

McCUNE FOUNDATION

AUDITED FINANCIAL STATEMENTS

Years ended September 30, 2021 and 2020

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INDEPENDENT AUDITOR'S REPORT

To the Distribution Committee of
McCune Foundation

We have audited the accompanying financial statements of McCune Foundation, which comprise the statement of financial position as of September 30, 2021, 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 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 organization'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 organization'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.

INDEPENDENT AUDITOR'S REPORT
(continued)

Opinion

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, 2021, 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.

Prior Period Financial Statements

The financial statements of McCune Foundation as of September 30, 2020, were audited by other auditors whose report dated February 2, 2021, expressed an unmodified opinion on those statements.

Susterson & G. LLP

January 24, 2022

McCUNE FOUNDATION

STATEMENTS OF FINANCIAL POSITION

	September 30,	
	<u>2021</u>	<u>2020</u>
<u>ASSETS</u>		
Cash	\$ 198,634	\$ 161,107
Investments	296,542,855	296,273,391
Accounts receivable	--	20,153
Prepaid federal excise tax	338,221	551,243
Other assets	<u>50,124</u>	<u>32,283</u>
Total assets	<u>\$ 297,129,834</u>	<u>\$ 297,038,177</u>
<u>LIABILITIES AND NET ASSETS</u>		
Liabilities		
Deferred federal excise tax	\$ 1,602,300	\$ 1,648,100
Accounts payable	4,428	9,665
Other accrued liabilities	<u>53,018</u>	<u>36,013</u>
Total liabilities	1,659,746	1,693,778
Net assets without donor restrictions	<u>295,470,088</u>	<u>295,344,399</u>
Total liabilities and net assets	<u>\$ 297,129,834</u>	<u>\$ 297,038,177</u>

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

McCUNE FOUNDATION

STATEMENTS OF ACTIVITIES

	Year ended September 30,	
	<u>2021</u>	<u>2020</u>
Income (loss)		
Net gain on investments		
Realized gain	\$ 42,181,861	\$ 29,569,328
Unrealized loss	<u>(3,294,146)</u>	<u>(12,491,200)</u>
Net gain on investments	38,887,715	17,078,128
Dividends	2,299,664	4,505,549
Interest	362,605	1,471,339
Other loss on investments	(257,810)	(1,786,705)
Fees paid to trustee	<u>(752,029)</u>	<u>(752,942)</u>
Total income (loss)	<u>40,540,145</u>	<u>20,515,369</u>
Expenses		
Program expenses		
Grants, net of returns	38,279,015	39,294,954
Salaries and benefits	886,733	823,689
Other	<u>440,250</u>	<u>371,828</u>
Total program expenses	<u>39,605,998</u>	<u>40,490,471</u>
Management and general expenses		
Federal excise tax expense	481,893	651,624
Salaries and benefits	235,825	227,711
Other	<u>90,740</u>	<u>104,584</u>
Total management and general expenses	<u>808,458</u>	<u>983,919</u>
Total expenses	<u>40,414,456</u>	<u>41,474,390</u>
Increase (decrease) in net assets without donor restrictions	125,689	(20,959,021)
Net assets without donor restrictions, beginning of year	<u>295,344,399</u>	<u>316,303,420</u>
Net assets without donor restrictions, end of year	<u>\$ 295,470,088</u>	<u>\$ 295,344,399</u>

