# McCune Foundation

Financial Statements

Years Ended September 30, 2019 and 2018
with Independent Auditor's Report

MaherDuessel

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# McCUNE FOUNDATION

## YEARS ENDED SEPTEMBER 30, 2019 AND 2018

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# Independent Auditor's Report

**To the Distribution Committee of McCune Foundation**

We have audited the accompanying financial statements of the McCune Foundation (Foundation), a nonprofit organization, which comprise the statements of financial position as of September 30, 2019 and 2018, and the related statements of activities and cash flows for the years then ended, and the related notes to the financial statements.

## Management's Responsibility for the Financial Statements

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

## Auditor's Responsibility

Our responsibility is to express an opinion on these financial statements based on our audits. We conducted our audits in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audits to obtain reasonable assurance about whether the financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

## Opinion

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of the Foundation as of September 30, 2019 and 2018, 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 described in Note 2 to the financial statements, the Foundation adopted ASU 2016-14, *"Not-for-Profit Entities (Topic 958): Presentation of Financial Statements of Not-for-Profit Entities,"* which amends the requirements for financial statements for nonprofit entities. The amendment changes how a nonprofit organization classifies its net assets and provides information in its financial statements and notes about its financial performance, cash flow, and liquidity, among other requirements. Our opinion is not modified with respect to this matter.

Maher Duessel

Pittsburgh, Pennsylvania
January 30, 2020

# McCUNE FOUNDATION

## STATEMENTS OF FINANCIAL POSITION

SEPTEMBER 30, 2019 AND 2018

| | 2019 | 2018 |
|---|---|---|
| **Assets** | | |
| Cash | $ 24,465 | $ 93,444 |
| Investments | 317,195,328 | 337,597,460 |
| Accounts receivable | 18,961 | 20,088 |
| Prepaid federal excise tax | 400,041 | 75,000 |
| Other assets | 16,782 | 7,476 |
| **Total Assets** | $ 317,655,577 | $ 337,793,468 |
| **Liabilities and Net Assets** | | |
| Liabilities: | | |
| Deferred federal excise tax | $ 1,310,600 | $ 1,363,300 |
| Accounts payable | 23,660 | 13,425 |
| Other accrued liabilities | 17,897 | 15,424 |
| Total Liabilities | 1,352,157 | 1,392,149 |
| Net Assets: | | |
| Without donor restrictions | 316,303,420 | 336,401,319 |
| **Total Liabilities and Net Assets** | $ 317,655,577 | $ 337,793,468 |

See accompanying notes to financial statements.

# McCUNE FOUNDATION

## STATEMENTS OF ACTIVITIES

YEARS ENDED SEPTEMBER 30, 2019 AND 2018

| | 2019 | 2018 |
|---|---|---|
| **Income (Loss):** | | |
| Net gain (loss) on investments: | | |
| Realized gain (loss) | $ 13,692,921 | $ 17,352,524 |
| Unrealized gain (loss) | (5,269,541) | 9,666,487 |
| Net gain (loss) on investments | 8,423,380 | 27,019,011 |
| Dividends | 4,213,402 | 5,590,553 |
| Interest | 1,989,431 | 1,171,020 |
| Other gain (loss) on investments, net of fees of $788,706 and $835,747, respectively | (76,962) | (406,867) |
| Total income (loss) | 14,549,251 | 33,373,717 |
| **Expenses:** | | |
| Program expenses: | | |
| Grants, net of returns | 33,122,814 | 30,999,475 |
| Salaries and benefits | 774,878 | 746,236 |
| Other | 360,225 | 476,965 |
| Total program expenses | 34,257,917 | 32,222,676 |
| Management and general expenses: | | |
| Federal excise tax expense (benefit) | 107,078 | (1,019,000) |
| Salaries and benefits | 181,824 | 172,479 |
| Other | 100,331 | 95,937 |
| Total management and general expenses | 389,233 | (750,584) |
| Total expenses | 34,647,150 | 31,472,092 |
| **Change in Net Assets Without Donor Restrictions** | (20,097,899) | 1,901,625 |
| **Net Assets Without Donor Restrictions:** | | |
| Beginning of year | 336,401,319 | 334,499,694 |
| End of year | $ 316,303,420 | $ 336,401,319 |

See accompanying notes to financial statements.

