

# **The Luzerne Foundation**

Financial Statements

December 31, 2013 and 2012



# The Luzerne Foundation

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## 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, 2013 and 2012, 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, 2013 and 2012 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.

*Parente Beard LLC*

Wilkes-Barre, Pennsylvania  
July 24, 2014

## The Luzerne Foundation

Statement of Financial Position

December 31, 2013 and 2012

	<u>2013</u>	<u>2012</u>
<b>Assets</b>		
<b>Cash and Cash Equivalents</b>	\$ 4,686,785	\$ 3,097,575
<b>Investments</b>	23,900,128	20,345,858
<b>Pledges Receivable, Net</b>	36,000	55,738
<b>Contribution Receivable from Remainder Trust</b>	327,098	234,477
<b>Leasehold Improvements and Equipment, Net</b>	-	652
Total assets	<u>\$ 28,950,011</u>	<u>\$ 23,734,300</u>
<b>Liabilities and Net Assets</b>		
<b>Accounts Payable</b>	\$ 6,435	\$ 8,922
<b>Accrued Payroll</b>	7,318	4,828
<b>Funds Held as Agency Endowment</b>	<u>3,947,036</u>	<u>3,297,486</u>
Total liabilities	<u>3,960,789</u>	<u>3,311,236</u>
<b>Net Assets</b>		
Unrestricted	24,662,124	20,188,587
Temporarily restricted	<u>327,098</u>	<u>234,477</u>
Total net assets	<u>24,989,222</u>	<u>20,423,064</u>
Total liabilities and net assets	<u>\$ 28,950,011</u>	<u>\$ 23,734,300</u>

See notes to financial statements

# The Luzerne Foundation

## Statement of Activities

Years Ended December 31, 2013 and 2012

	<u>2013</u>	<u>2012</u>
<b>Changes in Unrestricted Net Assets</b>		
Unrestricted revenues and other support:		
Contributions	\$ 17,216,390	\$ 11,833,207
Net investment income	3,422,889	1,785,956
	<u>20,639,279</u>	<u>13,619,163</u>
Expenses:		
Program services,		
Grants	15,406,414	11,303,725
Management and general:		
Salaries and benefits	215,896	203,234
Miscellaneous	35,220	26,915
In-kind rent	25,000	25,000
Conferences, conventions, and meetings	23,399	20,312
Professional fees	21,517	20,142
Advertising	20,522	26,701
Payroll taxes	16,198	16,478
Technological advances	12,826	4,787
Auto expense	11,818	10,951
Provision for uncollectible pledges	9,389	9,485
Telephone	7,937	8,036
Dues and subscriptions	3,126	2,672
Insurance	2,601	2,358
Depreciation	652	8,522
Fees and licenses	120	120
	<u>406,221</u>	<u>385,713</u>
Fund raising, special events	306,178	273,655
	<u>16,118,813</u>	<u>11,963,093</u>
Investment fees	46,929	43,873
	<u>16,165,742</u>	<u>12,006,966</u>
Increase in unrestricted net assets	4,473,537	1,612,197
Increase in temporarily restricted net assets, Change in value of remainder trust	<u>92,621</u>	<u>46,390</u>
Increase in net assets	4,566,158	1,658,587
<b>Net Assets, Beginning</b>	<u>20,423,064</u>	<u>18,764,477</u>
<b>Net Assets, Ending</b>	<u><u>\$ 24,989,222</u></u>	<u><u>\$ 20,423,064</u></u>

See notes to financial statements

# The Luzerne Foundation

## Statement of Cash Flows

Years Ended December 31, 2013 and 2012

	<u>2013</u>	<u>2012</u>
<b>Cash Flows from Operating Activities</b>		
Increase in net assets	\$ 4,566,158	\$ 1,658,587
Adjustments to reconcile increase in net assets to net cash provided by operating activities:		
Unrealized and realized gains, net	(3,028,955)	(1,450,394)
Change in value of remainder trust	(92,621)	(46,390)
Depreciation	652	8,522
Changes in assets and liabilities:		
Pledges receivable	19,738	19,084
Accounts payable	(2,487)	(933)
Accrued payroll	2,490	1,093
Funds held as agency endowment	649,550	848,563
	<u>2,114,525</u>	<u>1,038,132</u>
Net cash provided by operating activities		
<b>Cash Flows from Investing Activities</b>		
Purchase of investments	(11,176,302)	(5,232,957)
Proceeds from sale of investments	10,650,987	5,189,747
	<u>(525,315)</u>	<u>(43,210)</u>
Net cash used in investing activities		
Net increase in cash and cash equivalents	1,589,210	994,922
<b>Cash and Cash Equivalents, Beginning</b>	<u>3,097,575</u>	<u>2,102,653</u>
<b>Cash and Cash Equivalents, Ending</b>	<u>\$ 4,686,785</u>	<u>\$ 3,097,575</u>

See notes to financial statements

# **The Luzerne Foundation**

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Notes to Financial Statements  
December 31, 2013 and 2012

## **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**

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Notes to Financial Statements  
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### **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, 2013 and 2012.

### **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.

### **Leasehold Improvements and Equipment**

Leasehold improvements and equipment acquisitions are recorded at cost. Depreciation is computed using the straight-line method over the estimated useful lives of the assets.

