The Luzerne Foundation

Financial Statements

December 31, 2018 and 2017

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Independent Auditors' Report

To the Board of Directors of
The Luzerne Foundation

We have audited the accompanying financial statements of The Luzerne Foundation (the "Foundation"), which comprise the statements of financial position as of December 31, 2018 and 2017, 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, 2018 and 2017 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
August 19, 2019

The Luzerne Foundation

Statements of Financial Position
December 31, 2018 and 2017

	2018	2017
Assets		
Cash and Cash Equivalents	$ 1,923,032	$ 3,863,625
Investments	30,247,994	31,780,787
Pledges Receivable, Net	33,699	33,699
Contribution Receivable from Remainder Trusts	1,470,886	1,614,943
Contribution Receivable from Annuity	105,662	127,562
Property and Equipment, Net	681,613	348,516
Property Held for Investment	-	539,139
Total assets	$ 34,462,886	$ 38,308,271
Liabilities and Net Assets		
Note Payable	$ -	$ 330,000
Funds Held as Agency Endowment	5,013,040	5,132,484
Liability under Unitrusts	636,198	729,391
Total liabilities	5,649,238	6,191,875
Net Assets		
Without donor restrictions	27,978,960	31,230,844
With donor restrictions	834,688	885,552
Total net assets	28,813,648	32,116,396
Total liabilities and net assets	$ 34,462,886	$ 38,308,271

See notes to financial statements

The Luzerne Foundation

Statements of Activities
Years Ended December 31, 2018 and 2017

	2018	2017
Changes in Net Assets Without Donor Restrictions		
Unrestricted revenues and other support:		
Contributions	$ 17,089,488	$ 18,298,240
Net investment (loss) income	(1,350,987)	3,176,733
Other revenue	-	781
Net assets released from restriction	-	1,070,000
Total revenues and other support	15,738,501	22,545,754
Expenses:		
Program services:		
Grants	17,916,937	15,781,030
Salaries and benefits	190,476	153,741
Total program services	18,107,413	15,934,771
Management and general:		
Salaries and benefits	141,065	113,860
Miscellaneous	42,490	24,753
Property expense	42,378	63,246
Professional fees	33,014	49,044
Payroll taxes	25,575	21,555
Advertising	16,976	5,914
Rent expense	16,150	25,000
Insurance	15,971	7,052
Technological advances	10,926	15,680
Auto expense	9,785	11,283
Telephone	8,412	6,769
Conferences, conventions and meetings	8,217	15,086
Depreciation expense	5,708	-
Dues and subscriptions	4,741	4,172
Interest	1,817	4,199
Impairment recognized on contributed property	-	530,861
Total management and general	383,225	898,474
Fund raising:		
Special events	453,857	388,617
Salaries and benefits	45,890	37,040
Total fund raising	499,747	425,657
Total expenses	18,990,385	17,258,902
(Decrease) increase in net assets without donor restrictions	(3,251,884)	5,286,852
Changes in Net Assets With Donor Restrictions		
Net assets released from restriction	-	(1,070,000)
Change in value of remainder trusts	(50,864)	110,141
Change in net assets with donor restrictions	(50,864)	(959,859)
(Decrease) increase in net assets	(3,302,748)	4,326,993
Net Assets, Beginning	32,116,396	27,789,403
Net Assets, Ending	$ 28,813,648	$ 32,116,396

