

# **McCune Foundation**

## Financial Statements

Years Ended September 30, 2018 and 2017  
with Independent Auditor's Report

**MaherDuessel**

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# McCUNE FOUNDATION

YEARS ENDED SEPTEMBER 30, 2018 AND 2017

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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, 2018 and 2017, 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, 2018 and 2017, and the changes in

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McCune Foundation  
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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.

*Maier Duessel*

Pittsburgh, Pennsylvania  
January 30, 2019

# McCUNE FOUNDATION

## STATEMENTS OF FINANCIAL POSITION

SEPTEMBER 30, 2018 AND 2017

	<u>2018</u>	<u>2017</u>
<b>Assets</b>		
Cash	\$ 93,444	\$ 276,141
Investments	337,597,460	336,775,236
Accounts receivable	20,088	18,479
Prepaid federal excise tax	75,000	-
Other assets	7,476	-
<b>Total Assets</b>	<b><u>\$ 337,793,468</u></b>	<b><u>\$ 337,069,856</u></b>
<b>Liabilities and Net Assets</b>		
<b>Liabilities:</b>		
Deferred federal excise tax	\$ 1,363,300	\$ 2,533,200
Accounts payable	13,425	36,962
Other accrued liabilities	15,424	-
<b>Total Liabilities</b>	<b><u>1,392,149</u></b>	<b><u>2,570,162</u></b>
<b>Net Assets:</b>		
Unrestricted	<u>336,401,319</u>	<u>334,499,694</u>
<b>Total Liabilities and Net Assets</b>	<b><u>\$ 337,793,468</u></b>	<b><u>\$ 337,069,856</u></b>

See accompanying notes to financial statements.

# McCUNE FOUNDATION

## STATEMENTS OF ACTIVITIES

YEARS ENDED SEPTEMBER 30, 2018 AND 2017

	<u>2018</u>	<u>2017</u>
<b>Income (Loss):</b>		
Net gain (loss) on investments:		
Realized gain (loss)	\$ 17,352,524	\$ 11,335,907
Unrealized gain (loss)	9,666,487	21,825,854
	<u>27,019,011</u>	<u>33,161,761</u>
Dividends	5,590,553	4,995,689
Interest	1,171,020	791,708
Other gain (loss) on investments	428,880	623,383
	<u>34,209,464</u>	<u>39,572,541</u>
<b>Grants and Expenses:</b>		
Grants	30,999,475	29,242,588
General and administrative	1,491,617	1,661,301
Fees paid to and on behalf to trustee	835,747	812,309
Federal excise tax expense (benefit)	(1,019,000)	831,973
	<u>32,307,839</u>	<u>32,548,171</u>
<b>Change in Net Assets</b>	1,901,625	7,024,370
<b>Net Assets:</b>		
Beginning of year	<u>334,499,694</u>	<u>327,475,324</u>
End of year	<u>\$ 336,401,319</u>	<u>\$ 334,499,694</u>

See accompanying notes to financial statements.

# McCUNE FOUNDATION

## STATEMENTS OF CASH FLOWS

YEARS ENDED SEPTEMBER 30, 2018 AND 2017

	<u>2018</u>	<u>2017</u>
<b>Cash Flows From Operating Activities:</b>		
Change in net assets	\$ 1,901,625	\$ 7,024,370
Adjustments to reconcile change in net assets to net cash provided by (used in) operating activities:		
Net (gain) loss on investments	(27,019,011)	(33,161,761)
Non-cash program related investment reductions	-	535,818
Securities disbursed to recipient organizations as grants	11,513,190	12,503,548
Change in:		
Accounts receivable	(1,609)	(18,479)
Prepaid federal excise tax	(75,000)	233,869
Other assets	(7,476)	-
Deferred federal excise tax	(1,169,900)	436,535
Accounts payable	(23,537)	36,962
Other accrued liabilities	15,424	-
Net cash provided by (used in) operating activities	<u>(14,866,294)</u>	<u>(12,409,138)</u>
<b>Cash Flows From Investing Activities:</b>		
Purchase of investments	(129,664,458)	(88,299,069)
Proceeds from dispositions of investments	144,348,055	100,794,060
Net cash provided by (used in) investing activities	<u>14,683,597</u>	<u>12,494,991</u>
<b>Net Increase (Decrease) in Cash</b>	(182,697)	85,853
<b>Cash:</b>		
Beginning of year	<u>276,141</u>	<u>190,288</u>
End of year	<u>\$ 93,444</u>	<u>\$ 276,141</u>
<b>Supplemental Information:</b>		
Excise tax paid	<u>\$ 226,891</u>	<u>\$ 129,133</u>
Unrelated business income tax paid (refunded)	<u>\$ (991)</u>	<u>\$ 726</u>

See accompanying notes to financial statements.

