

THE PHILADELPHIA FOUNDATION
CONSOLIDATED FINANCIAL STATEMENTS
AND SUPPLEMENTARY INFORMATION
YEARS ENDED DECEMBER 31, 2017 AND 2016

CliftonLarsonAllen LLP



WEALTH ADVISORY | OUTSOURCING | AUDIT, TAX, AND CONSULTING



**THE PHILADELPHIA FOUNDATION
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YEARS ENDED DECEMBER 31, 2017 AND 2016**

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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, 2017 and 2016, and the related consolidated statements of activities and cash flows for the years then ended, and the related notes to the consolidated financial statements.

Management's Responsibility for the Consolidated Financial Statements

Management is responsible for the preparation and fair presentation of these consolidated financial statements in accordance with accounting principles generally accepted in the United States of America; this includes the design, implementation, and maintenance of internal control relevant to the preparation and fair presentation of consolidated financial statements that are free from material misstatement, whether due to fraud or error.

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.

Board of Managers
The Philadelphia Foundation

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, 2017 and 2016, 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.

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 25 through 30 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 8, 2018

THE PHILADELPHIA FOUNDATION
CONSOLIDATED STATEMENTS OF FINANCIAL POSITION
DECEMBER 31, 2017 AND 2016

ASSETS	2017	2016
Cash and Cash Equivalents	\$ 15,155,107	\$ 10,703,750
Certificates of Deposit	1,739,330	751,306
Contributions Receivable	34,514,102	41,130,881
Prepaid Expenses and Other Assets	202,510	262,629
Total	51,611,049	52,848,566
Nonendowment Investments:		
Equities	10,862,654	8,484,686
Fixed Income	10,001,135	10,008,816
Other	19,647,906	19,747,371
Total Nonendowment Investments	40,511,695	38,240,873
Real Estate Held for Sale	15,852,000	-
Endowment Investments:		
Equities	216,920,347	172,941,673
Fixed Income	88,579,235	75,507,325
Cash Surrender Value of Life Insurance	407,246	427,555
Cash Equivalents	10,125,698	13,759,773
Other	57,544,328	53,238,027
Total Endowment Investments	373,576,854	315,874,353
Split-Interest Agreements	11,354,390	9,589,003
Property and Equipment	895,836	3,494
Total Assets	\$ 493,801,824	\$ 416,556,289
LIABILITIES AND NET ASSETS		
LIABILITIES		
Accounts Payable and Accrued Liabilities	\$ 1,187,142	\$ 883,678
Grants Payable	1,475,269	904,128
Liabilities Under Split-Interest Agreements	2,731,387	2,250,417
Liabilities Under Agency Accounts	10,446,460	8,907,474
Deferred Rent and Lease Incentive Liability	817,663	30,442
Total Liabilities	16,657,921	12,976,139
NET ASSETS		
Unrestricted:		
For Grant Endowments	301,617,087	264,268,559
For Grantmaking	33,971,001	26,942,740
For Administrative Endowment and Operations	5,387,433	5,484,554
Total Unrestricted	340,975,521	296,695,853
Temporarily Restricted	70,837,458	53,154,841
Permanently Restricted	65,330,924	53,729,456
Total Net Assets	477,143,903	403,580,150
Total Liabilities and Net Assets	\$ 493,801,824	\$ 416,556,289

See accompanying Notes to Consolidated Financial Statements.

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

	Unrestricted	Temporarily Restricted	Permanently Restricted	Total
REVENUE AND SUPPORT				
Gifts, Grants, and Bequests	\$ 22,178,351	\$ 24,466,789	\$ 10,474,065	\$ 57,119,205
Investment Income	8,743,394	860,166	794,751	10,398,311
Net Unrealized and Realized Investment Gains	37,743,020	475,816	1,916,583	40,135,419
Change in Value of Perpetual Trust	-	-	166,078	166,078
Subtotal	<u>68,664,765</u>	<u>25,802,771</u>	<u>13,351,477</u>	<u>107,819,013</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	1,750,009	-	(1,750,009)	-
Total Revenue and Support	78,534,928	17,682,617	11,601,468	107,819,013
EXPENSES				
Grants	22,326,828	-	-	22,326,828
Investment Management and Trustee Fees	1,223,424	-	-	1,223,424
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	393,682	-	-	393,682
Total Expenses	<u>33,493,271</u>	<u>-</u>	<u>-</u>	<u>33,493,271</u>
CHANGE IN NET ASSETS BEFORE INCOME TAXES				
	45,041,657	17,682,617	11,601,468	74,325,742
Unrelated Business Income Tax Expense	761,989	-	-	761,989
CHANGE IN NET ASSETS	44,279,668	17,682,617	11,601,468	73,563,753
Net Assets - Beginning of Year	<u>296,695,853</u>	<u>53,154,841</u>	<u>53,729,456</u>	<u>403,580,150</u>
NET ASSETS - END OF YEAR	<u>\$ 340,975,521</u>	<u>\$ 70,837,458</u>	<u>\$ 65,330,924</u>	<u>\$ 477,143,903</u>

See accompanying Notes to Consolidated Financial Statements.

