McCune Foundation

Financial Statements

Years Ended September 30, 2017 and 2016
with Independent Auditor's Report

MaherDuessel

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McCUNE FOUNDATION

YEARS ENDED SEPTEMBER 30, 2017 AND 2016

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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 statement of financial position as of September 30, 2017, and the related statements of activities and cash flows for the year 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 audit. We conducted our audit in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of 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 estimated 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, 2017, and the changes in its net assets and its cash flows for the year then ended in accordance with accounting principles generally accepted in the United States of America.

Report on Prior Year Comparative Information

The prior year comparative information has been derived from the Foundation's financial statements as of September 30, 2016. This information was audited by other auditors, whose report dated December 5, 2016 expressed an unmodified opinion on those audited financial statements. In our opinion, the comparative information presented herein as of and for the year ended September 30, 2016, is consistent, in all material respects, with the audited financial statements from which it has been derived.

Maher Duessel

Pittsburgh, Pennsylvania
December 8, 2017

McCUNE FOUNDATION

STATEMENTS OF FINANCIAL POSITION

SEPTEMBER 30, 2017 AND 2016

	2017	2016
Assets		
Cash	$ 276,141	$ 190,288
Investments	336,775,236	329,147,832
Accounts receivable	18,479	-
Prepaid federal excise tax	-	233,869
Total Assets	$ 337,069,856	$ 329,571,989
Liabilities and Net Assets		
Liabilities:		
Deferred federal excise tax	$ 2,533,200	$ 2,096,665
Accounts payable	36,962	-
Total Liabilities	2,570,162	2,096,665
Net Assets:		
Unrestricted	334,499,694	327,475,324
Total Liabilities and Net Assets	$ 337,069,856	$ 329,571,989

See accompanying notes to financial statements.

McCUNE FOUNDATION

STATEMENTS OF ACTIVITIES

YEARS ENDED SEPTEMBER 30, 2017 AND 2016

	2017	2016
Income (Loss):		
Net gain (loss) on investments:		
Realized gain (loss)	$ 11,335,907	$ 11,313,267
Unrealized gain (loss)	21,825,854	10,349,832
Net gain (loss) on investments	33,161,761	21,663,099
Dividends	4,995,689	6,815,375
Interest	791,708	450,222
Other gain (loss) on investments	623,383	(106,478)
Total income (loss)	39,572,541	28,822,218
Grants and Expenses:		
Grants	29,242,588	26,699,927
General and administrative	1,661,301	1,572,325
Fees paid to and on behalf to trustee	812,309	805,374
Federal excise tax expense	831,973	310,091
Total grants and expenses	32,548,171	29,387,717
Change in Net Assets	7,024,370	(565,499)
Net Assets:		
Beginning of year	327,475,324	328,040,823
End of year	$ 334,499,694	$ 327,475,324

See accompanying notes to financial statements.

McCUNE FOUNDATION

STATEMENTS OF CASH FLOWS

YEARS ENDED SEPTEMBER 30, 2017 AND 2016

	2017	2016
Cash Flows From Operating Activities:		
Change in net assets	$ 7,024,370	$ (565,499)
Adjustments to reconcile change in net assets to net cash provided by (used in) operating activities:		
Net (gain) loss on investments	(33,161,761)	(21,663,099)
Non-cash program related investment reductions	535,818	-
Securities disbursed to recipient organizations as grants	12,503,548	8,719,875
Change in:		
Deferred federal excise tax	436,535	206,997
Accounts receivable	(18,479)	-
Prepaid federal excise tax	233,869	(233,869)
Accrued federal excise tax	-	(72,996)
Accounts payable	36,962	-
Net cash provided by (used in) operating activities	(12,409,138)	(13,608,591)
Cash Flows From Investing Activities:		
Purchase of investments	(88,299,069)	(133,548,259)
Proceeds from dispositions of investments	100,794,060	146,868,471
Net cash provided by (used in) investing activities	12,494,991	13,320,212
Net Increase (Decrease) in Cash	85,853	(288,379)
Cash:		
Beginning of year	190,288	478,667
End of year	$ 276,141	$ 190,288
Supplemental Information:		
Excise tax paid	$ 129,133	$ 243,287
Unrelated business income tax paid	$ 726	$ -

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 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 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, 2017 and 2016.

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, 2017 and 2016.

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.

Pending Accounting Pronouncements

The Financial Accounting Standards Board (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 2015-07, *"Fair Value Measurement (Topic 820): Disclosures for Investments in Certain Entities That Calculate Net Asset Value Per Share (or its Equivalent),"* is effective for the year ending September 30, 2018. This amendment removes the requirement to categorize investments within the fair value hierarchy all investments for which fair value is measured using the net asset value per share practical expedient.