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

McCUNE FOUNDATION
STATEMENTS OF CASH FLOWS

	<u>Year ended September 30,</u> 2021	<u>2020</u>
Cash flows from operating activities		
Increase (decrease) in net assets without donor restrictions	\$ 125,689	\$ (20,959,021)
Adjustments to reconcile increase (decrease) in net assets without donor restrictions to net cash used in operating activities		
Net gain on investments	(38,887,715)	(17,078,128)
Securities disbursed to recipient organizations as grants	9,242,526	3,399,357
Increase (decrease) in cash from changes in		
Accounts receivable	20,153	(1,192)
Prepaid federal excise tax	213,022	(151,202)
Other assets	(17,841)	(15,501)
Deferred federal excise tax	(45,800)	337,500
Accounts payable	(5,237)	(13,995)
Other accrued liabilities	17,005	18,116
	<u>(29,338,198)</u>	<u>(34,464,066)</u>
Net cash used in operating activities		
Cash flows from investing activities		
Purchases of investments	(81,158,925)	(108,372,046)
Proceeds from dispositions of investments	110,534,650	142,972,754
	<u>29,375,725</u>	<u>34,600,708</u>
Net cash provided by investing activities		
Net increase in cash	37,527	136,642
Cash, beginning of year	<u>161,107</u>	<u>24,465</u>
Cash, end of year	<u>\$ 198,634</u>	<u>\$ 161,107</u>
Supplemental information:		
Excise tax paid	<u>\$ 555,096</u>	<u>\$ 501,506</u>
Unrelated business income tax paid	<u>\$ --</u>	<u>\$ 15,524</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, 2021 and 2020.

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, 2021 and 2020, 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 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.

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.

Program-related investments

The fair value of program-related investments ("PRIs") approximate 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 - 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.

McCUNE FOUNDATION

NOTES TO FINANCIAL STATEMENTS

(continued)

NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

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.

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 24, 2022, the date on which the financial statements were available to be issued.

Adoption of Accounting Standards Update ("ASU") 2018-13

As of October 1, 2020, the Foundation adopted the provisions of Financial Accounting Standards Board ("FASB") ASU 2018-13, Fair Value Measurement (Topic 820) Disclosure Framework – Changes to the Disclosure Requirements for Fair Value Measurement on a retrospective basis. The amendments in this update modify the disclosure requirements on fair value measurements in Topic 820, Fair Value Measurement. Adoption of this pronouncement had no effect on the Foundation's current or previously issued financial statements.

Reclassifications

Certain amounts previously reported in the September 30, 2020 financial statements have been reclassified for comparative purposes.

McCUNE FOUNDATION

NOTES TO FINANCIAL STATEMENTS
(continued)

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 the private equity fund, accounted for at net asset value or its equivalent, is estimated in good faith by management due to the absence of quoted market value. This estimate is made primarily by using information provided by the general partner and consideration of general factors such as financial information relating to the investment and the industry and the economic environment in which the investee operates. Additionally, this estimate is 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 the fair value provided by the general partner. Because of the inherent uncertainty of valuation, the estimated fair value might differ significantly from the fair value that would have been used had a ready market for the investments existed, and the difference could be material.

The private equity fund is comprised of a passive, non-redeemable investment in a venture capital fund which invests in a wide range of industries. As of September 30, 2021, the Foundation is not committed to invest in this investment during the next year. As of September 30, 2021 and 2020, the Foundation held this private equity fund with a cost of \$615,771 and a value of \$0.

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

The PRI balance consists of three loans maturing at various dates through 2023 and one partnership investment as of both September 30, 2021 and 2020. 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, 2021 and 2020.

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:

	2021				
	Level I	Level II	Level III	Total fair value	Cost
Short-term investments	\$ 35,719,081	\$ --	\$ --	\$ 35,719,081	\$ 35,718,837
Equities and equity funds					
Equities	85,676,471	--	--	85,676,471	13,721,816
Equity funds					
Domestic	73,404,343	--	--	73,404,343	36,186,569
International	2,516,403	--	--	2,516,403	1,072,390
Bonds and bond funds					
U.S. Treasury obligations	71,740,306	--	--	71,740,306	67,014,861
Corporate obligations	--	17,618,159	--	17,618,159	17,181,539
Bond funds	6,138,085	--	--	6,138,085	6,030,361
Program-related investments	--	--	3,730,007	3,730,007	3,730,007
	<u>\$ 275,194,689</u>	<u>\$ 17,618,159</u>	<u>\$ 3,730,007</u>	\$ 296,542,855	180,656,380
Investments measured at net asset value					
Private equity fund				--	615,771
Total				<u>\$ 296,542,855</u>	<u>\$ 181,272,151</u>

McCUNE FOUNDATION

NOTES TO FINANCIAL STATEMENTS

(continued)

NOTE 3 - INVESTMENTS (continued)

