

Pitcairn-Crabbe Foundation

Independent Auditor's Report and Financial Statements

December 31, 2018 and 2017



Pitcairn-Crabbe Foundation

December 31, 2018 and 2017

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Independent Auditor's Report

Board of Directors
Pitcairn-Crabbe Foundation
Pittsburgh, Pennsylvania

We have audited the accompanying financial statements of Pitcairn-Crabbe Foundation (the Foundation), which comprise the statements of assets, liabilities and net assets – modified cash basis as of December 31, 2018 and 2017, and the related statements of revenues, expenses and changes in net assets – modified cash basis 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 the modified cash basis of accounting described in Note 1; this includes determining that the modified cash basis of accounting is an acceptable basis for the preparation of the financial statements in the circumstances. Management is also responsible for the design, implementation and maintenance of internal control relevant to the preparation and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error.

Auditor's 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 from 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 auditor's 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 assets, liabilities and net assets – modified cash basis of Pitcairn-Crabbe Foundation as of December 31, 2018 and 2017, and its revenues, expenses and changes in net assets – modified cash basis for the years then ended in accordance with the modified cash basis of accounting described in Note 1.

Basis of Accounting

We draw attention to Note 1 of the financial statements, which describes the basis of accounting. The financial statements are prepared on the modified cash basis of accounting, which is a basis of accounting other than accounting principles generally accepted in the United States of America. Our opinion is not modified with respect to this matter.

BKD, LLP

Pittsburgh, Pennsylvania
May 22, 2019

Pitcairn-Crabbe Foundation
Statements of Assets, Liabilities and Net Assets – Modified Cash Basis
December 31, 2018 and 2017

	<u>2018</u>	<u>2017</u>
Assets		
Cash	\$ 3,391	\$ 14,654
Investments	9,488,705	10,753,493
Interest in investments held at Shadyside Presbyterian Church	<u>1,839,868</u>	<u>1,798,576</u>
Total assets	<u><u>\$ 11,331,964</u></u>	<u><u>\$ 12,566,723</u></u>
Liabilities and Net Assets		
Liabilities	\$ -	\$ -
Net assets without donor restrictions	<u>11,331,964</u>	<u>12,566,723</u>
Total liabilities and net assets	<u><u>\$ 11,331,964</u></u>	<u><u>\$ 12,566,723</u></u>

Pitcairn-Crabbe Foundation
Statements of Revenues, Expenses and Changes in Net Assets –
Modified Cash Basis
Years Ended December 31, 2018 and 2017

	<u>2018</u>	<u>2017</u>
Revenues		
Change in fair value of interest in the pooled investments of Shadyside Presbyterian Church	\$ (56,099)	\$ 1,186,093
Interest and dividend income, net	402,966	265,283
Net realized and unrealized (losses) gains on investments	<u>(1,021,861)</u>	<u>353,862</u>
Total revenues	<u>(674,994)</u>	<u>1,805,238</u>
Expenses		
Grants paid, net of returned grants	<u>485,000</u>	<u>460,750</u>
Administrative expenses		
Salaries and related costs	46,520	45,092
Occupancy	8,226	8,295
Office	5,378	3,655
Professional services	13,384	13,893
Other	<u>1,257</u>	<u>1,505</u>
Total administrative expenses	<u>74,765</u>	<u>72,440</u>
Total expenses	<u>559,765</u>	<u>533,190</u>
Change in Net Assets	(1,234,759)	1,272,048
Net Assets Without Donor Restrictions		
Beginning of Year	<u>12,566,723</u>	<u>11,294,675</u>
End of Year	<u><u>\$ 11,331,964</u></u>	<u><u>\$ 12,566,723</u></u>

Pitcairn-Crabbe Foundation

Notes to Financial Statements

December 31, 2018 and 2017

Note 1: Nature of Organization and Summary of Significant Accounting Policies

Organization

Pitcairn-Crabbe Foundation (the Foundation), a supporting organization of The Shadyside Presbyterian Church of Pittsburgh, is a not-for-profit corporation that was created on December 23, 1940.