# McCUNE FOUNDATION

## STATEMENTS OF CASH FLOWS

YEARS ENDED SEPTEMBER 30, 2019 AND 2018

| | 2019 | 2018 |
|---|---|---|
| **Cash Flows From Operating Activities:** | | |
| Change in net assets | $ (20,097,899) | $ 1,901,625 |
| Adjustments to reconcile change in net assets to net cash provided by (used in) operating activities: | | |
| Net (gain) loss on investments | (8,423,380) | (27,019,011) |
| Securities disbursed to recipient organizations as grants | 339,255 | 11,513,190 |
| Change in: | | |
| Accounts receivable | 1,127 | (1,609) |
| Prepaid federal excise tax | (325,041) | (75,000) |
| Other assets | (9,306) | (7,476) |
| Deferred federal excise tax | (52,700) | (1,169,900) |
| Accounts payable | 10,235 | (23,537) |
| Other accrued liabilities | 2,473 | 15,424 |
| Net cash provided by (used in) operating activities | (28,555,236) | (14,866,294) |
| **Cash Flows From Investing Activities:** | | |
| Purchase of investments | (113,879,034) | (129,664,458) |
| Proceeds from dispositions of investments | 142,365,291 | 144,348,055 |
| Net cash provided by (used in) investing activities | 28,486,257 | 14,683,597 |
| **Net Increase (Decrease) in Cash** | (68,979) | (182,697) |
| **Cash:** | | |
| Beginning of year | 93,444 | 276,141 |
| End of year | $ 24,465 | $ 93,444 |
| **Supplemental Information:** | | |
| Excise tax paid | $ 492,211 | $ 226,891 |
| Unrelated business income tax paid (refunded) | $ (40,522) | $ (991) |

See accompanying notes to financial statements.

## 1. Organization

McCune Foundation (Foundation) was established in 1979 by the Will of Charles L. McCune. Grants are made at the discretion of the Distribution Committee to organizations in and providing services to the residents of southwestern Pennsylvania, with an emphasis on human services, education, cultural, civic, and economic development organizations.

## 2. Summary of Significant Accounting Policies

Basis of Accounting

The financial statements have been prepared on the accrual basis of accounting. Accordingly, revenues and support are recorded when earned and expenses are recognized when the liabilities are incurred.

Use of Estimates

The preparation of financial statements in conformity with accounting principles generally accepted in the United States of America requires management to make estimates and assumptions that affect the reported amount of assets and liabilities and disclosures of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. Actual results may differ from those estimates.

Basis of Net Assets

Contributions received, including unconditional promises to give, are recognized as increases in net assets in the period received at their fair values. The Foundation displays its activities and net assets into two classes as follows: net assets without donor restrictions and net assets with donor restrictions.

Net assets, revenues, expenses, gains, and losses are classified based on the existence or absence of donor-imposed restrictions. Accordingly, net assets and changes therein are classified as follows:

Net Assets Without Donor Restrictions

Net assets that are not subject to donor-imposed stipulations.

Net Assets With Donor Restrictions

**Time/Purpose Restrictions** – Net assets that are subject to donor-imposed stipulations that may or will be met either by actions of the Foundation and/or the passage of time. When a restriction expires, net assets with donor restrictions are reclassified to net assets without donor restrictions and reported in the statements of activities as net assets released from restrictions. The Foundation does not have net assets with donor restrictions for time/purpose restrictions for the years ended September 30, 2019 and 2018.

**Perpetual in Nature** – Net assets that are subject to donor-imposed stipulations that must be maintained permanently by the Foundation. Generally, the donors of these assets permit the use of all or part of the income earned and capital gains, if any, on related investments for general or specific purposes. The Foundation does not have net assets with donor restriction that are perpetual in nature for the years ended September 30, 2019 and 2018.

