

McCUNE FOUNDATION

AUDITED FINANCIAL STATEMENTS

Years ended September 30, 2022 and 2021

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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, 2022 and 2021, 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, 2022 and 2021, 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.

Susterson & Co. LLP

January 30, 2023

McCUNE FOUNDATION

STATEMENTS OF FINANCIAL POSITION

	September 30,	
	<u>2022</u>	<u>2021</u>
<u>ASSETS</u>		
Cash	\$ 202,259	\$ 198,634
Investments	219,621,428	296,542,855
Prepaid federal excise tax	187,362	338,221
Other assets	<u>66,999</u>	<u>50,124</u>
Total assets	<u>\$ 220,078,048</u>	<u>\$ 297,129,834</u>
<u>LIABILITIES AND NET ASSETS</u>		
Liabilities		
Deferred federal excise tax	\$ 893,200	\$ 1,602,300
Accounts payable	3,095	4,428
Other accrued liabilities	<u>172,205</u>	<u>53,018</u>
Total liabilities	1,068,500	1,659,746
Net assets without donor restrictions	<u>219,009,548</u>	<u>295,470,088</u>
Total liabilities and net assets	<u>\$ 220,078,048</u>	<u>\$ 297,129,834</u>

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

McCUNE FOUNDATION

STATEMENTS OF ACTIVITIES

	Year ended September 30,	
	<u>2022</u>	<u>2021</u>
Income (loss)		
Net gain (loss) on investments		
Realized gain	\$ 22,970,149	\$ 42,181,861
Unrealized loss	<u>(51,009,687)</u>	<u>(3,294,146)</u>
Net gain (loss) on investments	(28,039,538)	38,887,715
Dividends	2,495,405	2,299,664
Interest	2,250,254	362,605
Other gain (loss) on investments	271,307	(257,810)
Fees paid to trustee	<u>(708,365)</u>	<u>(752,029)</u>
Total income (loss)	<u>(23,730,937)</u>	<u>40,540,145</u>
Expenses		
Program expenses		
Grants, net of returns	51,274,575	38,279,015
Salaries and benefits	951,653	886,733
Other	<u>532,323</u>	<u>440,250</u>
Total program expenses	<u>52,758,551</u>	<u>39,605,998</u>
Management and general expenses		
Federal excise tax expense (benefit)	(462,324)	481,893
Salaries and benefits	308,485	235,825
Other	<u>124,891</u>	<u>90,740</u>
Total management and general expenses	<u>(28,948)</u>	<u>808,458</u>
Total expenses	<u>52,729,603</u>	<u>40,414,456</u>
Increase (decrease) in net assets without donor restrictions	(76,460,540)	125,689
Net assets without donor restrictions, beginning of year	<u>295,470,088</u>	<u>295,344,399</u>
Net assets without donor restrictions, end of year	<u>\$ 219,009,548</u>	<u>\$ 295,470,088</u>

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

McCUNE FOUNDATION
STATEMENTS OF CASH FLOWS

	Year ended September 30,	
	2022	2021
Cash flows from operating activities		
Increase (decrease) in net assets without donor restrictions	\$ (76,460,540)	\$ 125,689
Adjustments to reconcile increase (decrease) in net assets without donor restrictions to net cash used in operating activities		
Net (gain) loss on investments	28,039,538	(38,887,715)
Securities disbursed to recipient organizations as grants	13,616,322	9,242,526
Forgiveness of program-related investment	1,250,000	--
Deferred federal excise tax	(709,100)	(45,800)
Increase (decrease) in cash from changes in		
Accounts receivable	--	20,153
Prepaid federal excise tax	150,859	213,022
Other assets	(16,875)	(17,841)
Accounts payable	(1,333)	(5,237)
Other accrued liabilities	119,187	17,005
	(34,011,942)	(29,338,198)
Net cash used in operating activities		
Cash flows from investing activities		
Purchases of investments	(165,511,044)	(81,158,925)
Proceeds from dispositions of investments	199,526,611	110,534,650
	34,015,567	29,375,725
Net cash provided by investing activities		
Net increase in cash	3,625	37,527
Cash, beginning of year	198,634	161,107
Cash, end of year	\$ 202,259	\$ 198,634
Supplemental information:		
Excise tax paid	\$ 301,468	\$ 555,096

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, 2022 and 2021.

