

McCUNE FOUNDATION

AUDITED FINANCIAL STATEMENTS

Years ended September 30, 2023 and 2022

310 GRANT STREET, STE 2100
PITTSBURGH, PA 15219

SISTERSON.COM

PHONE: 412.281.2025

INDEPENDENT AUDITOR'S REPORT

To the Distribution Committee of
McCune Foundation

Opinion

We have audited the accompanying financial statements of McCune Foundation, which comprise the statements of financial position as of September 30, 2023 and 2022, and the related statements of activities and cash flows for the years then ended, and the related notes to the financial statements.

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of McCune Foundation as of September 30, 2023 and 2022, 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.

Basis for Opinion

We conducted our audits in accordance with auditing standards generally accepted in the United States of America ("U.S. GAAS"). Our responsibilities under those standards are further described in the *Auditor's Responsibilities for the Audit of the Financial Statements* section of our report. We are required to be independent of McCune Foundation and to meet our other ethical responsibilities in accordance with the relevant ethical requirements relating to our audits. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Responsibilities of Management for the Financial Statements

Management is responsible for the preparation and fair presentation of the financial statements in accordance with accounting principles generally accepted in the United States of America, and for 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.

In preparing the financial statements, management is required to evaluate whether there are conditions or events, considered in the aggregate, that raise substantial doubt about McCune Foundation's ability to continue as a going concern within one year after the date that the financial statements are available to be issued.

INDEPENDENT AUDITOR'S REPORT

(continued)

Auditor's Responsibilities for the Audit of the Financial Statements

Our objectives are to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion. Reasonable assurance is a high level of assurance but is not absolute assurance and therefore is not a guarantee that an audit conducted in accordance with U.S. GAAS will always detect a material misstatement when it exists. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control. Misstatements are considered material if there is a substantial likelihood that, individually or in the aggregate, they would influence the judgment made by a reasonable user based on the financial statements.

In performing an audit in accordance with U.S. GAAS, we:

- Exercise professional judgment and maintain professional skepticism throughout the audit.
- Identify and assess the risks of material misstatement of the financial statements, whether due to fraud or error, and design and perform audit procedures responsive to those risks. Such procedures include examining, on a test basis, evidence regarding the amounts and disclosures in the financial statements.
- Obtain an understanding of internal control relevant to the audit 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 McCune Foundation's internal control. Accordingly, no such opinion is expressed.
- Evaluate the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluate the overall presentation of the financial statements.
- Conclude whether, in our judgment, there are conditions or events, considered in the aggregate, that raise substantial doubt about McCune Foundation's ability to continue as a going concern for a reasonable period of time.

We are required to communicate with those charged with governance regarding, among other matters, the planned scope and timing of the audit, significant audit findings, and certain internal control related matters that we identified during the audit.

Sisterson & Co. LLP

January 22, 2024

McCUNE FOUNDATION

STATEMENTS OF FINANCIAL POSITION

	September 30,	
	<u>2023</u>	<u>2022</u>
<u>ASSETS</u>		
Cash	\$ 339,697	\$ 202,259
Investments	194,793,071	219,621,428
Prepaid federal excise tax	7,434	187,362
Other assets	<u>94,679</u>	<u>66,999</u>
Total assets	<u>\$ 195,234,881</u>	<u>\$ 220,078,048</u>
<u>LIABILITIES AND NET ASSETS</u>		
Liabilities		
Deferred federal excise tax	\$ 738,100	\$ 893,200
Accounts payable	8,156	3,095
Other accrued liabilities	<u>107,624</u>	<u>172,205</u>
Total liabilities	853,880	1,068,500
Net assets without donor restrictions	<u>194,381,001</u>	<u>219,009,548</u>
Total liabilities and net assets	<u>\$ 195,234,881</u>	<u>\$ 220,078,048</u>

The accompanying notes are an integral part of these financial statements.