Cash

The Foundation maintains its cash in bank accounts which, at times, may exceed federally insured limits. The Foundation does not believe it is exposed to any significant credit risk related to cash.

Investments and Related Income

Investments are reported at fair value on the accompanying statements of financial position. Changes in the fair value of investments, as well as realized gains and losses, are included in the accompanying statements of activities.

Realized gains and losses on disposals of investments are determined by the specific identification method. Investments considered to be permanently impaired in value are written down to their estimated net realizable value and the write down is recorded as a realized loss on investments.

Interest and dividend income are recognized on the accrual basis. Distributions from private equity funds are recognized as income to the extent of the Foundation's share of undistributed income of such investments; distributions in excess of the amount recognized as income are recorded as a reduction of investment cost.

The Foundation's investments are exposed to various risks, such as interest rate, market, and credit risk. Due to the level of risk associated with investments and the level of uncertainty related to changes in the fair value of individual investments, it is at least reasonably possible that significant changes can occur in fair value that may materially affect the amounts reported in the financial statements.

Investment transactions are at the discretion of PNC Financial Services Group, Inc., the Foundation's trustee.

### Program-Related Investments

The fair value of program-related investments (PRIs) approximates their cost. Determination of fair value of these investments would require significant management judgment or estimation. These investments are anticipated to have a less than fair value return.

### Grants

The Foundation records unconditional grants when they are approved by the Distribution Committee. Conditional grants approved by the Distribution Committee are recorded and disbursed when the recipient organizations meet the conditions, most of which require matching funds or meeting financial or outcome-based milestones.

### Expense Allocation

Expenses directly related to a specific program are charged to that program. The financial statements report certain categories of expenses that are attributed to more than one program or supporting function. Therefore, expenses require allocation on a reasonable basis, that is, consistently applied. Allocation is based on the estimated time and effort spent related to each function.

### Adopted Accounting Standards

The requirements of the following Financial Accounting Standards Board (FASB) standard were adopted for the financial statements:

For the year ended September 30, 2019, the Foundation adopted ASU 2016-14, *"Not for-Profit Entities (Topic 958): Presentation of Financial Statements of Not-for-Profit Entities,"* which aims to improve how a nonprofit organization classifies its net assets and provides information in its financial statements and notes about its financial performance, cash flow, and liquidity. The implementation of this standard was applied retrospectively to the comparative amounts presented for the year ended September 30, 2018.

Beginning net assets for 2019 and 2018 that were previously reported as unrestricted have been reflected as net assets without donor restrictions.

Pending Accounting Standards

FASB has issued standards that will become effective in future years as outlined below. Management has not yet determined the impact of these standards on the financial statements.

ASU 2016-02, *"Leases (Topic 842),"* is now effective for the financial statements for the year ending September 30, 2022. This standard will require lessees to recognize assets and liabilities on the statement of financial position for the rights and obligations created by all leases with terms of more than twelve months. Disclosures also will be required by lessees to meet the objective of enabling users of financial statements to assess the amount, timing, and uncertainty of cash flows arising from leases.

ASU 2018-08, *"Clarifying the Scope and the Accounting Guidance for Contributions Received and Contributions Made (Topic 958),"* is effective for the financial statements for the year ending September 30, 2021, as a resource provider. This standard provides guidance for characterizing grants and similar contracts with government agencies and others as reciprocal transactions (exchanges) or nonreciprocal transactions (contributions) and distinguishing between conditional and unconditional contributions.

ASU 2018-13, *"Changes to the Disclosure Requirements for Fair Value Measurement (Topic 820),"* is effective for the financial statements for the year ending September 30, 2021. This standard removes and modifies certain fair value hierarchy leveling disclosures.

Subsequent Events

Subsequent events have been evaluated through the Independent Auditor's Report date, which is the date the financial statements were available to be issued.