**THE PHILADELPHIA FOUNDATION
CONSOLIDATED STATEMENT OF ACTIVITIES
YEAR ENDED DECEMBER 31, 2016**

	Unrestricted	Temporarily Restricted	Permanently Restricted	Total
REVENUE AND SUPPORT				
Gifts, Grants, and Bequests	\$ 9,402,248	\$ 7,449,176	\$ 18,684,630	\$ 35,536,054
Investment Income	6,907,849	180,090	260,821	7,348,760
Net Unrealized and Realized Investment Gains	11,555,238	62,722	-	11,617,960
Change in Value of Perpetual Trust	-	-	46,326	46,326
Subtotal	<u>27,865,335</u>	<u>7,691,988</u>	<u>18,991,777</u>	<u>54,549,100</u>
Net Assets Released from Restrictions:				
Satisfaction of Program Restrictions	3,204,313	(3,204,313)	-	-
Satisfaction of Time Restrictions	<u>3,058,111</u>	<u>(3,058,111)</u>	-	-
Total Revenue and Support	34,127,759	1,429,564	18,991,777	54,549,100
EXPENSES				
Grants	20,457,081	-	-	20,457,081
Investment Management and Trustee Fees	978,398	-	-	978,398
Grantmaking	552,722	-	-	552,722
Special Program Expenses	2,373,447	-	-	2,373,447
Development and Donor Services	1,315,663	-	-	1,315,663
Financial Management	2,120,848	-	-	2,120,848
Marketing	<u>454,164</u>	-	-	<u>454,164</u>
Total Expenses	<u>28,252,323</u>	-	-	<u>28,252,323</u>
CHANGE IN NET ASSETS BEFORE INCOME TAXES	5,875,436	1,429,564	18,991,777	26,296,777
Unrelated Business Income Tax Expense	<u>104,078</u>	-	-	<u>104,078</u>
CHANGE IN NET ASSETS	5,771,358	1,429,564	18,991,777	26,192,699
Net Assets - Beginning of Year	<u>290,924,495</u>	<u>51,725,277</u>	<u>34,737,679</u>	<u>377,387,451</u>
NET ASSETS - END OF YEAR	<u>\$ 296,695,853</u>	<u>\$ 53,154,841</u>	<u>\$ 53,729,456</u>	<u>\$ 403,580,150</u>

See accompanying Notes to Consolidated Financial Statements.

THE PHILADELPHIA FOUNDATION
CONSOLIDATED STATEMENTS OF CASH FLOWS
YEARS ENDED DECEMBER 31, 2017 AND 2016

	2017	2016
CASH FLOWS FROM OPERATING ACTIVITIES		
Change in Net Assets	\$ 73,563,753	\$ 26,192,699
Adjustments to Reconcile Change in Net Assets to Net Cash Provided By Operating Activities:		
Depreciation	54,247	7,433
Amortization of Discount on Contributions Receivable	(1,406,136)	(992,218)
Contribution of Real Estate Held for Sale	(15,852,000)	-
Change in Value of Split-Interest Agreements	(2,087,416)	(3,396,346)
Unrealized Gain on Investments	(29,727,292)	(8,289,655)
Realized Gain on Sale of Investments	(10,574,205)	(3,374,631)
(Increase) Decrease in:		
Contributions Receivable	8,022,915	2,107,965
Prepaid Expenses and Other Assets	60,119	(93,862)
Increase (Decrease) in:		
Accounts Payable and Accrued Liabilities	303,464	38,828
Grants Payable	571,141	(3,262,919)
Liabilities Under Split-Interest Agreements	480,970	195,056
Liabilities Under Agency Accounts	1,538,986	834,610
Deferred Rent and Lease Incentive Liability	787,221	(54,111)
Net Cash Provided by Operating Activities	25,735,767	9,912,849
CASH FLOWS FROM INVESTING ACTIVITIES		
Purchases of Nonendowment Investments	(9,196,975)	(6,599,312)
Proceeds from Sale of Nonendowment Investments	8,702,333	11,711,485
Purchases of Endowment Investments	(174,816,256)	(119,525,652)
Proceeds from Sale of Endowment Investments	155,626,048	101,862,488
Purchases of Property and Equipment	(946,589)	-
Net Purchase of Certificates of Deposit	(975,000)	-
Net Cash Used by Investing Activities	(21,606,439)	(12,550,991)
CASH FLOWS FROM FINANCING ACTIVITIES		
Subject to Annuity Agreements	820,972	1,679,195
Payments on Annuity Contracts	(498,943)	(260,617)
Net Cash Provided by Financing Activities	322,029	1,418,578
INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS	4,451,357	(1,219,564)
Cash and Cash Equivalents - Beginning of Year	10,703,750	11,923,314
CASH AND CASH EQUIVALENTS - END OF YEAR	\$ 15,155,107	\$ 10,703,750
SUPPLEMENTAL INFORMATION		
Income Taxes Paid	\$ 715,000	\$ 154,500
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, 2017 AND 2016**

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 Bucks, Chester, Delaware, Montgomery, and Philadelphia counties. 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, 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.

