS
DECEMBER 31, 2018**

As discussed in Note 1 to the consolidated financial statements, most contributions are subject to the Foundation's unilateral variance power and are recorded as net assets without donor restrictions. However, the Foundation's intent is to use these funds as a permanent endowment to meet community needs based on the interest of the donors.

NOTE A FUNDS

The schedule of net assets identifies the fund categories reflected in the gift instruments:

Designated

Donors may choose at the time the fund is established, one or more specific organizations to share the income from their funds.

Field of Interest

Donors may specify a broad area of charitable interest, such as arts and culture, human services or education and have the Foundation select specific grantee organizations.

Undesignated

Donors may establish general purpose funds that give the Foundation the greatest flexibility to meet the region's emerging and changing needs over time.

Scholarship

Donors may establish scholarship funds to benefit a certain type of student or a specific institution or to encourage study of a particular subject.

Donor Advised

Donors who wish to remain actively involved with their philanthropy may make grant recommendations to the Board of Managers, which must retain final responsibility for all distributions made by the Foundation.

Administrative Endowment

The administrative endowment reflects funds that have been board or donor designated to act as an endowment for the benefit of the Foundation. Funds are drawn down each year for Foundation operations using the Foundation's spending policy.

For Administrative Endowment and Operations

Funds available for the general operations of the Foundation.

For Grantmaking

Includes the funds available for distribution, including funds released from the endowment for distribution under the spending policy and nonendowed gifts and grants available for distribution.

For Grant Endowments

Includes all unrestricted funds currently invested with either TPF, Inc. or the trustee institutions including: Wells Fargo, Mellon, PNC, Glenmede Trust Company, Bryn Mawr Trust Company, and Pitcairn Trust Company.

THE PHILADELPHIA FOUNDATION
CONSOLIDATING STATEMENT OF FINANCIAL POSITION
DECEMBER 31, 2018
(SEE INDEPENDENT AUDITORS' REPORT)