## 3. Investments

The fair values of short-term investments approximate their cost. The fair values of equities, equity funds, bonds, and bond funds are based on their quoted market prices.

The fair values of private equity funds, accounted for at net asset value or its equivalent, are estimated in good faith by management due to the absence of quoted market values. These estimates are made primarily by using information provided by the general partners and consideration of general factors such as financial information relating to the investments and the industry and the economic environment in which the investees operate. Additionally, these estimates are generally computed using the Foundation's proportionate share of the overall value of the investment, net of estimated profit participation. The Foundation has not adjusted any of the fair values provided by the general partners. Because of the inherent uncertainty of valuation, those estimated fair values might differ significantly from the values that would have been used had a ready market for those investments existed, and the differences could be material.

Private equity funds are comprised of passive, non-redeemable investments in private equity and venture capital funds which invest in a wide range of industries. As of September 30, 2019, the Foundation is not committed to invest for these investments during the next year.

The nature of private equity investments is such that distributions are received by the Foundation upon the liquidation of the underlying assets by the funds. It is estimated that underlying assets of the funds are expected to be liquidated over the next five to seven years.

As of September 30, 2019 and 2018, the Program Related Investment (PRI) balance consists of three loans maturing at various dates through 2023 and one partnership investment. PRIs are defined in Section 4944 of the Internal Revenue Code as an investment in which its primary purpose is to accomplish a charitable, educational, or other similar purpose, and in which the production of income or capital appreciation is not a significant purpose of the investment. In the year of the investment, the Foundation receives a credit toward its distribution requirement related to its excise tax calculation (see Note 5). When the investment is recovered by the Foundation, a negative distribution is recognized. No impairment losses were recorded for these investments as of September 30, 2019 and 2018.

Investments measured and reported at fair value are classified and disclosed in one of the following categories based on the extent of market price observability:

Level 1 - Quoted prices are available in active markets for identical investments as of the reporting date. The type of investments in Level I include short-term investments, equities, equity funds, U.S. Treasury obligations, and bond funds.

Level 2 - Pricing inputs are other than quoted market prices included in Level I, however, are observable, either directly or indirectly for the investment. The Foundation includes corporate obligations in Level II.

Level 3 - Pricing inputs are unobservable for the investment and includes situations where there is little, if any, market activity for the investment. The inputs into the determination of fair value require significant management judgment or estimation, Investments in this category include the Foundation's PRIs.

The valuations of the Foundation's investments by the above fair value hierarchy levels and the corresponding cost of the investments are as follows as of September 30:

| 2019 | Total Fair Value | Level 1 | Level 2 | Level 3 | Cost |
|---|---|---|---|---|---|
| Short-term investments | $ 12,621,937 | $ 12,621,937 | $ - | $ - | $ 12,621,937 |
| Equities and equity funds: | | | | | |
| Equities | 90,157,491 | 90,157,491 | - | - | 22,527,036 |
| Equity funds: | | | | | |
| Domestic | 117,482,687 | 117,482,687 | - | - | 56,814,776 |
| International | 11,943,656 | 11,943,656 | - | - | 8,767,251 |
| Bonds and bond funds: | | | | | |
| U.S. Treasury obligations | 58,731,345 | 58,731,345 | - | - | 57,537,200 |
| Corporate obligations | 20,103,409 | - | 20,103,409 | - | 19,502,481 |
| Bond funds | 1,849,099 | 1,849,099 | - | - | 1,804,828 |
| Program-related investments | 3,948,000 | - | - | 3,948,000 | 3,948,000 |
| | 316,837,624 | $ 292,786,215 | $ 20,103,409 | $ 3,948,000 | $ 183,523,509 |
| Investments measured at net asset value | | | | | |
| Private equity funds | 357,704 | | | | |
| Total investments at fair value | $ 317,195,328 | | | | |