Queen's Jubilee Education Foundation (QJEF), a nonprofit corporation, was incorporated on January 15, 2009 as a wholly controlled subsidiary of TPF. QJEF was formed to directly promote and operate a youth training and development program. On December 31, 2016, QJEF dissolved, and the remaining net assets were transferred to TPF to establish a component fund.

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 PHILADELPHIA FOUNDATION
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
DECEMBER 31, 2017 AND 2016**

NOTE 1 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Organization and Principles of Consolidation (Continued)

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 accompanying consolidated financial statements include the accounts of TPF, TPF, Inc., SAF, QJEF, 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, QJEF, 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. QJEF is recognized as a publicly supported tax-exempt organization as defined in sections 509(a)(1) and 170(b)(1)(a)(vi) 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, 2017 and 2016, the Foundation had prepaid taxes of \$105,077 and \$179,614, respectively, which is included in prepaid expenses and other assets in the accompanying consolidated statements of financial position.

THE PHILADELPHIA FOUNDATION
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
DECEMBER 31, 2017 AND 2016

NOTE 1 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

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.

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 non-endowment 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, 2017 and 2016, respectively.

**THE PHILADELPHIA FOUNDATION
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
DECEMBER 31, 2017 AND 2016**

NOTE 1 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Investments (Continued)

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.

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 non-endowed 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, 2017 AND 2016**

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, 2017 and 2016, an allowance was not necessary.

Classification of Net Assets

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

Unrestricted Net Assets are not subject to donor-imposed stipulations or, if subject to such stipulations, are also subject to the variance power described below.

Temporarily Restricted Net Assets are subject to donor-imposed stipulations that will be met either by actions of the Foundation or the passage of time. Temporarily restricted 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. As explained below, most contributions with donor-imposed restrictions are classified as unrestricted.

Permanently restricted net assets are subject to donor-imposed stipulations that neither expire by passage of time nor can be fulfilled or otherwise removed by the Foundation.

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 unrestricted net assets. However, this classification does not imply that such funds are available for claims of general creditors of the Foundation.

Temporarily restricted contributions are reported as increases in unrestricted net assets if the restrictions expire within the fiscal year in which the contributions are received. When a restriction expires, temporarily restricted net assets are transferred to unrestricted net assets. Generally, earnings and gains (losses) on temporarily restricted contributions are also considered to be temporarily restricted.

**THE PHILADELPHIA FOUNDATION
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
DECEMBER 31, 2017 AND 2016**

NOTE 1 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Classification of Net Assets (Continued)

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 \$47,179 and \$102,423 for the years ended December 31, 2017 and 2016, 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.

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.

THE PHILADELPHIA FOUNDATION
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
DECEMBER 31, 2017 AND 2016

NOTE 1 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

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 non-endowment 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).

Recent Accounting Pronouncements

In August 2016, the FASB issued ASU 2016-14, *Not-for-Profit Entities (Topic 958): Presentation of Financial Statements of Not-for-Profit Entities*. The new guidance improves and simplifies the current net asset classification requirements and information presented in the financial statements and notes that is useful in assessing a nonprofit's liquidity, financial performance, and cash flows. The provisions of ASU 2016-14 are effective for fiscal years beginning after December 15, 2017, with early adoption permitted. ASU 2016-14 is to be applied retroactively with transition provisions. The Foundation is assessing the impact this standard will have on its consolidated financial statements.

Subsequent Events

In preparing these consolidated financial statements, the Foundation has evaluated events and transactions for potential recognition or disclosure through June 8, 2018, the date the consolidated financial statements were available to be issued.

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.

THE PHILADELPHIA FOUNDATION
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
DECEMBER 31, 2017 AND 2016

NOTE 3 CONTRIBUTIONS RECEIVABLE

Contributions receivable include unconditional promises to give at December 31:

	<u>2017</u>	<u>2016</u>
Receivable in Less Than One Year	\$ 9,921,473	\$ 11,109,888
Receivable in One to Five Years	17,165,500	22,000,000
Thereafter	<u>19,000,000</u>	<u>21,000,000</u>
Total	46,086,973	54,109,888
Less: Discounts to Present Value	<u>11,572,871</u>	<u>12,979,007</u>
Net Contribution Receivable	<u>\$ 34,514,102</u>	<u>\$ 41,130,881</u>

As of December 31, 2017 and 2016, contributions receivable included approximately \$9,664,000 and \$10,047,000 (\$15,000,000 and \$16,000,000 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, 2017 and 2016, contributions receivable included approximately \$9,937,000 and \$10,289,000 (\$16,000,000 and \$17,000,000 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, 2017, contributions receivable included approximately \$14,070,000 (\$14,244,000 undiscounted) of pledges to fund the Institute. As of December 31, 2016, contributions receivable included approximately \$18,685,000 (\$19,000,000 undiscounted) of pledges to fund the Institute.