McCUNE FOUNDATION

STATEMENTS OF ACTIVITIES

	Year ended September 30,	
	<u>2023</u>	<u>2022</u>
Income (loss)		
Net gain (loss) on investments		
Realized gain	\$ 26,734,090	\$ 22,970,149
Unrealized loss	<u>(11,158,988)</u>	<u>(51,009,687)</u>
Net gain (loss) on investments	15,575,102	(28,039,538)
Dividends	2,110,145	2,495,405
Interest	2,954,902	2,250,254
Other gain on investments	121,019	271,307
Fees paid to trustee	<u>(568,541)</u>	<u>(708,365)</u>
Total income (loss)	<u>20,192,627</u>	<u>(23,730,937)</u>
Expenses		
Program expenses		
Grants, net of returns	42,730,959	51,274,575
Salaries and benefits	986,463	951,653
Other	<u>525,982</u>	<u>532,323</u>
Total program expenses	<u>44,243,404</u>	<u>52,758,551</u>
Management and general expenses		
Federal excise tax expense (benefit)	146,351	(462,324)
Salaries and benefits	309,052	308,485
Other	<u>122,367</u>	<u>124,891</u>
Total management and general expenses	<u>577,770</u>	<u>(28,948)</u>
Total expenses	<u>44,821,174</u>	<u>52,729,603</u>
Decrease in net assets without donor restrictions	(24,628,547)	(76,460,540)
Net assets without donor restrictions, beginning of year	<u>219,009,548</u>	<u>295,470,088</u>
Net assets without donor restrictions, end of year	<u>\$ 194,381,001</u>	<u>\$ 219,009,548</u>

The accompanying notes are an integral part of these financial statements.

McCUNE FOUNDATION

STATEMENTS OF CASH FLOWS

	Year ended September 30,	
	<u>2023</u>	<u>2022</u>
Cash flows from operating activities		
Decrease in net assets without donor restrictions	\$ (24,628,547)	\$ (76,460,540)
Adjustments to reconcile decrease in net assets without donor restrictions to net cash used in operating activities		
Net (gain) loss on investments	(15,575,102)	28,039,538
Securities disbursed to recipient organizations as grants	13,511,050	13,616,322
Forgiveness of program-related investment	--	1,250,000
Deferred federal excise tax	(155,100)	(709,100)
Increase (decrease) in cash from changes in		
Prepaid federal excise tax	179,928	150,859
Other assets	(27,680)	(16,875)
Accounts payable	5,061	(1,333)
Other accrued liabilities	(64,581)	119,187
	<u>(26,754,971)</u>	<u>(34,011,942)</u>
Net cash used in operating activities		
Cash flows from investing activities		
Purchases of investments	(93,863,921)	(165,511,044)
Proceeds from dispositions of investments	<u>120,756,330</u>	<u>199,526,611</u>
Net cash provided by investing activities	<u>26,892,409</u>	<u>34,015,567</u>
Net increase in cash	137,438	3,625
Cash, beginning of year	<u>202,259</u>	<u>198,634</u>
Cash, end of year	<u>\$ 339,697</u>	<u>\$ 202,259</u>
Supplemental information:		
Excise tax paid	<u>\$ 121,523</u>	<u>\$ 301,468</u>

The accompanying notes are an integral part of these financial statements.

McCUNE FOUNDATION

NOTES TO FINANCIAL STATEMENTS

NOTE 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.

NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Basis of presentation

The Foundation's policy is to prepare its financial statements in accordance with accounting principles generally accepted in the United States of America. Accordingly, the Foundation is required to report information regarding its financial position and activities according to two classes of net assets, as follows:

Without donor restrictions

These net assets are not subject to donor-imposed stipulations.

With donor restrictions

These net assets are subject to donor-imposed stipulations that may or will be met by either actions of the Foundation or the passage of time. The Foundation does not have net assets with donor restrictions as of September 30, 2023 and 2022.

In addition, net assets with donor restrictions may include net assets with donor-imposed stipulations that they be maintained permanently by the Foundation. As of September 30, 2023 and 2022, the Foundation does not have any net assets with donor restrictions that are required to be maintained in perpetuity.

Cash

The Foundation maintains its cash in bank accounts that, 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.