| | 2018 | | | | |
|---|---|---|---|---|---|
| | Total Fair Value | Level 1 | Level 2 | Level 3 | Cost |
| Short-term investments | $ 27,378,733 | $ 27,378,733 | $ - | $ - | $ 27,378,73[illegible] |
| Equities and equity funds: | | | | | |
| Equities | 94,705,995 | 94,705,995 | - | - | 27,565,38[illegible] |
| Equity funds: | | | | | |
| Domestic | 117,560,808 | 117,560,808 | - | - | 50,447,61[illegible] |
| International | 16,011,782 | 16,011,782 | - | - | 12,352,20[illegible] |
| Bonds and bond funds: | | | | | |
| U.S. Treasury obligations | 55,381,717 | 55,381,717 | - | - | 54,763,64[illegible] |
| Corporate obligations | 22,081,221 | - | 22,081,221 | - | 22,188,86[illegible] |
| Bond funds | - | - | - | - | |
| Program-related investments | 3,948,000 | - | - | 3,948,000 | 3,948,00[illegible] |
| | 337,068,256 | $ 311,039,035 | $ 22,081,221 | $ 3,948,000 | $ 198,644,44[illegible] |
| Investments measured at net asset value | | | | | |
| Private equity funds | 529,204 | | | | |
| Total investments at fair value | $ 337,597,460 | | | | |

Two investments in domestic equity funds accounted for $83,360,912 or approximately 26% of total fair value of investments as of September 30, 2019. One investment in a domestic equity fund accounted for $56,948,307 or approximately 17% of the total fair value of investments as of September 30, 2018.

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

| | Program-Related Investments |
|---|---|
| September 30, 2017 | $ 3,948,000 |
| Gains (losses) unrealized | - |
| Gains (losses) realized | - |
| Cash flows purchases | - |
| Cash flows proceeds from dispositions | - |
| Non-cash program related reductions | - |
| September 30, 2018 | 3,948,000 |
| Gains (losses) unrealized | - |
| Gains (losses) realized | |
| Cash flows purchases | - |
| Cash flows proceeds from dispositions | - |
| Non-cash program related reductions | - |
| September 30, 2019 | $ 3,948,000 |

## 4. Endowment

The Foundation, by definition, is an endowment. It was established by a donor-restricted gift and provides an endowment for 50 years. As required by accounting principles generally accepted in the United States of America, net assets associated with endowment funds are classified and reported based on the existence or absence of donor-imposed restrictions.

The Foundation has not adopted Act 141 because it does not have any permanently restricted endowment funds. The Foundation incurs excise tax on investment income due to its filing status. To the extent possible, the Foundation calculates the required grant level to have its excise tax reduced to 1% and uses this as a baseline of giving. The Distribution Committee reviews and approves all grants to be distributed. As part of that role, the Distribution Committee sets the programmatic and sunset strategies for the Foundation's grant making activities. The Trustee (PNC Bank) makes all investment and asset allocation decisions. Financial reports and summaries are provided to the Distribution Committee on a quarterly basis.

Endowment investments as of September 30, 2019 and 2018 were comprised of funds without donor restrictions of $317,195,328 and $337,597,460, respectively.

The following represents the change in the endowment investments for the year ended September 30:

| | 2019 | 2018 |
|---|---|---|
| Beginning of year | $ 337,597,460 | $ 336,775,236 |
| Investment return: | | |
| Investment income | 6,914,577 | 7,190,453 |
| Realized gain (loss) | 13,692,921 | 17,352,524 |
| Unrealized gain (loss) | (5,269,541) | 9,666,487 |
| Appropriation of endowment assets for grants | (33,122,814) | (30,999,475) |
| Fees and miscellaneous items | (2,617,275) | (2,387,765) |
| End of year | $ 317,195,328 | $ 337,597,460 |

## 5. Taxes

The Foundation is qualified as a private, non-operating foundation under Section 501(c)(3) of the Internal Revenue Code and is exempt from federal income tax under the provisions of Section 501(a) of the Internal Revenue Code. The Foundation is obligated to pay income taxes on its unrelated business income (as defined), if any. In addition to a federal excise tax on net investment income, private foundations are subject to tax on the amount by which their minimum investment return exceeds distributions. The Foundation had no undistributed income in 2019 and 2018.