NOTE 4 OTHER ENDOWMENT INVESTMENTS

Other endowment investments consist of the following at December 31:

	<u>2017</u>	<u>2016</u>
Hedge Funds	\$ 25,329,139	\$ 20,991,173
Private Equity Funds	3,491,842	3,637,472
Real Asset Funds	14,227,232	14,113,266
Real Property	637,501	637,501
Private Company Stock	<u>13,858,614</u>	<u>13,858,615</u>
Total	<u>\$ 57,544,328</u>	<u>\$ 53,238,027</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 \$2.5 million and \$2.9 million at December 31, 2017 and 2016, respectively. Such commitments are generally called over a number of years and contain fixed expiration dates or other termination clauses.

THE PHILADELPHIA FOUNDATION
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
DECEMBER 31, 2017 AND 2016

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 permanently restricted, temporarily restricted, or unrestricted. 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 unrestricted net assets.

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.

For the years ended December 31, 2017 and 2016, 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, 2017, the distribution was 8% of the market value of the endowment fund. There was no distribution from the Institute's endowment for the year ended December 31, 2016.

THE PHILADELPHIA FOUNDATION
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
DECEMBER 31, 2017 AND 2016

NOTE 5 ENDOWMENT ACTIVITY (CONTINUED)

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

	Unrestricted	Temporarily Restricted	Permanently Restricted	Total
Endowment Assets, Beginning of Year	\$ 272,836,390	\$ -	\$ 20,283,626	\$ 293,120,016
Investment Return:				
Interest and Dividends, Net of Investment Expense	5,684,773	31,495	665,608	6,381,876
Net Realized and Unrealized Gains	35,828,969	57,899	1,916,583	37,803,451
Total Investment Return	41,513,742	89,394	2,582,191	44,185,327
Contributions	4,526,427	-	17,325,799	21,852,226
Distributions of Endowment Income	(8,018,880)	(57,225)	(1,620,866)	(9,696,971)
Endowment Assets, End of Year	<u>\$ 310,857,679</u>	<u>\$ 32,169</u>	<u>\$ 38,570,750</u>	<u>\$ 349,460,598</u>

Endowment activity by net asset class for the year ended December 31, 2016 is as follows:

	Unrestricted	Temporarily Restricted	Permanently Restricted	Total
Endowment Assets, Beginning of Year	\$ 265,086,506	\$ -	\$ 50,000	\$ 265,136,506
Investment Return:				
Investment and Dividends, Net of Investment Expense	5,241,731	-	233,626	5,475,357
Net Realized and Unrealized Losses	10,936,343	-	-	10,936,343
Total Investment Return	16,178,074	-	233,626	16,411,700
Contributions	5,512,394	-	20,000,000	25,512,394
Distributions of Endowment Income	(13,940,584)	-	-	(13,940,584)
Endowment Assets, End of Year	<u>\$ 272,836,390</u>	<u>\$ -</u>	<u>\$ 20,283,626</u>	<u>\$ 293,120,016</u>

The above endowment activity does not include \$24,116,256 and \$22,754,337 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, 2017 and 2016, respectively.

THE PHILADELPHIA FOUNDATION
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
DECEMBER 31, 2017 AND 2016

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, 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>	<u>294,727,961</u>
Investments Measured at Fair Value Using Net Asset Value per Share Total				<u>87,129,214</u> <u>\$ 381,857,175</u>

	Carrying Value at December 31, 2016			
	Level 1	Level 2	Level 3	Total
Nonendowment Investments:				
Equities	\$ 8,484,686	\$ -	\$ -	\$ 8,484,686
Fixed Income	10,008,816	-	-	10,008,816
Endowment Investments:				
Equities	144,272,641	-	-	144,272,641
Fixed Income	67,008,440	-	-	67,008,440
Real Asset Funds	12,870,374	-	-	12,870,374
Split-Interest Agreements	8,713,613	-	875,390	9,589,003
	<u>\$ 251,358,570</u>	<u>\$ -</u>	<u>\$ 875,390</u>	<u>252,233,960</u>
Investments Measured at Fair Value Using Net Asset Value per Share Total				<u>64,230,123</u> <u>\$ 316,464,083</u>

Level 3 Assets

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>

THE PHILADELPHIA FOUNDATION
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
DECEMBER 31, 2017 AND 2016

NOTE 6 FAIR VALUE MEASUREMENTS (CONTINUED)

Level 3 Assets (Continued)

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, 2016:

	Split-Interest Agreements
Balance at January 1, 2016	\$ 829,064
Change in Value of Trusts	46,326
Balance at December 31, 2016	<u>\$ 875,390</u>

Assets measured at fair value on a nonrecurring basis:

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

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.

