

Colcom Foundation
Audited Financial Statements
June 30, 2016 and 2015

Contents

	<u>Page</u>
Independent Auditor's Report.....	1-2
Statements of Assets, Liabilities and Fund Balance - Modified Cash Basis.....	3
Statements of Revenues, Expenditures and Changes in Fund Balance - Modified Cash Basis.....	4
Notes to Financial Statements.....	5-8

INDEPENDENT AUDITOR'S REPORT

To the Board of Directors
of the Colcom Foundation

We have audited the accompanying financial statements of Colcom Foundation ("Foundation"), which comprise the statements of assets, liabilities and fund balance – modified cash basis as of June 30, 2016 and 2015, and the related statements of revenues, expenditures and changes in fund balance – 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 2; 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.

INDEPENDENT AUDITOR'S REPORT
(continued)

Opinion

In our opinion, the financial statements referred to above present fairly, in all material respects, the assets, liabilities and fund balance of Colcom Foundation as of June 30, 2016 and 2015, and its revenues, expenditures and changes in fund balance for the years then ended, in accordance with the basis of accounting as described in Note 2.

Emphasis-of-Matter

Our audits were performed for the purpose of forming an opinion on the financial statements as a whole. The fair value information presented on the statements of assets, liabilities and fund balance – modified cash basis, which is the responsibility of management, is presented for purposes of additional analysis and is not a required part of the financial statements. Such information has not been subjected to the auditing procedures applied in the audits of the financial statements and, accordingly, we do not express an opinion or provide any assurance on it. This paragraph does not modify the auditor's opinion on the financial statements.

Basis of Accounting

We draw attention to Note 2 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 that matter.

Sisterson & Co. LLP

October 31, 2016

Colcom Foundation

Statements of Assets, Liabilities and Fund Balance -
Modified Cash Basis

	<u>June 30, 2016</u>		<u>June 30, 2015</u>	
	<u>Book Value</u>	<u>Fair Value</u> <i>(Unaudited)</i>	<u>Book Value</u>	<u>Fair Value</u> <i>(Unaudited)</i>
Assets				
Cash, cash equivalents, and short-term investments	\$ 46,859,550	\$ 46,859,550	\$ 22,998,924	\$ 22,998,924
Marketable securities:				
Equity investments	214,306,509	260,774,358	232,304,132	306,767,930
Fixed income investments	93,983,341	92,695,547	120,394,464	120,487,645
Total marketable securities	<u>308,289,850</u>	<u>353,469,905</u>	<u>352,698,596</u>	<u>427,255,575</u>
Partnership and nonmarketable investments	76,384,044	87,253,174	67,146,414	77,483,753
Prepaid taxes	22,305	22,305	-	-
Total assets	<u>\$ 431,555,749</u>	<u>\$ 487,604,934</u>	<u>\$ 442,843,934</u>	<u>\$ 527,738,252</u>
Liabilities and Fund Balance				
Federal excise tax payable	\$ -	\$ -	\$ 15,771	\$ 15,771
Appropriated for grants payable in future years	6,435,000	6,435,000	349,400	349,400
Unappropriated fund balance	<u>425,120,749</u>	<u>481,169,934</u>	<u>442,478,763</u>	<u>527,373,081</u>
Total liabilities and fund balance	<u>\$ 431,555,749</u>	<u>\$ 487,604,934</u>	<u>\$ 442,843,934</u>	<u>\$ 527,738,252</u>

The accompanying notes are an integral part of these financial statements.

Colcom Foundation

Statements of Revenues, Expenditures and Changes in Fund Balance - Modified Cash Basis

	<u>Year Ended June 30,</u>	
	<u>2016</u>	<u>2015</u>
Revenues:		
Gifts received	\$ -	\$ 5,687
Realized capital gains	15,216,638	24,693,068
Dividends, interest and other income	8,177,543	11,830,970
	<u>23,394,181</u>	<u>36,529,725</u>
Expenditures:		
Grant payments, net (Note 6)	29,942,941	25,028,319
Investment and related administrative expenses	2,614,458	2,851,264
Administrative expenses related to grantmaking	1,881,501	1,807,944
Federal excise taxes	227,695	333,700
	<u>34,666,595</u>	<u>30,021,227</u>
Changes in Fund Balance:		
Revenues less expenditures	(11,272,414)	6,508,498
Unappropriated fund balance at beginning of year	442,478,763	435,689,665
Change in grants payable	(6,085,600)	280,600
Unappropriated fund balance at end of year	<u>\$ 425,120,749</u>	<u>\$ 442,478,763</u>

The accompanying notes are an integral part of these financial statements.