See notes to financial statements

The Luzerne Foundation

Statements of Cash Flows

Years Ended December 31, 2018 and 2017

	2018	2017
Cash Flows from Operating Activities		
(Decrease) increase in net assets	$ (3,302,748)	$ 4,326,993
Adjustments to reconcile (decrease) increase in net assets to net cash (used in) provided by operating activities:		
Depreciation and amortization	5,708	-
Unrealized and realized losses (gains), net	1,894,968	(2,659,561)
Change in value of remainder trusts and annuity	165,957	(116,057)
Impairment recognized on contributed property	-	530,861
Changes in assets and liabilities:		
Refundable deposit	-	(20,000)
Funds held as agency endowment	(119,444)	(1,883,382)
Liability under unitrusts	(93,193)	22,738
Net cash (used in) provided by operating activities	(1,448,752)	201,592
Cash Flows from Investing Activities		
Purchase of investments	(4,509,695)	(6,144,347)
Purchase of property	(338,805)	(348,516)
Proceeds from sale of investments	4,147,520	7,122,503
Proceeds from sale of property	539,139	-
Net cash (used in) provided by investing activities	(161,841)	629,640
Cash Flows from Financing Activities		
(Payments) proceeds from note payable	(330,000)	330,000
Net (decrease) increase in cash and cash equivalents	(1,940,593)	1,161,232
Cash and Cash Equivalents, Beginning	3,863,625	2,702,393
Cash and Cash Equivalents, Ending	$ 1,923,032	$ 3,863,625
Supplemental Cash Flow Disclosure		
Interest paid	$ 1,817	$ 4,199

See notes to financial statements

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

Contributions received are recorded as increases in net assets without donor restrictions and net assets with donor restrictions, depending on the existence and nature of any donor restrictions. When a donor restriction is accomplished, net assets with donor restrictions are reclassified as net assets without donor restrictions and reported in the statement of activities as net assets released from restrictions.

Net Assets

The Foundation reports information regarding its financial position and activities according to two classes of net assets: without donor restrictions and with donor restrictions. Net assets without donor restrictions are defined as assets that are free of donor-imposed restrictions, and include all investment income and appreciation not subject to donor-imposed restrictions, as discussed below. Net assets with donor restrictions are net assets whose use has been limited by donor-imposed time or purpose restrictions or those that are defined as net assets required by the donor restrictions or law to be maintained by the Foundation in perpetuity. The Foundation reflects restricted contributions whose restrictions are met in the same reporting period as unrestricted support.

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 net assets without donor restrictions. 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.

Accounting principles generally accepted in the United States of America provide that if the governing body of an organization has unilateral power to redirect the use of a donor's contribution to another beneficiary, such contributions must be classified as net assets without donor restriction. The Board has that ability (i.e. variance power); however, it would only exercise this authority if circumstances rendered the donor's requests unnecessary, undesirable, impracticable, impossible, or incapable of fulfillment. Accordingly, the Foundation's financial statements classify substantially all amounts as net assets without donor restriction.

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, 2018 and 2017.

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 net assets without donor restrictions 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.

During July 2017, The Foundation purchased land and a building to be used as the Foundation's headquarters. The land had a purchase price of $31,000 and the building had capitalized costs totaling $656,321. The property was placed in service as of August 2018 and therefore depreciation was recorded.

The Foundation had 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 could be rented, but not sold. The property was recorded at fair value at the date of the gift. This property was released from restriction as of December 31, 2017, and sold on February 14, 2018.

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 2018 and 2017.

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.

Functional Expenses

The costs of operating the Foundation have been summarized on the Statements of Activities. Employee salaries and benefits have been allocated based upon the estimated time and effort of Foundation employees.

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.

Prior to 2018, the Foundation received the use of donated space from a bank. Beginning January 2018, the Foundation agreed to lease the space for $1,250 a month. This lease matured March 31, 2018, and was continued on a month by month basis. The Foundation moved during August 2018 and the lease was terminated.

Subsequent Events

The Foundation evaluated subsequent events for recognition or disclosure through August 19, 2019, the date the financial statements were available to be issued.

New Accounting Pronouncements

During May 2014, the Financial Accounting Standards Board ("FASB") issued Accounting Standards Update ("ASU") No. 2014-09, *Revenue from Contracts with Customers (Topic 606)*. ASU No. 2014-09 establishes principles for recognizing revenue upon the transfer of promised goods or services to customers, in an amount that reflects the expected consideration received in exchange for those goods or services. During August 2015, the FASB issued ASU No. 2015-14, which defers the effective date of ASU No. 2014-09. ASU No. 2014-09 is effective for fiscal years beginning after December 15, 2018. The amendments may be applied retrospectively to each prior period presented or retrospectively with the cumulative effect recognized as of the date of initial application. The Foundation is currently assessing the effect that Topic 606 (as amended) will have on its results of operations, financial position and cash flows.