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
	<u>\$ 87,129,214</u>	<u>\$ 2,460,031</u>		

THE PHILADELPHIA FOUNDATION
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
DECEMBER 31, 2017 AND 2016

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, 2016:

	Net Asset Value	Unfunded Commitments	Redemption Frequency (if Currently Eligible)	Redemption Notice Period
International Equity Funds	\$ 11,568,862	\$ -	Monthly	5-10 Days
International Equity Funds	3,412,170	-	1 Year	90 Days
International Equity Funds	2,800,455	-	Quarterly	180 Days
Large Cap Equity Funds	10,887,545	-	Monthly	30 Days
Global Bond Funds	3,593,518	-	Monthly	10 Days
High Yield Bond Funds	4,905,367	-	Monthly	45 Days
Equity Long/Short Hedge Funds	2,127,658	-	1 to 3 Years	95 Days
Multi-Strategy Hedge Funds	13,550,199	-	Monthly to Annually	45-90 Days
Multi-Strategy Hedge Funds	5,313,316	-	3 Years	30-60 Days
Private Equity Funds & Stock	4,830,283	1,276,162	n/a	n/a
Real Asset Funds	1,240,750	1,655,171	n/a	n/a
	<u>\$ 64,230,123</u>	<u>\$ 2,931,333</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 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.

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.

**THE PHILADELPHIA FOUNDATION
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
DECEMBER 31, 2017 AND 2016**

NOTE 6 FAIR VALUE MEASUREMENTS (CONTINUED)

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, 2017 and 2016, contributions of \$820,972 and \$1,679,195, respectively, were received related to split-interest agreements. Additionally, investment income for the years ended December 31, 2017 and 2016 totaled \$289,451 and \$182,884, respectively. Net unrealized and realized gains of \$1,150,903 and \$376,310 related to split-interest agreements were recorded for the years ended December 31, 2017 and 2016, respectively.

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

	2017	2016
(a) Charitable Remainder Trusts	\$ 2,965,545	\$ 2,226,019
(b) Irrevocable Perpetual Trust	1,041,468	875,391
(c) Pooled Life Income Fund	2,598,444	2,445,429
(d) Charitable Gift Annuities	3,089,553	2,542,164
(e) Charitable Lead Trust	1,659,380	1,500,000
Total	\$ 11,354,390	\$ 9,589,003

**THE PHILADELPHIA FOUNDATION
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
DECEMBER 31, 2017 AND 2016**

NOTE 7 SPLIT-INTEREST AGREEMENTS (CONTINUED)

- (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 to 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 \$2,731,387 and \$2,250,417 at December 31, 2017 and 2016, 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:

	2017	2016
Leasehold Improvements	\$ 660,630	\$ 67,654
Furniture and Equipment	277,418	118,583
Computers	8,546	55,070
Total	<u>946,594</u>	<u>241,307</u>
Less: Accumulated Depreciation	50,758	237,813
Total Property and Equipment	<u>\$ 895,836</u>	<u>\$ 3,494</u>

Depreciation expense for the years ended December 31, 2017 and 2016 was \$54,247 and \$7,433, respectively.

THE PHILADELPHIA FOUNDATION
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
DECEMBER 31, 2017 AND 2016

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:

Years Ending December 31,	2017	2016
To be Paid in Less Than One Year	\$ 1,147,594	\$ 667,978
To be Paid in One to Five Years	327,675	236,150
Total	\$ 1,475,269	\$ 904,128

As of December 31, 2017 and 2016, 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, 2017 and 2016, the Foundation contributed 10% of salaries, as defined, for a total contribution of \$129,770 and \$136,800, 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 \$264,501 and \$237,961 for the years ended December 31, 2017 and 2016, respectively. The Foundation records periodic rental expense over the life of the lease. Deferred rent was \$158,446 and \$30,442 as of December 31, 2017 and 2016, respectively.

The Foundation also leases equipment under operating leases. Rental expense on leased equipment was \$11,872 and \$17,747 for the years ended December 31, 2017 and 2016, respectively.

THE PHILADELPHIA FOUNDATION
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
DECEMBER 31, 2017 AND 2016

NOTE 11 LEASE COMMITMENTS (CONTINUED)

At December 31, 2017, minimum rental payments for all operating leases are as follows:

<u>Year Ending December 31.</u>	<u>Amount</u>
2018	\$ 159,807
2019	298,386
2020	314,820
2021	319,594
2022	319,643
Thereafter	2,129,779
Total	<u>\$ 3,542,029</u>

NOTE 12 TEMPORARILY RESTRICTED NET ASSETS

Temporarily restricted net assets were restricted as follows at December 31:

	<u>2017</u>	<u>2016</u>
Grants for Donor Restricted Activities	\$ 7,468,914	\$ 7,828,233
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	44,813,984	26,772,048
Total	<u>\$ 70,837,458</u>	<u>\$ 53,154,841</u>

NOTE 13 PERMANENTLY RESTRICTED NET ASSETS

Permanently restricted net assets consist of the following at December 31:

	<u>2017</u>	<u>2016</u>
Investments, Held Indefinitely at Historical Cost: Related Income and Gains are Expendable for Scholarship Grants and Reflected in Unrestricted Net Assets	\$ 50,000	\$ 50,000
Partial Interest in a Perpetual Trust, Held by a Third-Party Trustee and Recorded at Fair Value	1,041,468	875,391
Permanent Endowment for the Institute	30,259,501	20,260,821
Contribution Receivable to Fund a Permanent Endowment for the Institute	11,860,092	18,684,630
Private Company Stock, Restricted for Endowment of the Institute	13,858,614	13,858,614
Masciantonio Foundation	8,261,249	-
Total	<u>\$ 65,330,924</u>	<u>\$ 53,729,456</u>

**THE PHILADELPHIA FOUNDATION
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
DECEMBER 31, 2017 AND 2016**

NOTE 14 FUNCTIONAL EXPENSES

Functional expenses for the years ended December 31:

	<u>2017</u>	<u>2016</u>
Program Services	\$ 27,384,197	\$ 23,966,835
Management and General	5,686,654	3,656,057
Fundraising	1,184,409	733,509
Total	<u>\$ 34,255,260</u>	<u>\$ 28,356,401</u>

The Foundation serves as fiscal administrator for a number of funds, involving projects and initiatives. In 2017 and 2016, the largest initiative in this category was the Pennsylvania Institute for Instructional Coaching with total expenses of \$981,253 and \$1,500,755, respectively.

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

THE PHILADELPHIA FOUNDATION
SCHEDULE OF CONSOLIDATED NET ASSETS
DECEMBER 31, 2017
(SEE INDEPENDENT AUDITORS' REPORT)

	Unrestricted						Total Net Assets
	Administrative Endowment and Operations	Grantmaking	Grant Endowments	Total	Temporarily Restricted	Permanently Restricted	
Funds:							
Designated	\$ -	\$ 4,265,917	\$ 74,373,708	\$ 78,639,625	\$ 1,436,967	\$ -	\$ 80,076,592
Field of Interest	-	2,617,322	129,104,394	131,721,716	25,396,876	-	157,118,592
Undesignated	-	106,029	31,568,557	31,674,586	2,660,231	1,041,470	35,376,287
Scholarship	-	1,174,701	20,634,672	21,809,373	-	50,000	21,859,373
Donor Advised	-	23,985,135	45,935,756	69,920,891	1,297,691	-	71,218,582
Operating Program	-	29,071	-	29,071	17,796,807	-	17,825,878
Administrative Endowment	2,471,284	-	-	2,471,284	-	-	2,471,284
Subtotal	2,471,284	32,178,175	301,617,087	336,266,546	48,588,572	1,091,470	385,946,588
Operating Fund and Reserve	1,944,874	-	-	1,944,874	24,848	-	1,969,722
Total	4,416,158	32,178,175	301,617,087	338,211,420	48,613,420	1,091,470	387,916,310
Other	971,275	1,792,826	-	2,764,101	22,224,038	64,239,454	89,227,593
Total Consolidated Net Assets	\$ 5,387,433	\$ 33,971,001	\$ 301,617,087	\$ 340,975,521	\$ 70,837,458	\$ 65,330,924	\$ 477,143,903

**THE PHILADELPHIA FOUNDATION
NOTES TO SCHEDULE OF CONSOLIDATED NET ASSETS
DECEMBER 31, 2017**

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 unrestricted net assets. 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 non-endowed 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
SCHEDULE OF CONSOLIDATED FUNCTIONAL EXPENSES
YEAR ENDED DECEMBER 31, 2017
(SEE INDEPENDENT AUDITORS' REPORT)

	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	331,751	32,829	364,580	694,601
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
Trustee and Investment Management Fees	-	1,147,221	-	1,147,221	1,147,221
Subtotal	27,384,197	4,924,665	1,184,409	6,109,074	33,493,271
Unrelated Business Income Tax Expense	-	761,989	-	761,989	761,989
Total Expenses	\$ 27,384,197	\$ 5,686,654	\$ 1,184,409	\$ 6,871,063	\$ 34,255,260

THE PHILADELPHIA FOUNDATION
CONSOLIDATING STATEMENT OF FINANCIAL POSITION
DECEMBER 31, 2017
(SEE INDEPENDENT AUDITORS' REPORT)