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 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.

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.

As of September 30, 2017, the Program Related Investment (PRI) balance consists of three loans maturing at various dates through 2023 and one partnership investment. As of September 30, 2016, the composition was similar with five loans 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, 2017 and 2016.

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 non-redeemable private equity fluids and 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:

2017

	Level 1	Level 2	Level 3	Total Fair Value	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
Private equity funds	-	-	587,511	587,511	2,627,429
Program-related investments	-	-	3,948,000	3,948,000	3,948,000
	$ 321,072,307	$ 11,167,418	$ 4,535,511	$ 336,775,236	$ 210,116,132

2016

	Level 1	Level 2	Level 3	Total Fair Value	Cost
Short-term investments	$ 38,802,375	$ -	$ -	$ 38,802,375	$ 38,802,375
Equities and equity funds:					
Equities	116,695,463	-	-	116,695,463	57,518,685
Equity funds:					
Domestic	99,184,486	-	-	99,184,486	57,284,493
International	35,941,422	-	-	35,941,422	30,654,447
Bonds and bond funds:					
U.S. Treasury obligations	15,255,265	-	-	15,255,265	14,619,510
Corporate obligations	-	5,593,916	-	5,593,916	5,524,006
Bond funds	12,326,151	-	-	12,326,151	12,571,250
Private equity funds	-	-	639,936	639,936	2,630,998
Program-related investments	-	-	4,708,818	4,708,818	4,708,818
	$ 318,205,162	$ 5,593,916	$ 5,348,754	$ 329,147,832	$ 224,314,582

An investment in a domestic equity fund accounted for $51,760,353 and $44,596,530, or approximately 15% and 14%, of the total fair value of investments as of September 30, 2017 and 2016, respectively. An investment in a money market fund accounted for $37,542,769, or approximately 11%, of the total fair value of investments as of September 30, 2016.

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

	Private Equity Funds	Program-Related Investments	Total Fair Value
October 1, 2015	$ 623,106	$ 5,128,214	$ 5,751,320
Gains (losses) unrealized	16,830	-	16,830
Gains (losses) realized	-	30,604	30,604
Cash flows purchases	-	800,000	800,000
Cash flows proceeds from dispositions	-	(1,250,000)	(1,250,000)
September 30, 2016	639,936	4,708,818	5,348,754
Gains (losses) unrealized	(48,856)	-	(48,856)
Gains (losses) realized	48,931	-	48,931
Cash flows purchases	-	275,000	275,000
Cash flows proceeds from dispositions	(52,500)	(500,000)	(552,500)
Non-cash program related reductions	-	(535,818)	(535,818)
September 30, 2017	$ 587,511	$ 3,948,000	$ 4,535,511

The following additional information is provided regarding the Foundation's Level 3 fund investments valued a net asset value or its equivalent.

	Fair Value			
Type	September 30, 2017	September 30, 2016	Redemption Frequency (If Currently Eligible)	Redemption Notice Period
Private Equity Funds	$ 587,511	$ 639,936	Non-redeemable	N/A

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, 2017, the Foundation is committed to invest $0 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.

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, 2017 and 2016 were comprised of unrestricted funds of $336,775,236 and $329,147,832, respectively.

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

	2017	2016
Beginning of year	$ 329,147,832	$ 329,524,820
Investment return:		
Investment income	6,410,780	7,159,119
Realized gain (loss)	11,335,907	11,313,267
Unrealized gain (loss)	21,825,854	10,349,832
Appropriation of endowment assets for grants	(29,242,588)	(26,699,927)
Fees and miscellaneous items	(2,702,549)	(2,499,279)
End of year	$ 336,775,236	$ 329,147,832

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 2017 or 2016.

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.

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

	2017	2016
Current excise tax expense	$ 395,438	$ 103,094
Deferred excise tax expense (benefit)	436,535	206,997
	$ 831,973	$ 310,091

The deferred federal excise tax expense (benefit) of $436,535 and $206,997 for the years ended September 30, 2017 and 2016, 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, 2017, the Foundation had awarded $13,975,000 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, 2017 and 2016 was $169,787 and $162,629, respectively.

Future minimum rentals under this lease are as follows:

2018	$ 172,084
2019	175,025
2020	177,967
2021	180,908
2022	183,850
Thereafter	1,164,874
	$ 2,054,708

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. The Foundation's contributions to the plan are based on 12.5% of employee compensation. For the years ended September 30, 2017 and 2016, the employer expense was $95,143 and $128,684, respectively. The Foundation also provided retirement benefits through a deferred compensation plan for a past member of management. The employer expense related to this plan was $54,317 for the year ended September 30, 2016. This member of management retired in November 2016.

9. Related Party Transactions

During 2017 and 2016, 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.