	TPF and TPF, Inc.	TPF Special Assets	Harry R. Halloran, Jr. Charitable Trust	Masciantonio Foundation	Eliminations	Total
ASSETS						
Cash and Cash Equivalents	\$ 14,678,493	\$ 9,638,626	\$ 280,049	\$ 57,225	\$ -	\$ 24,654,393
Certificates of Deposits	5,121,423	-	-	-	-	5,121,423
Contributions Receivable	19,455,740	25,478,567	250,000	-	(38,874)	45,145,433
Prepaid Expenses and Other Assets	80,257	13,229	202,966	-	-	296,452
Total	<u>39,335,913</u>	<u>35,130,422</u>	<u>733,015</u>	<u>57,225</u>	<u>(38,874)</u>	<u>75,217,701</u>
Nonendowment Investments:						
Equities	12,298,214	-	-	-	-	12,298,214
Fixed Income	30,786,093	-	-	-	-	30,786,093
Other	10,192	-	19,740,593	-	-	19,750,785
Total Nonendowment Investments	<u>43,094,499</u>	<u>-</u>	<u>19,740,593</u>	<u>-</u>	<u>-</u>	<u>62,835,092</u>
Endowment Investments:						
Equities	180,356,990	18,302,598	-	4,206,864	-	202,866,452
Fixed Income	84,669,861	10,248,076	-	3,262,896	-	98,180,833
Cash Surrender Value of Life Insurance	376,324	-	-	-	-	376,324
Cash Equivalents	14,717,753	12,056,821	-	369,560	-	27,144,134
Other	41,992,413	24,812,711	-	-	-	66,805,124
Total Endowment Investments	<u>322,113,341</u>	<u>65,420,206</u>	<u>-</u>	<u>7,839,320</u>	<u>-</u>	<u>395,372,867</u>
Split-Interest Agreements	9,022,763	-	-	-	-	9,022,763
Property and Equipment	862,521	48,172	-	-	-	910,693
Total Assets	<u>\$ 414,429,037</u>	<u>\$ 100,598,800</u>	<u>\$ 20,473,608</u>	<u>\$ 7,896,545</u>	<u>\$ (38,874)</u>	<u>\$ 543,359,116</u>
LIABILITIES AND NET ASSETS						
LIABILITIES						
Accounts Payable and Accrued Liabilities	\$ 488,651	\$ 665,563	\$ 21,578	\$ -	\$ (38,874)	\$ 1,136,918
Grants Payable	2,715,477	235,000	400,000	-	-	3,350,477
Liabilities Under Split-Interest Agreements	2,291,339	-	-	-	-	2,291,339
Liabilities Under Agency Accounts	9,691,932	-	-	-	-	9,691,932
Deferred Rent and Lease Incentive Liability	963,230	-	-	-	-	963,230
Total Liabilities	<u>16,150,629</u>	<u>900,563</u>	<u>421,578</u>	<u>-</u>	<u>(38,874)</u>	<u>17,433,896</u>
NET ASSETS						
Without Donor Restrictions:						
For Grant Endowments	302,014,034	-	-	-	-	302,014,034
For Grantmaking	61,401,379	-	1,497,470	57,225	-	62,956,074
For Administrative Endowment and Operations	4,164,861	569,316	-	-	-	4,734,177
Total Unrestricted	<u>367,580,274</u>	<u>569,316</u>	<u>1,497,470</u>	<u>57,225</u>	<u>-</u>	<u>369,704,285</u>
With Donor Restrictions	30,698,134	99,128,921	18,554,560	7,839,320	-	156,220,935
Total Net Assets	<u>398,278,408</u>	<u>99,698,237</u>	<u>20,052,030</u>	<u>7,896,545</u>	<u>-</u>	<u>525,925,220</u>
Total Liabilities and Net Assets	<u>\$ 414,429,037</u>	<u>\$ 100,598,800</u>	<u>\$ 20,473,608</u>	<u>\$ 7,896,545</u>	<u>\$ (38,874)</u>	<u>\$ 543,359,116</u>

**THE PHILADELPHIA FOUNDATION
CONSOLIDATING STATEMENT OF ACTIVITIES
YEAR ENDED DECEMBER 31, 2018
(SEE INDEPENDENT AUDITORS' REPORT)**

	TPF and TPF, Inc.			TPF Special Assets		
	Without Donor Restrictions	With Donor Restrictions	Total	Without Donor Restrictions	With Donor Restrictions	Total
REVENUE AND SUPPORT						
Gifts, Grants, and Bequests	\$ 59,179,648	\$ 1,735,497	\$ 60,915,145	\$ 243,278	\$ 50,235,546	\$ 50,478,824
Investment Income	10,265,801	406,825	10,672,626		956,541	956,541
Net Unrealized and Realized Investment Gains (Losses)	(27,634,515)	327,470	(27,307,045)	-	(2,725,533)	(2,725,533)
Change in Value of Perpetual Trust	-	(102,780)	(102,780)	-	-	-
Subtotal	41,810,934	2,367,012	44,177,946	243,278	48,466,554	48,709,832
Net Assets Released from Restrictions:						
Satisfaction of Program Restrictions	1,842,647	(1,842,647)	-	5,957,927	(5,957,927)	-
Satisfaction of Time Restrictions	19,531,119	(19,531,119)	-	1,132,604	(1,132,604)	-
Other Transfers and Adjustments	-	-	-	1,862,618	(1,862,618)	-
Total Revenue and Support	63,184,700	(19,006,754)	44,177,946	9,196,427	39,513,405	48,709,832
EXPENSES						
Grants	27,490,847	-	27,490,847	5,511,342	-	5,511,342
Grantmaking	567,810	-	567,810	995,129	-	995,129
Special Program Expenses	1,182,954	-	1,182,954	1,850,967	-	1,850,967
Development and Donor Services	1,232,931	-	1,232,931	543,185	-	543,185
Financial Management	3,032,527	-	3,032,527	595,041	-	595,041
Marketing	308,779	-	308,779	102,721	-	102,721
Total Expenses	33,815,848	-	33,815,848	9,598,385	-	9,598,385
CHANGE IN NET ASSETS BEFORE INCOME TAXES	29,368,852	(19,006,754)	10,362,098	(401,958)	39,513,405	39,111,447
Unrelated Business Income Tax Expense	-	-	-	-	-	-
CHANGE IN NET ASSETS	29,368,852	(19,006,754)	10,362,098	(401,958)	39,513,405	39,111,447
Net Assets - Beginning of Year	338,211,422	49,704,888	387,916,310	971,274	59,615,516	60,586,790
NET ASSETS - END OF YEAR	<u>\$ 367,580,274</u>	<u>\$ 30,698,134</u>	<u>\$ 398,278,408</u>	<u>\$ 569,316</u>	<u>\$ 99,128,921</u>	<u>\$ 99,698,237</u>