	2020				
	<u>Level I</u>	<u>Level II</u>	<u>Level III</u>	<u>Total fair value</u>	<u>Cost</u>
Short-term investments	\$ 35,037,233	\$ --	\$ --	\$ 35,037,233	\$ 35,037,233
Equities and equity funds					
Equities	88,941,290	--	--	88,941,290	17,139,167
Equity funds					
Domestic	82,043,042	--	--	82,043,042	42,074,724
International	7,026,500	--	--	7,026,500	3,645,823
Bonds and bond funds					
U.S. Treasury obligations	63,641,035	--	--	63,641,035	60,448,846
Corporate obligations	--	12,923,117	--	12,923,117	12,210,578
Bond funds	2,713,983	--	--	2,713,983	2,589,208
Program-related investments	--	--	3,947,191	3,947,191	3,947,191
	<u>\$ 279,403,083</u>	<u>\$ 12,923,117</u>	<u>\$ 3,947,191</u>	\$ 296,273,391	177,092,770
Investments measured at net asset value					
Private equity fund				--	615,771
Total				<u>\$ 296,273,391</u>	<u>\$ 177,708,541</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, 2019	\$ 3,948,000
Gains (losses)	
Unrealized	--
Realized	--
Cash flows	
Purchases	--
Proceeds from dispositions	<u>(809)</u>
September 30, 2020	3,947,191
Gains	
Unrealized	--
Realized	--
Cash flows	
Purchases	--
Proceeds from dispositions	<u>(217,184)</u>
September 30, 2021	<u>\$ 3,730,007</u>

McCUNE FOUNDATION

NOTES TO FINANCIAL STATEMENTS

(continued)

NOTE 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. 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 assets as of September 30, 2021 and 2020 were comprised of funds without donor restrictions of \$296,542,855 and \$296,273,391, respectively.

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

	<u>2021</u>	<u>2020</u>
Beginning of year	\$ 296,273,391	\$ 317,195,328
Investment return		
Investment income	2,404,459	4,190,183
Realized gain	42,181,861	29,569,328
Unrealized loss	(3,294,146)	(12,491,200)
Appropriation of endowment assets for grants	(38,279,015)	(39,294,954)
Fees and miscellaneous items	<u>(2,743,695)</u>	<u>(2,895,294)</u>
End of year	<u>\$ 296,542,855</u>	<u>\$ 296,273,391</u>

McCUNE FOUNDATION

NOTES TO FINANCIAL STATEMENTS

(continued)

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 2021 or 2020.

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, 2021 and 2020. The Foundation's federal income tax and excise tax returns for tax years 2018 and beyond remain subject to examination by the Internal Revenue Service.

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

	<u>2021</u>	<u>2020</u>
Current excise tax expense	\$ 527,693	\$ 314,124
Deferred excise tax expense (benefit)	<u>(45,800)</u>	<u>337,500</u>
	<u>\$ 481,893</u>	<u>\$ 651,624</u>

The deferred federal excise tax expense (benefit) of \$(45,800) and \$337,500 for the years ended September 30, 2021 and 2020, 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 deferred federal excise tax expense for the year ended September 30, 2020 was also impacted by a change in effective tax rate from 1.0% to 1.39%.

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, 2021 and 2020, the Foundation paid \$338,221 and \$551,243, 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.

McCUNE FOUNDATION

NOTES TO FINANCIAL STATEMENTS
(continued)

NOTE 6 - GRANTS

As of September 30, 2021, the Foundation had awarded \$4,645,000 in conditional grants which are not reflected in the accompanying financial statements. The Foundation expects these conditional grants to be distributed through the year 2024 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 which expires September 30, 2028. Total rent expense for the years ended September 30, 2021 and 2020 was \$179,699 and \$184,000, respectively.

Future minimum rentals under this lease are as follows:

2022	\$	183,850
2023		186,792
2024		189,733
2025		192,675
2026		195,616
Thereafter		<u>400,058</u>
	\$	<u>1,348,724</u>

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, 2021 and 2020, the employer expense was \$110,305 and \$103,651, respectively.

McCUNE FOUNDATION

NOTES TO FINANCIAL STATEMENTS
(continued)

NOTE 9 - RELATED PARTY TRANSACTIONS

During 2021 and 2020, 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.

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, accounts receivable) 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 \$293,011,482 and \$292,507,460 as of September 30, 2021 and 2020, respectively.