

# **The Luzerne Foundation**

Financial Statements

December 31, 2016 and 2015



Candor. Insight. Results.

# **The Luzerne Foundation**

---

Table of Contents

December 31, 2016 and 2015

	<u>Page</u>
<b>Independent Auditors' Report</b>	1
<b>Financial Statements</b>	
Statement of Financial Position	3
Statement of Activities	4
Statement of Cash Flows	5
Notes to Financial Statements	6

## **Independent Auditors' Report**

Board of Directors  
The Luzerne Foundation

We have audited the accompanying financial statements of The Luzerne Foundation (the "Foundation"), which comprise the statement of financial position as of December 31, 2016 and 2015, and the related statements of activities, and cash flows for the years then ended, and the related notes to the financial statements.

### **Management's Responsibility for the Financial Statements**

Management is responsible for the preparation and fair presentation of these financial statements in accordance with accounting principles generally accepted in the United States of America; this includes the design, implementation, and maintenance of internal control relevant to the preparation and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error.

### **Auditors' Responsibility**

Our responsibility is to express an opinion on these financial statements based on our audits. We conducted our audits in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the 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 auditors' judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

## Opinion

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of The Luzerne Foundation as of December 31, 2016 and 2015 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.

*Baker Tilly Virchow Krause, LLP*

Wilkes-Barre, Pennsylvania  
September 22, 2017

## The Luzerne Foundation

Statement of Financial Position  
December 31, 2016 and 2015

	<u>2016</u>	<u>2015</u>
<b>Assets</b>		
<b>Cash and Cash Equivalents</b>	\$ 2,702,393	\$ 3,028,395
<b>Investments</b>	30,099,382	27,979,564
<b>Pledges Receivable, Net</b>	33,699	33,699
<b>Contribution Receivable from Remainder Trusts</b>	1,482,064	1,367,075
<b>Contribution Receivable from Annuity</b>	144,384	161,205
<b>Property Held for Investment</b>	<u>1,070,000</u>	<u>1,070,000</u>
Total assets	<u>\$ 35,531,922</u>	<u>\$ 33,639,938</u>
<b>Liabilities and Net Assets</b>		
<b>Accounts Payable</b>	\$ -	\$ 1,533
<b>Refundable Deposits</b>	20,000	-
<b>Funds Held as Agency Endowment</b>	7,015,866	5,936,068
<b>Liability Under Unitrusts</b>	<u>706,653</u>	<u>673,929</u>
Total liabilities	<u>7,742,519</u>	<u>6,611,530</u>
<b>Net Assets</b>		
Unrestricted	25,943,992	25,265,262
Temporarily restricted	<u>1,845,411</u>	<u>1,763,146</u>
Total net assets	<u>27,789,403</u>	<u>27,028,408</u>
Total liabilities and net assets	<u>\$ 35,531,922</u>	<u>\$ 33,639,938</u>

See notes to financial statements

# The Luzerne Foundation

## Statement of Activities

Years ended December 31, 2016 and 2015

	<u>2016</u>	<u>2015</u>
<b>Changes in Unrestricted Net Assets</b>		
Unrestricted revenues and other support:		
Contributions	\$ 15,405,709	\$ 17,661,727
Net investment income	1,746,124	120,609
Rental Income	2,500	-
	<u>17,154,333</u>	<u>17,782,336</u>
Expenses:		
Program services, Grants	<u>15,661,514</u>	<u>16,242,350</u>
Management and general:		
Salaries and benefits	289,081	265,935
Property maintenance	53,345	46,569
Professional fees	37,009	31,475
In-kind rent	25,000	25,000
Miscellaneous	24,017	22,560
Conferences, conventions, and meetings	15,180	21,073
Payroll taxes	19,114	20,621
Technological advances	10,006	15,898
Auto expense	10,818	12,042
Telephone	7,709	10,706
Advertising	4,692	4,851
Dues and subscriptions	4,070	4,546
Insurance	3,826	3,836
Provision for uncollectible pledges	-	500
	<u>503,867</u>	<u>485,612</u>
Fund raising, special events	<u>270,900</u>	<u>264,732</u>
Total expenses before investment fees	16,436,281	16,992,694
Investment fees	<u>39,322</u>	<u>59,811</u>
Total expenses	<u>16,475,603</u>	<u>17,052,505</u>
Increase in unrestricted net assets	678,730	729,831
Increase in temporarily restricted net assets,		
Contributions	-	302,365
Change in value of remainder trusts	<u>82,265</u>	<u>7,538</u>
Increase in temporarily restricted net assets	<u>82,265</u>	<u>309,903</u>
Increase in net assets	760,995	1,039,734
<b>Net Assets, Beginning</b>	<u>27,028,408</u>	<u>25,988,674</u>
<b>Net Assets, Ending</b>	<u>\$ 27,789,403</u>	<u>\$ 27,028,408</u>