Susan Lee Hunt, deceased, created the Foundation by her last will and testament dated May 20, 1939. The Foundation is a memorial to the donor's mother, Susan Pitcairn-Crabbe, and her grandparents, Robert and Elizabeth E. Pitcairn. Mrs. Hunt named as Directors of the Foundation the executors of her estate, James E. Hindman and Alexander P. Reed, for their lives and the Trustees of The Shadyside Presbyterian Church of Pittsburgh, Pennsylvania, as elected and acting from time to time.

The Foundation supports organizations located primarily west of the Susquehanna River within the Commonwealth of Pennsylvania. Grants are awarded primarily to religious institutions engaged in community services, church-related schools and colleges and theological seminaries.

The Foundation operates from the offices of the McCune Foundation from which it purchases certain administrative and staff services.

Basis of Accounting

The financial statements of the Foundation have been prepared on the modified cash basis of accounting. That basis differs from accounting principles generally accepted in the United States of America primarily because revenue and the related assets, other than investment income, are recognized when received rather than when earned, and expenses are recognized when paid rather than when obligations are incurred.

Use of Estimates

The preparation of financial statements in conformity with the modified cash basis of accounting requires management to make estimates and assumptions that affect certain reported amounts and disclosures in the financial statements. Actual results could differ from those estimates.

Cash

The Foundation considers all liquid investments with original maturities of three months or less to be cash equivalents. The Foundation's cash accounts did not exceed federally insured limits as of December 31, 2018.

Pitcairn-Crabbe Foundation

Notes to Financial Statements

December 31, 2018 and 2017

Investments and Net Investment Return

Investments in equity securities having a readily determinable fair value and in all debt securities are carried at fair value.

Interest in Investments Held at Shadyside Presbyterian Church

Certain investments of Pitcairn-Crabbe Foundation are held in a comingled pooled investment fund under the custody of Shadyside Presbyterian Church, which oversees its investments and administers all financial transactions. The fund is accounted for as unrestricted net assets of the Foundation, because the investments are used exclusively for grants made by the Foundation per Board resolution.

The Foundation receives amounts from the fund to cover the estimated costs associated with the making of grants and administrative functions of the Foundation. The Foundation records its investments at fair value. The change in fair value of the interest in investments held at Shadyside Presbyterian Church, is reported in the statements of revenues, expenses and changes in net assets – modified cash basis.

Classification of Net Assets

Net assets and revenues, gains and losses are classified based on the existence or absence of donor-imposed restrictions. Accordingly, net assets of the Foundation and changes therein are classified as net assets without donor restrictions since they are available for general operations and not subject to donor-imposed restrictions.

Grants

Grants are recorded as an expense when paid. Refunds of paid grants are recorded as a reduction of expense when they are returned to the Foundation. The Foundation may commit to future or contingent grants. These grants are not recorded as expense until paid.

Income Taxes

The Foundation is exempt from income taxes under Section 501 of the Internal Revenue Code and a similar provision of state law. However, the Foundation is subject to federal income tax on any unrelated business taxable income. The Foundation files tax returns in the U.S. federal jurisdiction.

Transfers Between Fair Value Hierarchy Levels

Transfers in and out of Level 1 (quoted market prices), Level 2 (other significant observable inputs) and Level 3 (significant unobservable inputs) are recognized on the actual transfer date.

Pitcairn-Crabbe Foundation

Notes to Financial Statements

December 31, 2018 and 2017

Functional Expenses

The costs of the program and administration activities are presented by their natural classification on the statements of revenues, expenses and changes in net assets – modified cash basis. Program expenses are made up entirely of grants paid, net of returned grants, while administrative expenses are related to facilitating grant-making and financial and administrative functions of the Foundation, as detailed in Note 5.