# McCUNE FOUNDATION

## NOTES TO FINANCIAL STATEMENTS

YEARS ENDED SEPTEMBER 30, 2018 AND 2017

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### 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 three classes as follows: unrestricted, temporarily restricted, and permanently restricted.

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:

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

Temporarily Restricted Net Assets – 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, temporarily restricted net assets are

# McCUNE FOUNDATION

## NOTES TO FINANCIAL STATEMENTS

YEARS ENDED SEPTEMBER 30, 2018 AND 2017

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reclassified to unrestricted net assets and reported in the statements of activities as net assets released from restrictions. The Foundation does not currently have temporarily restricted net assets for the years ended September 30, 2018 and 2017.

Permanently Restricted Net Assets – 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 currently have permanently restricted net assets for the years ended September 30, 2018 and 2017.

### 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.

# McCUNE FOUNDATION

## NOTES TO FINANCIAL STATEMENTS

YEARS ENDED SEPTEMBER 30, 2018 AND 2017

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### 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.

### Adopted Pronouncement

The requirement of the following Financial Accounting Standards Board (FASB) Statement was adopted for the financial statements:

Accounting Standards Update (ASU) 2015-07, “*Fair Value Measurement (Topic 820): Disclosures for Investments in Certain Entities That Calculate Net Asset Value Per Share (or its Equivalent)*,” removes the requirement to categorize, within the fair value hierarchy, all investments for which fair value is measured using the net asset value per share practical expedient. Instead, the amounts measured using the net asset value per share (or its equivalent) must be provided to permit reconciliation of the fair value hierarchy to the amounts presented in the statement of financial position. The guidance requires retrospective application. As a result of adopting this standard, prior period disclosures related to fair value measurement have been revised.

### Pending Accounting Pronouncements

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

ASU 2016-14, “*Not-for-Profit Entities (Topic 958): Presentation of Financial Statements of Not-for-Profit Entities*,” is effective for the financial statements for the year ending September 30, 2019. This amendment 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 ASU changes the net asset classification, requires presentation of expenses both by nature and function, requires investment return reported net of investment expenses, requires placed-in-service approach

# McCUNE FOUNDATION

## NOTES TO FINANCIAL STATEMENTS

YEARS ENDED SEPTEMBER 30, 2018 AND 2017

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for gifts of/for long-lived assets, and provides enhanced disclosures for: governing body restrictions; composition of net assets with donor restrictions; qualitative and quantitative information on liquidity; methods to allocate costs among program and support functions; and underwater donor-restricted endowment.

ASU 2016-02, "*Leases (Topic 842)*," is effective for the financial statements for the year ending September 30, 2021. This amendment 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 amendment 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.

### 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.

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## NOTES TO FINANCIAL STATEMENTS

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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, 2018, 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, 2018 and 2017, 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, 2018 and 2017.

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.

# McCUNE FOUNDATION

## NOTES TO FINANCIAL STATEMENTS

YEARS ENDED SEPTEMBER 30, 2018 AND 2017

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:

	2018				Cost
	Total Fair Value	Level 1	Level 2	Level 3	
Short-term investments	\$ 27,378,733	\$ 27,378,733	\$ -	\$ -	\$ 27,378,733
Equities and equity funds:					
Equities	94,705,995	94,705,995	-	-	27,490,975
Equity funds:					
Domestic	117,560,808	117,560,808	-	-	50,447,612
International	16,011,782	16,011,782	-	-	12,352,201
Bonds and bond funds:					
U.S. Treasury obligations	55,381,717	55,381,717	-	-	54,680,238
Corporate obligations	22,081,221	-	22,081,221	-	11,158,785
Bond funds	-	-	-	-	-
Program-related investments	3,948,000	-	-	3,948,000	3,948,000
	337,068,256	<u>\$ 311,039,035</u>	<u>\$ 22,081,221</u>	<u>\$ 3,948,000</u>	<u>\$ 187,456,544</u>
Investment measured at net asset value					
Private equity funds	<u>529,204</u>				
Total investments at fair value	<u>\$ 337,597,460</u>				

