

# **Pitcairn-Crabbe Foundation**

Independent Auditor's Report and Financial Statements

December 31, 2016 and 2015



**Pitcairn-Crabbe Foundation**  
**December 31, 2016 and 2015**

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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, 2016 and 2015, 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 of Pitcairn-Crabbe Foundation as of December 31, 2016 and 2015, and its revenues, expenses and changes in net assets 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 30, 2017

**Pitcairn-Crabbe Foundation**  
**Statements of Assets, Liabilities and Net Assets – Modified Cash Basis**  
**December 31, 2016 and 2015**

	<b>2016</b>	<b>2015</b>
<b>Assets</b>		
Cash	\$ 1,323	\$ 19
Interest in investments held at Shadyside Presbyterian Church	11,293,352	11,177,761
Total assets	\$ 11,294,675	\$ 11,177,780
 <b>Liabilities and Net Assets</b>		
Liabilities	\$ -	\$ -
Unrestricted designated net assets	11,294,675	11,177,780
Total liabilities and net assets	\$ 11,294,675	\$ 11,177,780

**Pitcairn-Crabbe Foundation**  
**Statements of Revenues, Expenses and Changes in Net Assets –**  
**Modified Cash Basis**  
**Years Ended December 31, 2016 and 2015**

	<b>2016</b>	<b>2015</b>
<b>Revenues</b>		
Change in fair value of interest in the pooled investments of Shadyside Presbyterian Church	\$ 641,252	\$ (66,051)
Total revenues	641,252	(66,051)
<b>Expenses</b>		
Grants paid, net of returned grants	450,250	443,500
Administrative expenses		
Salaries and related costs	55,720	52,526
Occupancy	7,764	7,804
Office	1,546	1,702
Professional services	6,656	6,475
Other	2,421	1,468
Total administrative expenses	74,107	69,975
Total expenses	524,357	513,475
<b>Change in Net Assets</b>	116,895	(579,526)
<b>Unrestricted Net Assets, Beginning of Year</b>	11,177,780	11,757,306
<b>Unrestricted Net Assets, End of Year</b>	\$ 11,294,675	\$ 11,177,780

# **Pitcairn-Crabbe Foundation**

## **Notes to Financial Statements**

**December 31, 2016 and 2015**

### **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, 2016.

# **Pitcairn-Crabbe Foundation**

## **Notes to Financial Statements**

**December 31, 2016 and 2015**

### ***Interest in Investments Held at Shadyside Presbyterian Church***

The 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, expenses, 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 unrestricted since they are 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 of the transfer.

### ***Reclassifications***

Certain reclassifications have been made to the 2015 financial statements to conform to the 2016 financial statement presentation. These reclassifications had no effect on the change in net assets.

# Pitcairn-Crabbe Foundation

## Notes to Financial Statements

December 31, 2016 and 2015

### 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 5.0% of a five-year average for the years ended December 31, 2016 and 2015, respectively. Undistributed earnings will be retained. The fair value of the retained beneficial interest included in the statements of assets, liabilities and net assets – modified cash basis was \$11,293,352 and \$11,177,761 at December 31, 2016 and 2015, respectively.

The total investments held by the Shadyside Presbyterian Church within this pool are as follows:

	<u>2016</u>	<u>2015</u>
Money market funds	\$ 149,566	\$ 63,044
Mutual funds:		
Total return	9,703,272	14,042,136
Growth	6,556,974	3,446,475
Index	7,619,502	4,417,783
Exchange traded funds	2,088,958	1,940,384
Private investment partnerships	<u>12,955,093</u>	<u>14,434,017</u>
Total investments	<u>\$ 39,073,365</u>	<u>\$ 38,343,839</u>

These investments are valued and allocated, based upon each organization's calculated share of the underlying pooled investment portfolio. The Foundation owned approximately 28.9% and 29.2% of the total investment pool for the years ended December 31, 2016 and 2015, respectively.

### Note 3: 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

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**Level 3** Unobservable inputs supported by little or no market activity and are significant to the fair value of the assets or liabilities

***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, 2016 and 2015:

	<b>Fair Value Measurements Using</b>		
	<b>Quoted Prices in Active Markets for Identical Assets (Level 1)</b>	<b>Significant Other Observable Inputs (Level 2)</b>	<b>Significant Unobservable Inputs (Level 3)</b>
<b>Fair Value</b>			
<b>December 31, 2016</b>			
Investments held at the Shadyside Presbyterian Church	\$ 11,293,352	\$ -	\$ 11,293,352
<b>December 31, 2015</b>			
Investments held at the Shadyside Presbyterian Church	\$ 11,177,761	\$ -	\$ 11,177,761

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 assets, liabilities and net assets – modified cash basis, 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, 2016. For assets classified within Level 3 of the fair value hierarchy, the process used to develop the reported fair value is described below.

***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.

# Pitcairn-Crabbe Foundation

## Notes to Financial Statements

December 31, 2016 and 2015

### **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:

	<u>2016</u>	<u>2015</u>
Beginning balance	\$ 11,177,761	\$ 11,755,452
Change in fair value of interest in the pooled investments of Shadyside Presbyterian Church	641,252	(66,051)
Redemption of units	<u>(525,661)</u>	<u>(511,640)</u>
Ending balance	<u>\$ 11,293,352</u>	<u>\$ 11,177,761</u>

### **Note 4: 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 5: 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**

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 reasonably possible that changes in the risks and 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 6: Subsequent Events**

Subsequent events have been evaluated through the date of the Independent Auditor's Report, the date the financial statements were available to be issued.