Depreciation expense was \$652 in 2013 and \$8,522 in 2012. Accumulated depreciation was \$42,612 and \$41,960 at December 31, 2013 and 2012, respectively.

### **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 2013 and 2012.

The Foundation's Federal Returns of Organization Exempt from Income Tax for years prior to 2010 are no longer subject to examination by the Internal Revenue Service.

# The Luzerne Foundation

Notes to Financial Statements  
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## 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 July 24, 2014, the date the financial statements were available to be issued.

## 2. Investments

The composition of investments are as follows at December 31:

	<u>2013</u>	<u>2012</u>
Cash and cash equivalents	\$ 987,606	\$ 1,094,155
Certificates of deposit	258,841	-
U.S. government and agency bonds	2,898,028	2,718,954
Corporate bonds	403,720	527,793
Residential mortgage-backed securities	-	242,750
Equity stock securities:	14,162,112	10,290,291
Mutual funds:		
Equity	1,073,409	1,886,309
Fixed income	2,602,584	2,907,432
Foreign	1,484,010	614,446
Other	29,818	63,728
Total	<u>\$ 23,900,128</u>	<u>\$ 20,345,858</u>

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The composition of investment return is as follows:

	<u>2013</u>	<u>2012</u>
Interest and dividend income	\$ 393,934	\$ 335,562
Unrealized and realized gains (losses), net	<u>3,028,955</u>	<u>1,450,394</u>
Net investment income	<u>\$ 3,422,889</u>	<u>\$ 1,785,956</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. The combined investment management and administrative fee charged on endowments for 2012 was 1.00%.

### 3. Contributions Receivable from Remainder Trust

Contributions receivable from remainder trust represent funds expected to remain under a charitable remainder unitrust 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 unitrust 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 2.0% in 2013 and 1.2% in 2012 and are classified as temporarily restricted net assets.

### 4. 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.

### 5. Related Party Transactions

The Foundation received contributions from members of the Foundation's management and governing board. Contributions from related parties were approximately \$1,063,384 in 2013 and \$65,411 in 2012. Related party pledges receivable were approximately \$3,600 at December 31, 2013 and \$8,600 at December 31, 2012.

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.

# The Luzerne Foundation

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Notes to Financial Statements  
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## 6. Significant Concentrations and Credit Risk

Approximately 84% of the Foundation's contribution revenue in 2013 was received from 4 donors and approximately 79% of the Foundation's contribution revenue in 2012 was received from 4 donors.

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.

## 7. Fair Value Measurements

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

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  
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The fair values of the Foundation's investments and contribution receivable from remainder trust were measured with the following inputs at December 31, 2013 and 2012:

	<b>Quoted Prices In Active Markets (Level 1)</b>	<b>Significant Unobservable (Level 3)</b>
December 31, 2013:		
Investments:		
Cash and cash equivalents	\$ 987,606	\$ -
Certificates of deposit	258,841	
U.S. government and agency bonds	2,898,028	-
Corporate bonds	403,720	-
Equity securities:		
Consumer discretionary	2,423,529	-
Consumer staples	1,175,137	-
Information technology	2,600,608	-
Healthcare	2,486,049	-
Industrials	1,868,523	-
Financial	1,829,652	-
Energy	949,694	-
Other various sectors	828,920	-
Mutual funds:		
Equity:		
Mid-cap blend	208,185	-
Large blend	653,727	-
Foreign large blend	1,484,010	-
Other	211,497	-
Fixed income:		
Intermediate-term bond	959,520	-
High yield bond	651,785	-
Short-term bond	536,110	-
Other	455,169	-
Other	29,818	-
Contribution receivable from remainder trust	-	327,098
<b>Total</b>	<b>\$ 23,900,128</b>	<b>\$ 327,098</b>

## The Luzerne Foundation

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	Quoted Prices In Active Markets (Level 1)	Significant Unobservable (Level 3)
December 31, 2012:		
Investments:		
Cash and cash equivalents	\$ 1,094,155	\$ -
U.S. government and agency bonds	2,718,954	-
Corporate bonds	527,793	-
Residential mortgage-backed securities	242,750	-
Equity securities:		
Consumer discretionary	1,515,210	-
Consumer staples	829,883	-
Information technology	2,183,418	-
Healthcare	1,537,507	-
Industrials	1,032,686	-
Financial	1,340,369	-
Materials	755,889	-
Other various sectors	1,095,329	-
Mutual funds:		
Equity:		
Mid-cap blend	436,932	-
Large blend	485,245	-
Small blend	220,453	-
Foreign large blend	614,446	-
Other	743,679	-
Fixed income:		
Intermediate-term bond	1,195,528	-
High yield bond	372,272	-
Other	1,339,632	-
Other	63,728	-
Contribution receivable from remainder trust	-	234,477
<b>Total</b>	<b>\$ 20,345,858</b>	<b>\$ 234,477</b>

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

Balance at December 31, 2011	\$ 188,087
Valuation gain	46,390
Balance at December 31, 2012	234,477
Valuation gain	92,621
Balance at December 31, 2013	\$ 327,098

## **The Luzerne Foundation**

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Notes to Financial Statements  
December 31, 2013 and 2012

The Foundation had no instruments measured at fair value using Level 2 inputs at December 31, 2013 and 2012.

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.