See notes to financial statements

# The Luzerne Foundation

## Statement of Cash Flows

Years ended December 31, 2016 and 2015

	<u>2016</u>	<u>2015</u>
<b>Cash Flows from Operating Activities</b>		
Increase in net assets	\$ 760,995	\$ 1,039,734
Adjustments to reconcile increase in net assets to net cash provided by operating activities:		
Unrealized and realized losses (gains), net	(1,242,550)	356,579
Contribution receivable from remainder trusts	-	(976,294)
Contribution receivable from annuity	-	(161,205)
Change in value of remainder trusts and annuity	(98,168)	(7,538)
Changes in assets and liabilities:		
Pledges receivable	-	(12,500)
Accounts payable	(1,533)	(317)
Accrued payroll	-	(7,196)
Refundable deposit	20,000	-
Funds held as agency endowment	1,079,798	1,647,104
Liability under unitrusts	32,724	673,929
Net cash provided by operating activities	<u>551,266</u>	<u>2,552,296</u>
<b>Cash Flows from Investing Activities</b>		
Purchase of investments	(7,643,318)	(10,113,779)
Proceeds from sale of investments	6,766,050	6,958,295
Net cash used in investing activities	<u>(877,268)</u>	<u>(3,155,484)</u>
<b>Cash Flows from Financing Activities</b>		
Proceeds from remainder trusts	-	976,294
Proceeds from annuity	-	161,205
Net cash provided by financing activities	<u>-</u>	<u>1,137,499</u>
Net increase (decrease) in cash and cash equivalents	(326,002)	534,311
<b>Cash and Cash Equivalents, Beginning</b>	<u>3,028,395</u>	<u>2,494,084</u>
<b>Cash and Cash Equivalents, Ending</b>	<u>\$ 2,702,393</u>	<u>\$ 3,028,395</u>

See notes to financial statements

# **The Luzerne Foundation**

---

Notes to Financial Statements

December 31, 2016 and 2015

## **1. Nature of Operations and Summary of Significant Accounting Policies**

### **Nature of Operations**

The Luzerne Foundation (the "Foundation"), a community foundation, is a nonstock, not-for-profit corporation located in Luzerne County, Pennsylvania. The Foundation was formed to serve the interests and needs of Luzerne County, Pennsylvania and the surrounding areas and thereby enhance the quality of life for residents of those communities. This objective will be achieved by receiving, managing, and disbursing funds for charitable and educational purposes as well as engaging in activities and functions for the benefit of those communities. Support is derived through direct solicitation of individuals, businesses and the community at large.

### **Donor-Restricted Gifts**

All contributions are considered to be available for unrestricted use unless specifically restricted by the donor. Amounts received that are designated for future periods or restricted by the donor for specific purposes are reported as temporarily restricted support that increases that net asset class. When a donor restriction expires, temporarily restricted net assets are reclassified as unrestricted net assets and reported in the statement of activities as net assets released from restrictions.

### **Unrestricted, Temporarily, and Permanently Restricted Net Assets**

Unrestricted net assets are those whose use by the Foundation is not subject to donor-imposed restrictions. Temporarily restricted net assets are those whose use by the Foundation has been limited by donors to a specific time period or purpose. Permanently restricted net assets are those whose use is restricted by donors to be maintained in perpetuity.

Pursuant to donor restrictions, the Foundation classified each of its component funds into the following types: unrestricted funds, field of interest funds, donor-advised funds, scholarship funds, designated funds, and organizational endowment funds. While it is the intent of the Foundation to hold these assets as endowment funds, its board of directors may, by majority vote, modify any restriction or condition on the distribution of funds from its component trusts if, in their judgment, such restriction becomes unnecessary, incapable of fulfillment or inconsistent with the charitable needs of the community (i.e., variance power). Authoritative guidance on accounting for contributions received and contributions made provides that if the governing body has variance power, contributions should be classified as unrestricted net assets. Accordingly, all net assets and related activity over which the management of the Foundation exercises direct control are classified as unrestricted net assets in the accompanying financial statements. The board of directors of the Foundation ratified a recommendation limiting the current year grant distribution from individual endowment funds to 4.25% of the average market value, using a sixteen quarter trailing average of the principal fair value of each fund. For funds less than four years old, the fair value will be the average of all quarterly fair values to date. The funds noted above are classified as investments in the accompanying statement of financial position.