THE PHILADELPHIA FOUNDATION
CONSOLIDATING STATEMENT OF ACTIVITIES (CONTINUED)
YEAR ENDED DECEMBER 31, 2018
(SEE INDEPENDENT AUDITORS' REPORT)

	Harry R Halloran Charitable Trust			Masciantonio Foundation			Eliminations	
	Without Donor Restrictions	With Donor Restrictions	Total	Without Donor Restrictions	With Donor Restrictions	Total	Unrestricted	Total
REVENUE AND SUPPORT								
Gifts, Grants, and Bequests	\$ 42,295	\$ -	\$ 42,295	\$ -	\$ -	\$ -	\$ (183,077)	\$ 111,253,187
Investment Income	2,643,650	-	2,643,650	-	229,864	229,864	-	14,502,681
Net Unrealized and Realized Investment Gains (Losses)	119,604	-	119,604	-	(683,962)	(683,962)	-	(30,596,936)
Change in Value of Perpetual Trust	-	-	-	-	-	-	-	(102,780)
Subtotal	2,805,549	-	2,805,549	-	(454,098)	(454,098)	(183,077)	95,056,152
Net Assets Released from Restrictions:								
Satisfaction of Program Restrictions	-	-	-	-	-	-	-	-
Satisfaction of Time Restrictions	-	-	-	-	-	-	-	-
Other Transfers and Adjustments	-	-	-	-	-	-	-	-
Total Revenue and Support	2,805,549	-	2,805,549	-	(454,098)	(454,098)	(183,077)	95,056,152
EXPENSES								
Grants	2,457,000	-	2,457,000	-	-	-	-	35,459,189
Grantmaking	-	-	-	-	-	-	-	1,562,939
Special Program Expenses	-	-	-	-	-	-	-	3,033,921
Development and Donor Services	-	-	-	-	-	-	-	1,776,116
Financial Management	98,328	-	98,328	-	-	-	(183,077)	3,542,819
Marketing	-	-	-	-	-	-	-	411,500
Total Expenses	2,555,328	-	2,555,328	-	-	-	(183,077)	45,786,484
CHANGE IN NET ASSETS BEFORE INCOME TAXES	250,221	-	250,221	-	(454,098)	(454,098)	-	49,269,668
Unrelated Business Income Tax Expense	488,351	-	488,351	-	-	-	-	488,351
CHANGE IN NET ASSETS	(238,130)	-	(238,130)	-	(454,098)	(454,098)	-	48,781,317
Net Assets - Beginning of Year	1,735,600	18,554,560	20,290,160	57,225	8,293,418	8,350,643	-	477,143,903
NET ASSETS - END OF YEAR	<u>\$ 1,497,470</u>	<u>\$ 18,554,560</u>	<u>\$ 20,052,030</u>	<u>\$ 57,225</u>	<u>\$ 7,839,320</u>	<u>\$ 7,896,545</u>	<u>\$ -</u>	<u>\$ 525,925,220</u>



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