# McCUNE FOUNDATION

## NOTES TO FINANCIAL STATEMENTS

YEARS ENDED SEPTEMBER 30, 2018 AND 2017

	2017				
	Total Fair Value	Level 1	Level 2	Level 3	Cost
Short-term investments	\$ 22,846,185	\$ 22,846,185	\$ -	\$ -	\$ 22,846,185
Equities and equity funds:					
Equities	100,703,242	100,703,242	-	-	37,125,743
Equity funds:					
Domestic	112,297,500	112,297,500	-	-	57,135,408
International	42,118,206	42,118,206	-	-	32,675,031
Bonds and bond funds:					
U.S. Treasury obligations	17,974,528	17,974,528	-	-	17,504,667
Corporate obligations	11,167,418	-	11,167,418	-	11,158,785
Bond funds	25,132,646	25,132,646	-	-	25,094,884
Program-related investments	3,948,000	-	-	3,948,000	3,948,000
	336,187,725	<u>\$ 321,072,307</u>	<u>\$ 11,167,418</u>	<u>\$ 3,948,000</u>	<u>\$ 207,488,703</u>
Investment measured at net asset value					
Private equity funds	<u>587,511</u>				
Total investments at fair value	<u>\$ 336,775,236</u>				

An investment in a domestic equity fund accounted for \$56,948,307 and \$51,760,353, or approximately 17% and 15%, of the total fair value of investments as of September 30, 2018 and 2017, respectively.

# McCUNE FOUNDATION

## NOTES TO FINANCIAL STATEMENTS

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

	<u>Program-Related Investments</u>
October 1, 2016	\$ 4,708,818
Gains (losses) unrealized	-
Gains (losses) realized	-
Cash flows purchases	275,000
Cash flows proceeds from dispositions	(500,000)
Non-cash program related reductions	(535,818)
September 30, 2017	<u>3,948,000</u>
Gains (losses) unrealized	-
Gains (losses) realized	-
Cash flows purchases	-
Cash flows proceeds from dispositions	-
Non-cash program related reductions	-
September 30, 2018	<u>\$ 3,948,000</u>

#### 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, 2018 and 2017 were comprised of unrestricted funds of \$337,597,460 and \$336,775,236, respectively.

# McCUNE FOUNDATION

## NOTES TO FINANCIAL STATEMENTS

YEARS ENDED SEPTEMBER 30, 2018 AND 2017

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

	<u>2018</u>	<u>2017</u>
Beginning of year	\$ 336,775,236	\$ 329,147,832
Investment return:		
Investment income	7,190,453	6,410,780
Realized gain (loss)	17,352,524	11,335,907
Unrealized gain (loss)	9,666,487	21,825,854
Appropriation of endowment assets for grants	(30,999,475)	(29,242,588)
Fees and miscellaneous items	<u>(2,387,765)</u>	<u>(2,702,549)</u>
End of year	<u>\$ 337,597,460</u>	<u>\$ 336,775,236</u>

### 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 2018 or 2017.

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, 2017, the deferred federal excise tax liability was calculated using a 2% excise tax rate. 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

# McCUNE FOUNDATION

## NOTES TO FINANCIAL STATEMENTS

YEARS ENDED SEPTEMBER 30, 2018 AND 2017

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as further detailed below. Federal excise tax expense (benefit) consists of the following for the years ended September 30:

	<u>2018</u>	<u>2017</u>
Current excise tax expense	\$ 150,900	\$ 395,438
Deferred excise tax expense (benefit)	<u>(1,169,900)</u>	<u>436,535</u>
	<u>\$ (1,019,000)</u>	<u>\$ 831,973</u>

The deferred federal excise tax expense (benefit) of \$(1,169,900) and \$436,535 for the years ended September 30, 2018 and 2017, respectively, relates to temporary differences between the fair value of the investments for financial reporting purposes and underlying cost basis for tax reporting purposes.

### 6. Grants

As of September 30, 2018, the Foundation had awarded \$7,887,500 in conditional grants which are not reflected in the accompanying financial statements. The Foundation expects these conditional grants to be distributed through the year 2019.

### 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, 2018 and 2017 was \$172,329 and \$169,787, respectively.

Future minimum rentals under this lease are as follows:

2019	\$ 175,025
2020	177,967
2021	180,908
2022	183,850
2023	186,792
Thereafter	<u>1,179,582</u>
	<u>\$ 2,084,124</u>

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# McCUNE FOUNDATION

## NOTES TO FINANCIAL STATEMENTS

YEARS ENDED SEPTEMBER 30, 2018 AND 2017

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### **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, 2018 and 2017, the employer expense was \$91,804 and \$95,143, respectively. The Foundation also provided retirement benefits through a deferred compensation plan for a past member of management.

### **9. Related Party Transactions**

During 2018 and 2017, 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.