McCUNE FOUNDATION

NOTES TO FINANCIAL STATEMENTS

(continued)

NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Investments and related income (continued)

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. ("PNC Bank"), the Foundation's trustee.

Grants

The Foundation records unconditional grants when they are approved by the Distribution Committee. Conditional grants approved by the Distribution Committee, that is, those with a measurable performance or other barrier and a right of return, 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 attributable 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.

McCUNE FOUNDATION

NOTES TO FINANCIAL STATEMENTS

(continued)

NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

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 amounts of assets and liabilities and disclosure of contingent assets and liabilities as of the date of the financial statements and the reported amounts of income and expenses during the reporting period. Actual results could differ from those estimates.

Subsequent events

The Foundation evaluates events and transactions occurring subsequent to the date of the financial statements for matters requiring recognition or disclosure in the financial statements. The accompanying financial statements consider events through January 22, 2024, the date on which the financial statements were available to be issued.

NOTE 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 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. The PRI balance consists of one loan maturing in 2028 and one partnership investment as of both September 30, 2023 and 2022. 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. During the year ended September 30, 2022, two of the loans outstanding were forgiven by the Foundation and converted into a grant in the amount of \$1,250,000. No impairment losses were recorded for these investments as of September 30, 2023 and 2022.

McCUNE FOUNDATION

NOTES TO FINANCIAL STATEMENTS

(continued)

NOTE 3 - INVESTMENTS (continued)

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 I – 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 II – 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 III – 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:

	2023				
	Level I	Level II	Level III	Total fair value	Cost
Short-term investments	\$ 5,006,071	\$ --	\$ --	\$ 5,006,071	\$ 5,006,071
Equities and equity funds					
Equities	46,275,550	--	--	46,275,550	7,157,453
Equity funds					
Domestic	45,968,880	--	--	45,968,880	30,407,941
International	110,043	--	--	110,043	126,402
Bonds and bond funds					
U.S. Treasury obligations	52,409,171	--	--	52,409,171	52,792,500
Corporate obligations	--	42,269,975	--	42,269,975	43,448,005
Bond funds	500,961	--	--	500,961	500,250
Program-related investments	--	--	2,252,420	2,252,420	2,252,420
	<u>\$ 150,270,676</u>	<u>\$ 42,269,975</u>	<u>\$ 2,252,420</u>	<u>\$ 194,793,071</u>	<u>\$ 141,691,042</u>

McCUNE FOUNDATION

NOTES TO FINANCIAL STATEMENTS

(continued)

NOTE 3 - INVESTMENTS (continued)

	2022				
	Level I	Level II	Level III	Total fair value	Cost
Short-term investments	\$ 2,550,136	\$ --	\$ --	\$ 2,550,136	\$ 2,550,136
Equities and equity funds					
Equities	59,801,110	--	--	59,801,110	11,181,354
Equity funds					
Domestic	48,765,553	--	--	48,765,553	32,381,745
International	106,332	--	--	106,332	126,402
Bonds and bond funds					
U.S. Treasury obligations	74,519,253	--	--	74,519,253	73,761,043
Corporate obligations	--	30,658,399	--	30,658,399	32,044,169
Bond funds	905,787	--	--	905,787	1,000,704
Program-related investments	--	--	2,314,858	2,314,858	2,314,858
	<u>\$ 186,648,171</u>	<u>\$ 30,658,399</u>	<u>\$ 2,314,858</u>	<u>\$ 219,621,428</u>	<u>\$ 155,360,411</u>

McCUNE FOUNDATION

NOTES TO FINANCIAL STATEMENTS

(continued)

NOTE 3 - INVESTMENTS (continued)

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

	<u>Program- related investments</u>
October 1, 2021	\$ 3,730,007
Gains (losses)	
Unrealized	--
Realized	--
Forgiveness of PRI	(1,250,000)
Cash flows	
Purchases	--
Proceeds from dispositions	<u>(165,149)</u>
September 30, 2022	2,314,858
Gains (losses)	
Unrealized	--
Realized	--
Cash flows	
Purchases	--
Proceeds from dispositions	<u>(62,438)</u>
September 30, 2023	<u>\$ 2,252,420</u>

NOTE 4 - ENDOWMENT

The Foundation, by definition, is an endowment. It was established by a donor 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. 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.

