

# **The Luzerne Foundation**

Financial Statements

December 31, 2014 and 2013



Candor. Insight. Results.

# **The Luzerne Foundation**

---

Table of Contents

December 31, 2014 and 2013

	<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, 2014 and 2013, 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, 2014 and 2013 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  
July 31, 2015

# The Luzerne Foundation

## Statement of Financial Position

December 31, 2014 and 2013

	<u>2014</u>	<u>2013</u>
<b>Assets</b>		
<b>Cash and Cash Equivalents</b>	\$ 2,494,084	\$ 4,686,785
<b>Investments</b>	26,318,158	23,900,128
<b>Pledges Receivable, Net</b>	21,199	36,000
<b>Contribution Receivable from Remainder Trust</b>	383,243	327,098
<b>Property Held For Investment</b>	<u>1,070,000</u>	<u>-</u>
Total assets	<u>\$ 30,286,684</u>	<u>\$ 28,950,011</u>
<b>Liabilities and Net Assets</b>		
<b>Accounts Payable</b>	\$ 1,850	\$ 6,435
<b>Accrued Payroll</b>	7,196	7,318
<b>Funds Held as Agency Endowment</b>	<u>4,288,964</u>	<u>3,947,036</u>
Total liabilities	<u>4,298,010</u>	<u>3,960,789</u>
<b>Net Assets</b>		
Unrestricted	24,535,431	24,662,124
Temporarily restricted	<u>1,453,243</u>	<u>327,098</u>
Total net assets	<u>25,988,674</u>	<u>24,989,222</u>
Total liabilities and net assets	<u>\$ 30,286,684</u>	<u>\$ 28,950,011</u>

See notes to financial statements

# The Luzerne Foundation

## Statement of Activities

Years Ended December 31, 2014 and 2013

	<u>2014</u>	<u>2013</u>
<b>Changes in Unrestricted Net Assets</b>		
Unrestricted revenues and other support:		
Contributions	\$ 16,855,105	\$ 17,216,390
Net investment income	<u>1,853,456</u>	<u>3,422,889</u>
Total unrestricted revenues and other support	<u>18,708,561</u>	<u>20,639,279</u>
Expenses:		
Program services,		
Grants	<u>17,984,206</u>	<u>15,406,414</u>
Management and general:		
Salaries and benefits	221,142	215,896
Professional fees	50,028	21,517
Conferences, conventions, and meetings	39,182	23,399
Miscellaneous	35,703	35,220
Property maintenance	30,993	-
In-kind rent	25,000	25,000
Payroll taxes	17,463	16,198
Provision for uncollectible pledges	17,101	9,389
Advertising	12,426	20,522
Auto expense	11,785	11,818
Telephone	8,574	7,937
Technological advances	7,983	12,826
Insurance	3,724	2,601
Dues and subscriptions	3,177	3,126
Fees and licenses	49	120
Depreciation	<u>-</u>	<u>652</u>
Total management and general	484,330	406,221
Fund raising, special events	<u>318,095</u>	<u>306,178</u>
Total expenses before investment fees	18,786,631	16,118,813
Investment fees	<u>48,623</u>	<u>46,929</u>
Total expenses	<u>18,835,254</u>	<u>16,165,742</u>
(Decrease) increase in unrestricted net assets	(126,693)	4,473,537
Increase in temporarily restricted net assets,		
Contributions	1,070,000	
Change in value of remainder trust	<u>56,145</u>	<u>92,621</u>
Increase in temporarily restricted net assets	1,126,145	92,621
Increase in net assets	999,452	4,566,158
<b>Net Assets, Beginning</b>	<u>24,989,222</u>	<u>20,423,064</u>
<b>Net Assets, Ending</b>	<u>\$ 25,988,674</u>	<u>\$ 24,989,222</u>

See notes to financial statements

# The Luzerne Foundation

## Statement of Cash Flows

Years Ended December 31, 2014 and 2013

	<u>2014</u>	<u>2013</u>
<b>Cash Flows from Operating Activities</b>		
Increase in net assets	\$ 999,452	\$ 4,566,158
Adjustments to reconcile increase in net assets to net cash (used in) provided by operating activities:		
Unrealized and realized gains, net	(1,347,860)	(3,028,955)
Change in value of remainder trust	(56,145)	(92,621)
Depreciation	-	652
Restricted contribution of property	(1,070,000)	
Changes in assets and liabilities:		
Pledges receivable	14,801	19,738
Accounts payable	(4,585)	(2,487)
Accrued payroll	(122)	2,490
Funds held as agency endowment	341,928	649,550
	<u>(1,122,531)</u>	<u>2,114,525</u>
Net cash (used in) provided by operating activities		
<b>Cash Flows from Investing Activities</b>		
Purchase of investments	(8,080,691)	(11,176,302)
Proceeds from sale of investments	7,010,521	10,650,987
	<u>(1,070,170)</u>	<u>(525,315)</u>
Net cash used in investing activities		
Net (decrease) increase in cash and cash equivalents	(2,192,701)	1,589,210
<b>Cash and Cash Equivalents, Beginning</b>	<u>4,686,785</u>	<u>3,097,575</u>
<b>Cash and Cash Equivalents, Ending</b>	<u>\$ 2,494,084</u>	<u>\$ 4,686,785</u>

See notes to financial statements

# **The Luzerne Foundation**

---

Notes to Financial Statements  
December 31, 2014 and 2013

## **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, 2014 and 2013

### **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, 2014 and 2013.

### **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 2014 and depreciation expense was \$652 in 2013. The cost of the fully depreciated assets was \$42,612 at December 31, 2014 and 2013.