During June 2018, the FASB issued ASU No. 2018-08, *Not-for-Profit Entities (Topic 958): Clarifying the Scope and the Accounting Guidance for Contributions Received and Contributions Made*. The new guidance is intended to clarify and improve accounting guidance for contributions received and contributions made. The amendments in this ASU should assist entities in (1) evaluating whether transactions should be accounted for as contributions (nonreciprocal transactions) or as exchange (reciprocal transactions) subject to other guidance and (2) determining whether a contribution is conditional. ASU No. 2018-08 is effective for fiscal years beginning after December 15, 2018. The Foundation is currently assessing the impact that ASU No. 2018-08 will have on its results of operations, financial position, and cash flows.

New Accounting Standards Adopted

In 2018, the Foundation adopted FASB ASU No. 2016-14, *Not-for-Profit Entities (Topic 958): Presentation of Financial Statements of Not-for-Profit Entities*. ASU No. 2016-14 addresses the complexity and understandability of net asset classification, deficiencies in information about liquidity and availability of resources, and the lack of consistency in the type of information provided about expenses and investment return. The Foundation has adjusted the presentation of these financial statements accordingly. ASU No. 2016-14 has been applied retrospectively to all periods presented, except for the disclosures relating to the liquidity and availability of resources. This disclosure has been presented for 2018 only, as allowed under ASU No. 2016-14.

The three classes of net assets used in financial statements of nonprofit organizations (unrestricted, temporarily restricted, and permanently restricted) were replaced with two classes of net assets - net assets with donor restrictions and net assets without donor restrictions. Because the definition of donor-imposed restriction is essentially unchanged, the effect of the change is that temporarily restricted net assets and permanently restricted net assets are combined in the statement of financial position and the statement of activities to become the single class of net assets with donor restrictions. Unrestricted net assets are now referred to as net assets without donor restrictions.

As a result of the adoption of ASU 2016-14, the net assets of the Foundation as of January 1, 2018 were reclassified as follows:

	After Adoption of ASU 2016-14	As Originally Presented
Net assets without donor restrictions	$ 31,230,844	$ -
Net assets with donor restrictions	885,552	-
Net assets, unrestricted	-	31,230,844
Net assets, temporarily restricted	-	885,552
Total	$ 32,116,396	$ 32,116,396

2. Investments and Fair Value Measurement

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 fair values of the Foundation's investments and contribution receivable from remainder trust were measured with the following inputs at December 31, 2018 and 2017:

	2018		
	Total	**Quoted Prices In Active Markets (Level 1)**	**Significant Unobservable (Level 3)**
Investments:			
Cash and cash equivalents	$ 2,213,374	$ 2,213,374	$ -
U.S. government and agency bonds	3,480,374	3,480,374	-
Corporate bonds	793,396	793,396	-
Equity securities:			
Consumer discretionary	1,910,002	1,910,002	-
Consumer staples	1,585,154	1,585,154	-
Information technology	3,933,401	3,933,401	-
Healthcare	3,281,524	3,281,524	-
Industrials	1,872,695	1,872,695	-
Financial	2,717,083	2,717,083	-
Energy	930,772	930,772	-
Other various sectors	2,206,044	2,206,044	-
Mutual funds:			
Equity	2,142,061	2,142,061	-
Fixed income	3,142,745	3,142,745	-
Other	39,369	39,369	-
Total investments	30,247,994	30,247,994	-
Contribution receivable from remainder trusts	1,470,886	-	1,470,886
Contribution receivable from annuity, net	105,662	-	105,662
Total	$ 31,824,542	$ 30,247,994	$ 1,576,548