Deferred federal excise tax assets and liabilities are recognized for the future tax consequences attributable to differences between the financial statement carrying amounts of existing assets and liabilities and their respective tax bases. Deferred federal excise tax assets and liabilities are measured using enacted excise tax rates expected to apply to taxable income in the years in which those temporary differences are expected to be recovered or settled.

During the year ended September 30, 2018, a change in estimate was recognized by the Foundation with the reduction of the excise tax rate used to calculate the deferred federal excise tax liability to 1%. As a result of the change in accounting estimate, a reduction in the liability and corresponding excise tax expense of $1,169,900 was reported by the Foundation as of and for the year ending September 30, 2018 as further detailed below. The Foundation continued to calculate the deferred federal excise tax liability at 1% for the year ending

September 30, 2019. Federal excise tax expense (benefit) consists of the following for the years ended September 30:

| | 2019 | 2018 |
|---|---|---|
| Current excise tax expense | $ 159,778 | $ 150,900 |
| Deferred excise tax expense (benefit) | (52,700) | (1,169,900) |
| | $ 107,078 | $ (1,019,000) |

The deferred federal excise tax expense (benefit) of $(52,700) and $(1,169,900) for the years ended September 30, 2019 and 2018, respectively, relates to the change in temporary differences between the fair value of the investments for financial reporting purposes and underlying cost basis for tax reporting purposes.

The Foundation makes estimated excise tax payments throughout the year based on their calculation of estimated federal excise tax on their 990PF. For the years ended September 30, 2019, and 2018, the Foundation paid $400,041 and $75,000, respectively, above their federal excise tax amount for the year. Those amounts are recorded as prepaid federal excise taxes on the statement of financial position.

## 6. Grants

As of September 30, 2019, the Foundation had awarded $13,222,600 in conditional grants which are not reflected in the accompanying financial statements. The Foundation expects these conditional grants to be distributed through the year 2022 as the conditions set by the Foundation are met by grantees.

## 7. Lease

The Foundation leases office space under an operating lease agreement which expires September 30, 2028. Total rent expense for the years ended September 30, 2019 and 2018 was $181,415 and $172,329, respectively.

Future minimum rentals under this lease are as follows:

| | |
|---|---|
| 2020 | $ 177,967 |
| 2021 | 180,908 |
| 2022 | 183,850 |
| 2023 | 186,792 |
| 2024 | 189,733 |
| Thereafter | 788,349 |
| | $ 1,707,599 |

## 8. Retirement and Deferred Compensation Plans

The Foundation provides retirement benefits through a Simplified Employee Pension plan, allowing staff to select any custodian to receive their deposits. During the year ended September 30, 2018, the Foundation established a 457b plan. The 457b plan is a nonqualified, deferred compensation plan that allows for both employee and employer contributions for eligible employees. The Foundation's contributions to the plans are based on 12.5% of employee compensation. For the years ended September 30, 2019 and 2018, the employer expense was $94,575 and $91,804, respectively.

## 9. Related Party Transactions

During 2019 and 2018, there were certain grant applicants with which Directors of the Foundation were affiliated. Pursuant to the practices of the Foundation, the related Directors abstained from voting in matters concerning affiliated applicants.

## 10. Liquidity and Availability

The Foundation manages its liquid resources by focusing on investment efforts, through an endowment fund, to ensure the entity has adequate investment returns to cover the grants that are being distributed and direct charitable efforts of the Foundation. The Foundation prepares detailed budgets and has been very active in fiscal management to ensure the entity remains liquid.

Financial assets (cash, investments, accounts receivable) available for general expenditure, that is, without donor or other restrictions limiting their use, within one year of the balance sheet date, total $317,238,754 for the year ended September 30, 2019.