Note 2: Interest in Investments Held at Shadyside Presbyterian Church

The Foundation has transferred assets to Shadyside Presbyterian Church and retained a beneficial interest in those assets. The Foundation adopted the total investment return policy consistent with the Pennsylvania Act 141, which requires a spending policy between 2% and 7% on not less than a three-year average value of the funds. The Foundation's approved spending policy was 5% of a five-year average for the years ended December 31, 2018 and 2017, respectively. Undistributed earnings will be retained.

In August 2017, the Foundation requested its portion of the investments held at Shadyside Presbyterian Church be segregated into a separately held investment portfolio to be maintained by the Foundation, with the exception of its interest in the private investment partnerships within the pooled investment portfolio. The fair value as of December 31, 2018 and 2017 represents a 28.92% interest in the value of the private investment partnerships held. As of December 31, 2018 and 2017, these private investment partnerships were \$6,362,717 and \$7,198,141, respectively.

The fair value of the retained beneficial interest included in the statements of assets, liabilities and net assets – modified cash basis was \$1,839,868 and \$1,798,576 at December 31, 2018 and 2017, respectively.

Note 3: Liquidity and Availability

The Foundation's financial assets available for general expenditure, that is, without donor or other restrictions limiting their use, within one year of December 31, 2018 and 2017, are as follows:

	2018	2017
Cash and cash equivalents	\$ 3,391	\$ 14,654
Investments appropriated for current use	582,786	584,667
	<u>\$ 586,177</u>	<u>\$ 599,321</u>

Pitcairn-Crabbe Foundation

Notes to Financial Statements

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For the year ending December 31, 2018, the Foundation's investment balances available for general purposes of the Foundation are \$11,328,573, with a spending budget of \$582,786. Although the Foundation does not intend to spend from this investment balance in excess of amounts appropriated for general expenditures and grant awards as part of its annual budget approval and appropriation process, up to \$9,488,705 could be made readily available if necessary.

Note 4: Disclosures About Fair Value of Assets

Fair value is the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date. Fair value measurements must maximize the use of observable inputs and minimize the use of unobservable inputs. There is a hierarchy of three levels of inputs that may be used to measure fair value:

- Level 1** Quoted prices in active markets for identical assets or liabilities
- Level 2** Observable inputs other than Level 1 prices, such as quoted prices for similar assets or liabilities; quoted prices in markets that are not active; or other inputs that are observable or can be corroborated by observable market data for substantially the full term of the assets or liabilities
- Level 3** Unobservable inputs supported by little or no market activity and are significant to the fair value of the assets or liabilities

Pitcairn-Crabbe Foundation

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Recurring Measurements

The following table sets forth by level, within the fair value hierarchy, the Foundation's investments measured at fair value on a recurring basis as of December 31, 2018 and 2017:

		Fair Value Measurements Using		
		Quoted Prices in Active Markets for Identical Assets (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)
	Fair Value			
December 31, 2018				
Investments at fair value				
Money market funds	\$ 54,902	\$ 54,902	\$ -	\$ -
Mutual funds				
Fixed income	2,497,926	2,497,926	-	-
Equity	6,935,877	6,935,877	-	-
Interest in investments held at the Shadyside Presbyterian Church	1,839,868	-	-	1,839,868
December 31, 2017				
Investments at fair value	\$ 29,779	\$ 29,779	\$ -	\$ -
Money market funds				
Mutual funds	2,349,541	2,349,541	-	-
Fixed income	7,615,906	7,615,906	-	-
Equity	758,267	758,267	-	-
Exchange traded funds				
Interest in investments held at the Shadyside Presbyterian Church	1,798,576	-	-	1,798,576

Following is a description of the valuation methodologies and inputs used for assets and liabilities measured at fair value on a recurring basis and recognized in the accompanying statements of financial position, as well as the general classification of such assets and liabilities pursuant to the valuation hierarchy. There have been no significant changes in the valuation techniques during the year ended December 31, 2018. For assets classified within Level 3 of the fair value hierarchy, the process used to develop the reported fair value is described below.