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.

# **The Luzerne Foundation**

---

Notes to Financial Statements  
December 31, 2014 and 2013

## **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 2014 and 2013.

The Foundation's Federal Returns of Organization Exempt from Income Tax for years prior to 2011 are no longer subject to examination by the Internal Revenue Service.

## **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 31, 2015, the date the financial statements were available to be issued.

## The Luzerne Foundation

Notes to Financial Statements  
December 31, 2014 and 2013

### 2. Investments

The composition of investments are as follows at December 31:

	<u>2014</u>	<u>2013</u>
Cash and cash equivalents	\$ 1,054,641	\$ 987,606
Certificates of deposit	122,479	258,841
U.S. government and agency bonds	2,924,815	2,898,028
Corporate bonds	761,325	403,720
Equity stock securities	15,993,262	14,162,112
Mutual funds:		
Equity	1,134,276	1,073,409
Fixed income	3,144,676	2,602,584
Foreign	1,148,652	1,484,010
Other	34,032	29,818
Total	<u>\$ 26,318,158</u>	<u>\$ 23,900,128</u>

The composition of investment return is as follows:

	<u>2014</u>	<u>2013</u>
Interest and dividend income	\$ 505,596	\$ 393,934
Unrealized and realized gains, net	1,347,860	3,028,955
Net investment income	<u>\$ 1,853,456</u>	<u>\$ 3,422,889</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 2013 and 2014 was 1%.

### 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 2014 and 2013 and are classified as temporarily restricted net assets.

## **The Luzerne Foundation**

---

Notes to Financial Statements  
December 31, 2014 and 2013

### **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 \$43,185 in 2014 and \$1,063,384 in 2013.

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.

### **6. Significant Concentrations and Credit Risk**

Approximately 84% of the Foundation's contribution revenue in both 2014 and 2013 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 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.

## The Luzerne Foundation

Notes to Financial Statements  
December 31, 2014 and 2013

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 fair values of the Foundation's investments and contribution receivable from remainder trust were measured with the following inputs at December 31, 2014 and 2013:

	<b>2014</b>		
	<b>Total</b>	<b>Quoted Prices In Active Markets (Level 1)</b>	<b>Significant Unobservable (Level 3)</b>
Investments:			
Cash and cash equivalents	\$ 1,054,641	\$ 1,054,641	\$ -
Certificates of deposit	122,479	122,479	-
U.S. government and agency bonds	2,924,815	2,924,815	-
Corporate bonds	761,325	761,325	-
Equity securities:			
Consumer discretionary	2,689,923	2,689,923	-
Consumer staples	1,193,867	1,193,867	-
Information technology	3,032,954	3,032,954	-
Healthcare	3,043,497	3,043,497	-
Industrials	2,080,710	2,080,710	-
Financial	2,070,653	2,070,653	-
Energy	937,402	937,402	-
Other various sectors	944,256	944,256	-
Mutual funds:			
Equity:			
Mid-cap blend	162,498	162,498	-
Large blend	717,246	717,246	-
Foreign large blend	1,148,652	1,148,652	-
Small blend	30,536	30,536	-
Other	223,996	223,996	-
Fixed income:			
Intermediate-term bond	1,218,448	1,218,448	-
High yield bond	923,303	923,303	-
Short-term bond	365,386	365,386	-
Other	637,539	637,539	-
Other	34,032	34,032	-
Contribution receivable from remainder trust	383,243	-	383,243
<b>Total</b>	<b>\$ 26,701,401</b>	<b>\$ 26,318,158</b>	<b>\$ 383,243</b>

## The Luzerne Foundation

Notes to Financial Statements  
December 31, 2014 and 2013

	2013		
	Total	Quoted Prices In Active Markets (Level 1)	Significant Unobservable (Level 3)
Investments:			
Cash and cash equivalents	\$ 987,606	\$ 987,606	\$ -
Certificates of deposit	258,841	258,841	-
U.S. government and agency bonds	2,898,028	2,898,028	-
Corporate bonds	403,720	403,720	-
Equity securities:			
Consumer discretionary	2,423,529	2,423,529	-
Consumer staples	1,175,137	1,175,137	-
Information technology	2,600,608	2,600,608	-
Healthcare	2,486,049	2,486,049	-
Industrials	1,868,523	1,868,523	-
Financial	1,829,652	1,829,652	-
Energy	949,694	949,694	-
Other various sectors	828,920	828,920	-
Mutual funds:			
Equity:			
Mid-cap blend	208,185	208,185	-
Large blend	653,727	653,727	-
Foreign large blend	1,484,010	1,484,010	-
Other	211,497	211,497	-
Fixed income:			
Intermediate-term bond	959,520	959,520	-
High yield bond	651,785	651,785	-
Short-term bond	536,110	536,110	-
Other	455,169	455,169	-
Other	29,818	29,818	-
Contribution receivable from remainder trust	327,098	-	327,098
Total	<u>\$ 24,227,226</u>	<u>\$ 23,900,128</u>	<u>\$ 327,098</u>

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, 2012	\$ 234,477
Valuation gain	<u>92,621</u>
Balance at December 31, 2013	327,098
Valuation gain	<u>56,145</u>
Balance at December 31, 2014	<u>\$ 383,243</u>

## **The Luzerne Foundation**

---

Notes to Financial Statements  
December 31, 2014 and 2013

The Foundation had no instruments measured at fair value using Level 2 inputs at December 31, 2014 and 2013.

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.