# **The Luzerne Foundation**

---

Notes to Financial Statements  
December 31, 2016 and 2015

## **Pledges Receivable**

Pledges receivable are reported at net realizable value. Receivables are written off when they are determined to be uncollectible based upon management's assessment of individual accounts. The allowance for uncollectible pledges is estimated based upon a periodic review of individual accounts. This allowance was \$9,015 at December 31, 2016 and 2015.

## **Investments and Investment Risk**

Investments in equity securities with readily determinable fair values and all investments in debt securities are measured at fair value in the statement of financial position. Investment income or loss (including realized and unrealized gains and losses on investments, interest, and dividends), is included in unrestricted net assets unless the income or loss is restricted by donor or law.

The cost of investments received as gifts is fair value as determined upon receipt. The cost of investments sold is determined by use of the specific identification method.

The Foundation's investments are comprised of a variety of financial instruments and are managed by investment advisors. The fair values reported in the statement of financial position are subject to various risks including changes in the equity markets, the interest rate environment, and general economic conditions. Due to the level of risk associated with certain investment securities and the level of uncertainty related to changes in the fair value of investment securities, it is reasonably possible that the amounts reported in the accompanying financial statements could change materially in the near term.

## **Property and Equipment**

Property and equipment are recorded at cost or fair value at the date of contribution in the case of gifts. Depreciation is computed using the straight-line method over the estimated useful lives of the assets.

No depreciation was taken in 2016 and 2015. The cost of the fully depreciated assets was \$42,612 at December 31, 2016 and 2015.

The Foundation has classified donated property as an asset held for investment due to the donor's restrictions to hold the property for three years. During this time, the property can be rented, but not sold. The property is recorded at fair value at the date of the gift.

## **Income Taxes**

The Foundation is a not-for-profit corporation organized under the laws of the Commonwealth of Pennsylvania and is exempt from federal income taxes on its exempt income under Section 501(a) of the Internal Revenue Code.

The Foundation accounts for uncertainty in income taxes by prescribing a recognition threshold of more-likely-than-not to be sustained upon examination by the appropriate taxing authority. Measurement of the tax uncertainty occurs if the recognition threshold has been met. Management determined that there were no tax uncertainties that met the recognition threshold in 2016 and 2015.

# The Luzerne Foundation

Notes to Financial Statements  
December 31, 2016 and 2015

## 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 at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates.

## Cash and Cash Equivalents

For purposes of the statement of cash flows, the Foundation considers all highly liquid debt instruments purchased with an original maturity of three months or less to be cash equivalents, except the portion of its investment portfolio which are being invested in cash and other instruments with maturities of less than three months.

## Donated Services

Donated services are recognized as contributions in accordance with authoritative guidance, if the services (a) create or enhance nonfinancial assets or (b) require specialized skills, are performed by people with those skills, and would otherwise be purchased by the Foundation. Volunteer-provided services are not recognized as contributions in the financial statements since the criteria as prescribed in the authoritative guidance are not met.

The Foundation receives the use of donated space from a bank. The term of the lease was through October 10, 2012 and has been extended to a month-by-month basis.

## Subsequent Events

The Foundation evaluated subsequent events for recognition or disclosure through September 22, 2017, the date the financial statements were available to be issued.