ASSETS	TPF and TPF, Inc.	TPF Special Assets	Harry R. Halloran, Jr. Charitable Trust	Masciantonio Foundation	Eliminations	Total
Cash and Cash Equivalents	\$ 11,420,513	\$ 2,782,926	\$ 894,443	\$ 57,225	\$ -	\$ 15,155,107
Certificates of Deposits	1,739,330	-	-	-	-	1,739,330
Contributions Receivable	20,470,392	14,082,307	-	-	(38,597)	34,514,102
Prepaid Expenses and Other Assets	89,105	8,328	105,077	-	-	202,510
Total	<u>33,719,340</u>	<u>16,873,561</u>	<u>999,520</u>	<u>57,225</u>	<u>(38,597)</u>	<u>51,611,049</u>
Nonendowment Investments:						
Equities	10,553,803	308,851	-	-	-	10,862,654
Fixed Income	10,001,135	-	-	-	-	10,001,135
Other	-	-	19,647,906	-	-	19,647,906
Total Nonendowment Investments	<u>20,554,938</u>	<u>308,851</u>	<u>19,647,906</u>	<u>-</u>	<u>-</u>	<u>40,511,695</u>
Real Estate Held for Sale	15,852,000	-	-	-	-	15,852,000
Endowment Investments:						
Equities	196,829,545	15,556,589	-	4,534,213	-	216,920,347
Fixed Income	72,118,773	13,204,519	-	3,255,943	-	88,579,235
Cash Surrender Value of Life Insurance	407,246	-	-	-	-	407,246
Cash Equivalents	9,622,436	-	-	503,262	-	10,125,698
Other	42,187,322	15,357,006	-	-	-	57,544,328
Total Endowment Investments	<u>321,165,322</u>	<u>44,118,114</u>	<u>-</u>	<u>8,293,418</u>	<u>-</u>	<u>373,576,854</u>
Split-Interest Agreements	11,354,390	-	-	-	-	11,354,390
Property and Equipment	895,836	-	-	-	-	895,836
Total Assets	<u>\$ 403,541,826</u>	<u>\$ 61,300,526</u>	<u>\$ 20,647,426</u>	<u>\$ 8,350,643</u>	<u>\$ (38,597)</u>	<u>\$ 493,801,824</u>
LIABILITIES AND NET ASSETS						
LIABILITIES						
Accounts Payable and Accrued Liabilities	\$ 665,737	\$ 202,736	\$ 357,266	\$ -	\$ (38,597)	\$ 1,187,142
Grants Payable	964,269	511,000	-	-	-	1,475,269
Liabilities Under Split-Interest Agreements	2,731,387	-	-	-	-	2,731,387
Liabilities Under Agency Accounts	10,446,460	-	-	-	-	10,446,460
Deferred Rent and Lease Incentive Liability	817,663	-	-	-	-	817,663
Total Liabilities	<u>15,625,516</u>	<u>713,736</u>	<u>357,266</u>	<u>-</u>	<u>(38,597)</u>	<u>16,657,921</u>
NET ASSETS						
Unrestricted:						
For Grant Endowments	301,617,087	-	-	-	-	301,617,087
For Grantmaking	32,178,176	-	1,735,600	57,225	-	33,971,001
For Administrative Endowment and Operations	4,416,159	971,274	-	-	-	5,387,433
Total Unrestricted	<u>338,211,422</u>	<u>971,274</u>	<u>1,735,600</u>	<u>57,225</u>	<u>-</u>	<u>340,975,521</u>
Temporarily Restricted	48,613,419	3,637,310	18,554,560	32,169	-	70,837,458
Permanently Restricted	1,091,469	55,978,206	-	8,261,249	-	65,330,924
Total Net Assets	<u>387,916,310</u>	<u>60,586,790</u>	<u>20,290,160</u>	<u>8,350,643</u>	<u>-</u>	<u>477,143,903</u>
Total Liabilities and Net Assets	<u>\$ 403,541,826</u>	<u>\$ 61,300,526</u>	<u>\$ 20,647,426</u>	<u>\$ 8,350,643</u>	<u>\$ (38,597)</u>	<u>\$ 493,801,824</u>

THE PHILADELPHIA FOUNDATION
CONSOLIDATING STATEMENT OF ACTIVITIES
YEAR ENDED DECEMBER 31, 2017
(SEE INDEPENDENT AUDITORS' REPORT)