Pitcairn-Crabbe Foundation

Notes to Financial Statements

December 31, 2018 and 2017

Investments

Where quoted market prices are available in an active market, securities are classified within Level 1 of the valuation hierarchy. If quoted market prices are not available, then fair values are estimated by using quoted prices of securities with similar characteristics or independent asset pricing services and pricing models, the inputs of which are market-based or independently sourced market parameters, including, but not limited to, yield curves, interest rates, volatilities, prepayments, defaults, cumulative loss projections and cash flows. Such securities are classified in Level 2 of the valuation hierarchy. In certain cases where Level 1 or Level 2 inputs are not available, securities are classified within Level 3 of the hierarchy. See the table below for inputs and valuation techniques used for Level 3 securities.

Interest in Assets at Shadyside Presbyterian Church

Fair value is estimated based upon the Foundation's percentage of the investment pool. Due to the nature of the valuation inputs, the interest is classified within Level 3 of the hierarchy.

Level 3 Valuation Process

Fair value determinations for Level 3 measurements are the responsibility of management. Management utilizes the reported estimated value of the underlying assets within the Shadyside Presbyterian Church's pooled investments to determine fair value.

Level 3 Reconciliation

The following is a reconciliation of the beginning and ending balances of recurring fair value measurements recognized in the accompanying statements of assets, liabilities and net assets – modified cash basis using significant unobservable (Level 3) inputs:

	2018	2017
Beginning balance	\$ 1,798,576	\$ 11,293,352
Change in fair value of interest in the pooled investments of Shadyside Presbyterian Church	(56,099)	1,186,093
Purchase of units	297,329	-
Redemption of units	(199,938)	(10,680,869)
Ending balance	<u>\$ 1,839,868</u>	<u>\$ 1,798,576</u>

Pitcairn-Crabbe Foundation

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Note 5: Administrative Expenses

Administrative expenses relate to grant making as well as the financial and administrative functions of the Foundation. The Foundation contracts with the McCune Foundation for its administrative services. Expenses are allocated based on the estimated staff time necessary to administer to the activities of the Foundation.

Note 6: Significant Estimates and Concentrations

The modified cash basis of accounting as described in Note 1 requires disclosure of certain significant estimates and current vulnerabilities due to certain concentrations. Those matters include the following:

Investments

The Foundation invests in various investment securities. Investment securities are exposed to various risks, such as interest rate, credit and overall market volatility. Due to the level of risk associated with certain investment securities, it is at least reasonably possible that changes in the values of investment securities will occur in the near term and that such changes could materially affect the amounts reported in the financial statements.

Note 7: Change in Accounting Principle

In 2018, the Foundation adopted ASU 2016-14, Not-For-Profit Entities (Topic 958): *Presentation of Financial Statements of Not-For-Profit Entities*. A summary of the changes is as follows:

Statements of Assets, Liabilities and Net Assets – Modified Cash Basis

- The statements of assets, liabilities, and net assets – modified cash basis distinguishes between two new classes of net assets—those with donor-imposed restrictions and those without. This is a change from the previously required three classes of net assets—unrestricted, temporarily restricted and permanently restricted.
- Underwater donor-restricted endowment funds are shown within the donor-restricted net asset class. This is a change from the previously required classification as unrestricted net assets.

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Statements of Revenues, Expenses, and Changes in Net Assets – Modified Cash Basis

- Expenses are reported by both nature and function in one location.
- Investment income is shown net of external and direct internal investment expenses. Disclosure of the expenses netted against investment income is no longer required.

Notes to the Financial Statements

- Enhanced quantitative and qualitative disclosures provide additional information useful in assessing liquidity and cash flows available to meet operating expenses for one-year from the date of the statements of assets, liabilities, and net assets – modified cash basis.
- Amounts and purposes of Board of Directors' designations and appropriations as of the end of the period are disclosed.

This change had no impact on previously reported total change in net assets.

Note 8: Subsequent Events

Subsequent events have been evaluated through May 22, 2019, the date the financial statements were available to be issued.