McCUNE FOUNDATION

NOTES TO FINANCIAL STATEMENTS

(continued)

NOTE 4 - ENDOWMENT (continued)

Endowment assets as of September 30, 2023 and 2022 were comprised of funds without donor restrictions of \$194,793,071 and \$219,621,428, respectively.

The following represents the change in the endowment fund net assets for the years ended September 30:

	<u>2023</u>	<u>2022</u>
Beginning of year	\$ 219,621,428	\$ 296,542,855
Investment return		
Investment income	5,186,066	5,016,966
Realized gain	26,734,090	22,970,149
Unrealized loss	(11,158,988)	(51,009,687)
Appropriation of endowment assets for grants	(42,730,959)	(51,274,575)
Fees and miscellaneous items	<u>(2,858,566)</u>	<u>(2,624,280)</u>
End of year	<u>\$ 194,793,071</u>	<u>\$ 219,621,428</u>

NOTE 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 2023 or 2022.

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. The Foundation calculated the deferred excise tax liability at 1.39% for both of the years ended September 30, 2023 and 2022. The Foundation's federal income tax and excise tax returns for tax years 2020 and beyond remain subject to examination by the Internal Revenue Service.

McCUNE FOUNDATION

NOTES TO FINANCIAL STATEMENTS

(continued)

NOTE 5 - TAXES (continued)

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

	<u>2023</u>	<u>2022</u>
Current excise tax expense	\$ 301,451	\$ 246,776
Deferred excise tax benefit	<u>(155,100)</u>	<u>(709,100)</u>
	<u>\$ 146,351</u>	<u>\$ (462,324)</u>

The deferred federal excise tax benefit of \$(155,100) and \$(709,100) for the years ended September 30, 2023 and 2022, respectively, relates to 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, 2023 and 2022, the Foundation paid \$7,434 and \$187,362, respectively, above their federal excise tax amount for the year. Those amounts are recorded as prepaid federal excise tax on the statements of financial position.

NOTE 6 - GRANTS

As of September 30, 2023, the Foundation had awarded \$7,431,600 in conditional grants that are not reflected in the accompanying financial statements. The Foundation expects these conditional grants to be distributed through the year 2025 as the conditions set by the Foundation are met by the grantees.

NOTE 7 - LEASE

The Foundation leases office space under an operating lease agreement that expires September 30, 2028. Total rent expense for the years ended September 30, 2023 and 2022 was \$185,708 and \$184,760, respectively. The Foundation has elected not to implement Financial Accounting Standards Board Accounting Standards Update 2016-02, *Leases* (Topic 842), the impact of which is immaterial to the financial statements as a whole.

McCUNE FOUNDATION

NOTES TO FINANCIAL STATEMENTS

(continued)

NOTE 7 - LEASE (continued)

Future minimum rentals under this lease are as follows:

2024	\$	189,733
2025		192,675
2026		195,616
2027		198,558
2028		201,500
		<hr/>
	\$	978,082
		<hr/>

NOTE 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, 2023 and 2022, the employer expense was \$131,773 and \$109,313, respectively.

NOTE 9 - RELATED PARTY TRANSACTIONS

During 2023 and 2022, there were certain grant applicants with which members of the Distribution Committee were affiliated. Pursuant to the practices of the Foundation, the related members abstained from voting in matters concerning affiliated applicants.

NOTE 10 - LIQUIDITY AND AVAILABILITY

The Foundation manages its liquid resources by focusing on investment efforts, through an endowment fund, to ensure the Foundation 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 Foundation remains liquid.

Financial assets (cash, investments excluding PRIs) available for general expenditure, that is, without donor or other restrictions limiting their use, within one year of the statement of financial position date, total \$192,880,348 and \$217,508,829 as of September 30, 2023 and 2022, respectively.