	2017		
	Total	Quoted Prices In Active Markets (Level 1)	Significant Unobservable (Level 3)
Investments:			
Cash and cash equivalents	$ 2,163,960	$ 2,163,960	$ -
Certificates of deposit	29,963	29,963	-
U.S. government and agency bonds	2,525,363	2,525,363	-
Corporate bonds	1,102,695	1,102,695	-
Municipal bonds	174,454	174,454	-
Equity securities:			
Consumer discretionary	2,575,588	2,575,588	-
Consumer staples	1,231,574	1,231,574	-
Information technology	4,009,097	4,009,097	-
Healthcare	3,344,873	3,344,873	-
Industrials	2,379,128	2,379,128	-
Financial	3,153,526	3,153,526	-
Energy	1,110,068	1,110,068	-
Other various sectors	1,946,081	1,946,081	-
Mutual funds:			
Equity	3,643,256	3,643,256	-
Fixed income	2,350,394	2,350,394	-
Other	40,767	40,767	-
Total investments	31,780,787	31,780,787	-
Contribution receivable from remainder trusts	1,614,943	-	1,614,943
Contribution receivable from annuity, net	127,562	-	127,562
Total	$ 33,523,292	$ 31,780,787	$ 1,742,505

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:

	Remainder Trusts	Annuity
Balance at December 31, 2016	$ 1,482,064	$ 144,384
Contribution receivable	-	-
Valuation gain	77,661	-
Investment income	102,495	-
Amortized discount	-	-
Annuity payments received	-	4,192
Distribution	(47,277)	(21,014)
Balance at December 31, 2017	1,614,943	127,562
Contribution receivable	-	-
Valuation loss	(132,668)	-
Investment income	36,317	-
Amortized discount	-	-
Annuity payments received	-	4,192
Distribution	(47,705)	(26,092)
Balance at December 31, 2018	$ 1,470,887	$ 105,662

The Foundation had no instruments measured at fair value using Level 2 inputs at December 31, 2018 or 2017.

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.

The composition of investment return is as follows:

	2018	2017
Interest and dividend income	$ 628,967	$ 559,858
Investment fees	(84,896)	(42,686)
Unrealized and realized (losses) gains, net	(1,894,968)	2,659,561
Net investment (loss) income	$ (1,350,897)	$ 3,176,733

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 percent to 2.00 percent 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 3.6 percent in 2018 and 2.6 percent in 2017 and are classified as net assets with donor restrictions. 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 percent in 2018 and 2017.

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. The Foundation has variance power over the use of these assets. These funds are included in investments in the accompanying statement of financial position. Carbon County had funds totaling $432,013 as of December 31, 2018.

6. Related Party Transactions

The Foundation received contributions from members of the Foundation's management and governing board. Contributions from related parties were approximately $338,825 in 2018 and $1,311,184 in 2017.

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. Note Payable

During 2017, The Foundation obtained a $450,000 secured note payable with a local bank maturing in July 2020. Borrowings bear interest at LIBOR plus 2 percent. There were outstanding borrowings of $330,000 at December 31, 2017 that were paid in full during February 2018.

8. Significant Concentrations and Credit Risk

During 2018, the Foundation received more than 3,022 contributions from 2,116 different individuals and businesses; however, approximately 90 percent and 77 percent of the Foundation's contribution revenue received in 2018 and 2017, respectively, 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.

9. Liquidity and Availability of Resources

The following table reflects the Foundation's financial assets available for general expenditure within one year at December 31, 2018. Financial assets are considered unavailable when illiquid or not convertible to cash within one year. Unavailable financial assets consist of: (a) assets whose use in limited by board designations, donor restrictions, regulatory bodies, and loan and other agreements; and (b) assets held for others.

Financial assets:	
Cash and cash equivalents	$ 1,923,032
Contributions receivable from remainder trusts	1,470,886
Contribution receivable from annuity	105,662
Pledges receivable, net	33,699
Investments	30,247,994
Total financial assets	33,781,273
Less those unavailable for general expenditures within one year:	
Contributions collectible beyond one year	1,576,548
Funds held as agency endowment	5,013,040
Donor designated	834,688
Total	$ 26,356,997