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, 2022 and 2021, 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 30, 2023, 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 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.

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, 2022, the Foundation has disposed of this investment and recognized a realized loss on the investment. As of September 30, 2021, the Foundation held this private equity fund with a cost of \$615,771 and a value of \$0.

McCUNE FOUNDATION

NOTES TO FINANCIAL STATEMENTS

(continued)

NOTE 3 - INVESTMENTS (continued)

As of September 30, 2022, the PRI balance consists of one loan maturing in 2028 and one partnership investment. As of September 30, 2021, the PRI balance consisted of three 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. During the year ended September 30, 2022, two of the loans outstanding as of September 30, 2021 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, 2022 and 2021.

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.

McCUNE FOUNDATION

NOTES TO FINANCIAL STATEMENTS

(continued)

NOTE 3 - INVESTMENTS (continued)

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:

	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)

	2021				
	<u>Level I</u>	<u>Level II</u>	<u>Level III</u>	<u>Total fair value</u>	<u>Cost</u>
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)

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, 2020	\$ 3,947,191
Gains (losses)	
Unrealized	--
Realized	--
Cash flows	
Purchases	--
Proceeds from dispositions	<u>(217,184)</u>
September 30, 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	<u>\$ 2,314,858</u>

McCUNE FOUNDATION

NOTES TO FINANCIAL STATEMENTS

(continued)

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.

Endowment assets as of September 30, 2022 and 2021 were comprised of funds without donor restrictions of \$219,621,428 and \$296,542,855, respectively.

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

	<u>2022</u>	<u>2021</u>
Beginning of year	\$ 296,542,855	\$ 296,273,391
Investment return		
Investment income	5,016,966	2,404,459
Realized gain	22,970,149	42,181,861
Unrealized loss	(51,009,687)	(3,294,146)
Appropriation of endowment assets for grants	(51,274,575)	(38,279,015)
Fees and miscellaneous items	<u>(2,624,280)</u>	<u>(2,743,695)</u>
End of year	<u>\$ 219,621,428</u>	<u>\$ 296,542,855</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 2022 or 2021.

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, 2022 and 2021. The Foundation's federal income tax and excise tax returns for tax years 2019 and beyond remain subject to examination by the Internal Revenue Service.

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

	<u>2022</u>	<u>2021</u>
Current excise tax expense	\$ 246,776	\$ 527,693
Deferred excise tax benefit	<u>(709,100)</u>	<u>(45,800)</u>
	<u>\$ (462,324)</u>	<u>\$ 481,893</u>

The deferred federal excise tax benefit of \$(709,100) and \$(45,800) for the years ended September 30, 2022 and 2021, 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, 2022 and 2021, the Foundation paid \$187,362 and \$338,221, 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, 2022, the Foundation had awarded \$5,529,750 in conditional grants which 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 which expires September 30, 2028. Total rent expense for the years ended September 30, 2022 and 2021 was \$184,760 and \$179,699, respectively.

Future minimum rentals under this lease are as follows:

2023	\$	186,792
2024		189,733
2025		192,675
2026		195,616
2027		198,558
Thereafter		<u>201,500</u>
	\$	<u>1,164,874</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, 2022 and 2021, the employer expense was \$109,313 and \$110,305, respectively.

McCUNE FOUNDATION

NOTES TO FINANCIAL STATEMENTS

(continued)

NOTE 9 - RELATED PARTY TRANSACTIONS

During 2022 and 2021, 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 \$217,508,829 and \$293,011,482 as of September 30, 2022 and 2021, respectively.