## 2. Investments

The composition of investments are as follows at December 31:

	<u>2016</u>	<u>2015</u>
Cash and cash equivalents	\$ 2,437,213	\$ 1,812,686
Certificates of deposit	29,752	151,560
U.S. government and agency bonds	2,837,874	2,853,867
Corporate bonds	912,208	864,050
Residential mortgage backed securities	66,642	-
Equity stock securities	16,827,142	15,665,188
Mutual funds:		
Equity	1,991,499	1,331,085
Fixed income	3,804,089	4,248,077
Foreign	1,192,963	985,431
Other	-	67,620
Total	<u>\$ 30,099,382</u>	<u>\$ 27,979,564</u>

# The Luzerne Foundation

## Notes to Financial Statements

December 31, 2016 and 2015

The composition of investment return is as follows:

	<u>2016</u>	<u>2015</u>
Interest and dividend income	\$ 503,574	\$ 477,188
Unrealized and realized gains, net	<u>1,242,550</u>	<u>(356,579)</u>
Net investment income	<u>\$ 1,746,124</u>	<u>\$ 120,609</u>

The Foundation charges an annualized fee on endowment assets which combines both investment management (moneys paid out to investment managers) and administration of the Foundation. The total fees from both sources for an endowment fund at The Luzerne Foundation ranges from 1.25% to 2.00% annualized based on the type of fund and the level of administrative duties required. All fees are annualized and accepted quarterly based on the prior three month average fund balance.

### 3. Contribution Receivable from Remainder Trusts

Contributions receivable from remainder trusts represent funds expected to remain under charitable remainder unitrusts established for the benefit of the Foundation. The trustee is required to distribute a calculated amount to the donor during the donor's life. Upon the donor's death, the remaining assets in the unitrusts are to be distributed to the Foundation. The assets are recorded at the present value of the estimated future payment to be distributed upon the donor's death using a discount rate of 1.8% in 2016 and 2.0% in 2015 and are classified as temporarily restricted net assets. Where the Foundation serves as trustee, the obligation to make payments to the trust beneficiaries is reported as a liability under unitrusts. When trusts are established, the assets transferred to the Foundation are recognized at their fair value, and a liability is established for the present value of the estimated future payments to be made to the beneficiaries. The difference between those two amounts is recognized as a restricted contribution. Annually, the obligation is adjusted for changes in the value of the trust assets and actuarial changes in the estimates of future benefits. The annual adjustment is reported in the statement of activities as the change in value of remainder trusts.

### 4. Contribution Receivable from Annuity

Contribution receivable from annuity represents the present value of the future cash flows to the Foundation. The Foundation used a discount rate of 2.25% in 2016 and 2015.

### 5. Funds Held as Agency Endowment

Funds held as agency endowment represent funds received from donors for the express purpose of providing permanent on-going support to the donor agency. These funds are included in investments in the accompanying statement of financial position.

# The Luzerne Foundation

---

Notes to Financial Statements  
December 31, 2016 and 2015

## 6. Related Party Transactions

The Foundation received contributions from members of the Foundation's management and governing board. Contributions from related parties were approximately \$189,435 in 2016 and \$71,572 in 2015.

The Foundation has various depositor relationships with banks and investment managers that have officers that are also members of the Board. The relationships include traditional checking accounts and investment accounts.

## 7. Significant Concentrations and Credit Risk

During 2016, the Foundation received more than 2,660 contributions from 2,131 different individuals and businesses; however, approximately 90% and 85% of the Foundation's contribution revenue received in 2016 and 2015 was received from 4 donors, respectively.

The Foundation maintains cash accounts, which, at times, may exceed federally insured limits. The Foundation has not experienced any losses from maintaining cash accounts in excess of federally insured limits. Management believes that it is not subject to any significant credit risk on its cash accounts.

## 8. Fair Value Measurements

The Foundation measures its investments and contribution receivable from remainder trusts and annuity trusts at fair value on a recurring basis in accordance with accounting principles generally accepted in the United States of America.

Fair value is defined as the price that would be received to sell an asset or the price that would be paid to dispose of a liability in an orderly transaction between market participants at the measurement date. The framework that the authoritative guidance establishes for measuring fair value includes a hierarchy used to classify the inputs used in measuring fair value. The hierarchy prioritizes the inputs used in determining valuations into three levels. The level in the fair value hierarchy within which the fair value measurement falls is determined based on the lowest level input that is significant to the fair value measurement.

The levels of the fair value hierarchy are as follows:

Level 1 - Fair value is based on unadjusted quoted prices in active markets that are accessible to the Foundation for identical assets. These generally provide the most reliable evidence and are used to measure fair value whenever available.

Level 2 - Fair value is based on significant inputs, other than Level 1 inputs, that are observable either directly or indirectly for substantially the full term of the asset through corroboration with observable market data. Level 2 inputs include quoted market prices in active markets for similar assets, quoted market prices in markets that are not active for identical or similar assets, and other observable inputs.