	TPF and TPF, Inc.				TPF Special Assets			
	Unrestricted	Temporarily Restricted	Permanently Restricted	Total	Unrestricted	Temporarily Restricted	Permanently Restricted	Total
REVENUE AND SUPPORT								
Gifts, Grants, and Bequests	\$ 21,365,162	\$ 21,061,539	\$ -	\$ 42,426,701	\$ 977,041	\$ 3,405,250	\$ 2,212,816	\$ 6,595,107
Investment Income	6,662,006	817,347	-	7,479,353	4,253	4,425	794,751	803,429
Net Unrealized and Realized Investment Gain	37,525,187	417,917	-	37,943,104	57,700	-	1,916,583	1,974,283
Change in Value of Perpetual Trust	-	-	166,078	166,078	-	-	-	-
Subtotal	65,552,355	22,296,803	166,078	88,015,236	1,038,994	3,409,675	4,924,150	9,372,819
Net Assets Released from Restrictions:								
Satisfaction of Program Restrictions	2,987,900	(2,987,900)	-	-	1,192,865	(1,192,865)	-	-
Satisfaction of Time Restrictions	2,781,265	(2,781,265)	-	-	1,094,000	(1,094,000)	-	-
Other Transfers and Adjustments	-	-	-	-	1,750,009	-	(1,750,009)	-
Total Revenue and Support	71,321,520	16,527,638	166,078	88,015,236	5,075,868	1,122,810	3,174,141	9,372,819
EXPENSES								
Grants	18,477,116	-	-	18,477,116	2,829,712	-	-	2,829,712
Investment Management and Trustee Fees	1,004,731	-	-	1,004,731	211,794	-	-	211,794
Grantmaking	604,419	-	-	604,419	1,522,422	-	-	1,522,422
Special Program Expenses	2,504,376	-	-	2,504,376	116,062	-	-	116,062
Development and Donor Services	1,118,577	-	-	1,118,577	375,921	-	-	375,921
Financial Management	2,787,493	-	-	2,787,493	335,715	-	-	335,715
Marketing	317,871	-	-	317,871	75,811	-	-	75,811
Total Expenses	26,814,583	-	-	26,814,583	5,467,437	-	-	5,467,437
CHANGE IN NET ASSETS BEFORE INCOME TAXES	44,506,937	16,527,638	166,078	61,200,653	(391,569)	1,122,810	3,174,141	3,905,382
Unrelated Business Income Tax Expense	-	-	-	-	-	-	-	-
CHANGE IN NET ASSETS	44,506,937	16,527,638	166,078	61,200,653	(391,569)	1,122,810	3,174,141	3,905,382
Net Assets - Beginning of Year	293,704,485	32,085,781	925,391	326,715,657	1,362,843	2,514,500	52,804,065	56,681,408
NET ASSETS - END OF YEAR	<u>\$ 338,211,422</u>	<u>\$ 48,613,419</u>	<u>\$ 1,091,469</u>	<u>\$ 387,916,310</u>	<u>\$ 971,274</u>	<u>\$ 3,637,310</u>	<u>\$ 55,978,206</u>	<u>\$ 60,586,790</u>

THE PHILADELPHIA FOUNDATION
CONSOLIDATING STATEMENT OF ACTIVITIES (CONTINUED)
YEAR ENDED DECEMBER 31, 2017
(SEE INDEPENDENT AUDITORS' REPORT)

	Harry R Halloran Charitable Trust			Masciantonio Foundation				Eliminations	
	Unrestricted	Temporarily Restricted	Total	Unrestricted	Temporarily Restricted	Permanently Restricted	Total	Unrestricted	Total
REVENUE AND SUPPORT									
Gifts, Grants, and Bequests	\$ -	\$ -	\$ -	\$ -	\$ -	\$ 8,261,249	\$ 8,261,249	\$ (163,852)	\$ 57,119,205
Investment Income	2,077,135	-	2,077,135	-	38,394	-	38,394	-	10,398,311
Net Unrealized and Realized Investment Gains	160,133	-	160,133	-	57,899	-	57,899	-	40,135,419
Change in Value of Perpetual Trust	-	-	-	-	-	-	-	-	166,078
Subtotal	2,237,268	-	2,237,268	-	96,293	8,261,249	8,357,542	(163,852)	107,819,013
Net Assets Released from Restrictions:									
Satisfaction of Program Restrictions	-	-	-	-	-	-	-	-	-
Satisfaction of Time Restrictions	-	-	-	64,124	(64,124)	-	-	-	-
Other Transfers and Adjustments	-	-	-	-	-	-	-	-	-
Total Revenue and Support	2,237,268	-	2,237,268	64,124	32,169	8,261,249	8,357,542	(163,852)	107,819,013
EXPENSES									
Grants	1,020,000	-	1,020,000	-	-	-	-	-	22,326,828
Investment Management and Trustee Fees	-	-	-	6,899	-	-	6,899	-	1,223,424
Grantmaking	-	-	-	-	-	-	-	-	2,126,841
Special Program Expenses	-	-	-	-	-	-	-	-	2,620,438
Development and Donor Services	-	-	-	-	-	-	-	-	1,494,498
Financial Management	348,204	-	348,204	-	-	-	-	(163,852)	3,307,560
Marketing	-	-	-	-	-	-	-	-	393,682
Total Expenses	1,368,204	-	1,368,204	6,899	-	-	6,899	(163,852)	33,493,271
CHANGE IN NET ASSETS BEFORE INCOME TAXES	869,064	-	869,064	57,225	32,169	8,261,249	8,350,643	-	74,325,742
Unrelated Business Income Tax Expense	761,989	-	761,989	-	-	-	-	-	761,989
CHANGE IN NET ASSETS	107,075	-	107,075	57,225	32,169	8,261,249	8,350,643	-	73,563,753
Net Assets - Beginning of Year	1,628,525	18,554,560	20,183,085	-	-	-	-	-	403,580,150
NET ASSETS - END OF YEAR	\$ 1,735,600	\$ 18,554,560	\$ 20,290,160	\$ 57,225	\$ 32,169	\$ 8,261,249	\$ 8,350,643	\$ -	\$ 477,143,903



Investment advisory services are offered through CliftonLarsonAllen
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