Level 3 - Fair value would be based on significant unobservable inputs. Examples of valuation methodologies that would result in Level 3 classification include option pricing models, discounted cash flows, and other similar techniques.

## The Luzerne Foundation

### Notes to Financial Statements

December 31, 2016 and 2015

The fair values of the Foundation's investments and contribution receivable from remainder trust were measured with the following inputs at December 31, 2016 and 2015:

	<b>2016</b>		
	<b>Total</b>	<b>Quoted Prices In Active Markets (Level 1)</b>	<b>Significant Unobservable (Level 3)</b>
Investments:			
Cash and cash equivalents	\$ 2,437,213	\$ 2,437,213	\$ -
Certificates of deposit	29,752	29,752	-
U.S. government and agency bonds	2,837,874	2,837,874	-
Corporate bonds	912,208	912,208	-
Residential mortgage backed securities	66,642	66,642	-
Equity securities:			
Consumer discretionary	2,202,141	2,202,141	-
Consumer staples	1,612,718	1,612,718	-
Information technology	3,430,324	3,430,324	-
Healthcare	2,674,286	2,674,286	-
Industrials	1,853,085	1,853,085	-
Financial	2,487,030	2,487,030	-
Energy	1,018,525	1,018,525	-
Other various sectors	1,549,033	1,549,033	-
Mutual funds:			
Equity	3,184,462	3,184,462	-
Fixed income	3,804,089	3,804,089	-
Other	-	-	-
Total investments	30,099,382	30,099,382	-
Contribution receivable from remainder trusts	1,482,064	-	1,482,064
Contribution receivable from annuity, net	144,384	-	144,384
Total	<u>\$ 31,725,830</u>	<u>\$ 30,099,382</u>	<u>\$ 1,626,448</u>

## The Luzerne Foundation

Notes to Financial Statements  
December 31, 2016 and 2015

	2015		
	Total	Quoted Prices In Active Markets (Level 1)	Significant Unobservable (Level 3)
Investments:			
Cash and cash equivalents	\$ 1,812,686	\$ 1,812,686	\$ -
Certificates of deposit	151,560	151,560	-
U.S. government and agency bonds	2,853,867	2,853,867	-
Corporate bonds	864,050	864,050	-
Equity securities:			
Consumer discretionary	2,203,742	2,203,742	-
Consumer staples	1,570,712	1,570,712	-
Information technology	2,994,617	2,994,617	-
Healthcare	2,921,945	2,921,945	-
Industrials	1,703,518	1,703,518	-
Financial	2,415,609	2,415,609	-
Energy	627,581	627,581	-
Other various sectors	1,227,463	1,227,463	-
Mutual funds:			
Equity	2,316,516	2,316,516	-
Fixed income	4,248,078	4,248,078	-
Other	67,620	67,620	-
Total investments	27,979,564	27,979,564	-
Contribution receivable from remainder trusts	1,367,075	-	1,367,075
Contribution receivable from annuity, net	161,205	-	161,205
Total	<u>\$ 29,507,844</u>	<u>\$ 27,979,564</u>	<u>\$ 1,528,280</u>

## The Luzerne Foundation

Notes to Financial Statements  
December 31, 2016 and 2015

The following is a reconciliation of the beginning and ending balances of the fair value measurements of the Foundation's contribution receivable from remainder trusts and annuity:

	<b>Remainder Trusts</b>	<b>Annuity</b>
Balance at December 31, 2014	\$ 383,243	\$ -
Contribution receivable	1,000,000	168,214
Valuation gain	18,174	-
Investment income	3,630	-
Amortized discount	-	1,747
Annuity payments received	-	(8,756)
Distribution	(37,972)	-
Balance at December 31, 2015	1,367,075	161,205
Contribution receivable	-	-
Valuation gain	50,040	-
Investment income	124,307	-
Amortized discount	-	4,192
Annuity payments received	-	(21,013)
Distribution	(59,358)	-
Balance at December 31, 2016	<u>\$ 1,482,064</u>	<u>\$ 144,384</u>

The Foundation had no instruments measured at fair value using Level 2 inputs at December 31, 2016 and 2015.

Investments are valued at fair value based on quoted market prices in active markets for cash and cash equivalents, U.S. government and fixed income securities, equity securities, and mutual funds. The contribution receivable from remainder trust is valued at the present value of the estimated future payments to be distributed upon the donor's death.