Colcom Foundation

Notes to Financial Statements

1. Organization - As of June 30, 2012, Colcom Foundation (the Foundation) and Laurel Foundation approved an Agreement and Plan of Merger that created a new administrative structure within Colcom Foundation. They retained separate allocations of assets, boards of directors and grantmaking programs. However, investments, administration and financial management were combined within the Foundation. The rights and obligations of the two foundations and their directors are set forth in the Bylaws of Colcom Foundation.

Colcom Foundation supports awareness of major causes and consequences of human population growth on the environment and quality of life in the United States. Regionally, the Foundation supports conservation, environmental projects and cultural assets. Cordelia S. May provided initial funding, and additional contributions were received from her estate following her death in January 2005.

Laurel Foundation awards grants in Pittsburgh and southwestern Pennsylvania in the fields of art and culture, vocational education, environment and conservation, and community and public benefit.

2. Significant Accounting Policies

Basis of accounting - The Foundation reports on the modified cash basis of accounting generally following accounting principles used by foundations on the annual federal tax report, *Return of Private Foundations* on Form 990-PF. Revenues are recognized when cash or property (at cost) is received or when amounts are taxed, and expenditures are recognized when cash is disbursed. Accordingly, grants to charitable organizations are recognized as expenditures when paid. Accounts do not include interest and dividends receivable, amortization of bond premiums, accretion of bond discounts, or other liabilities unless subject to federal excise tax in the current period. Federal excise taxes are accrued as expenses in the year to which they relate.

The modified cash basis of accounting differs from generally accepted accounting principles in the United States of America (GAAP) primarily due to requirements that investments be recorded at fair value and grant expenses be recognized at the time an unconditional promise is made.

Cash, cash equivalents, and short-term investments - The Foundation considers all highly liquid investments having original maturities of three months or less to be cash equivalents and all investments having original maturities of one year or less to be short-term investments.

Colcom Foundation

Notes to Financial Statements (continued)

2. Significant Accounting Policies (continued)

Marketable securities - These instruments are recorded at cost on the acquisition date. Acquisitions and sales are accounted for on the trade date, when the order to buy or sell is executed.

Partnership and nonmarketable investments - Investments are recorded at cost and adjusted in accordance with the Internal Revenue Code for increases (additional contributions and allocated income) and decreases (withdrawals and allocated expenses).

Fund balance - Grants approved for payment in a future year are reflected as appropriated fund balance until paid. Unappropriated fund balance includes the amount of the original endowment, gains recognized on sales and other dispositions of assets, and net revenues in excess of expenditures.

Use of estimates - The preparation of financial statements 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 revenue and expenses during the accounting period. Actual results could differ from those estimates.

Subsequent events - The Foundation evaluates events and transactions occurring subsequent to the date of the financial statements for matters requiring recognition or disclosure in the financial statements. The accompanying financial statements consider events through October 31, 2016, the date on which the financial statements were available to be issued.

3. Fair Value of Assets (unaudited) - The fair value of assets is presented for comparative purposes. The statements of revenues, expenditures and changes in fund balance - modified cash basis do not include any unrealized gains or losses due to changes in the fair value of assets. Fair values of marketable securities and short-term investments are based upon published quotations. The fair value of nonmarketable partnership investments is determined by management, which relies primarily on valuations provided by the partnerships.

4. Retirement Benefits - The Foundation funded and charged to expenditures \$302,088 and \$283,177 in contributions to individual retirement accounts for all employees for the years ended June 30, 2016 and 2015, respectively.

Colcom Foundation

Notes to Financial Statements (continued)

5. Taxes - The Foundation qualifies as a tax-exempt organization under Section 501(c)(3) of the Internal Revenue Code and, accordingly, is not subject to federal income tax on net investment income. However, it is subject to income taxes on unrelated business income, if earned. As of June 30, 2016 the Foundation has net operating loss carryforwards for unrelated business income tax purposes of \$12,089,367, which expire in the years ending June 30, 2025-2035 if not used.

Private foundations are also subject to an excise tax on net investment income at the rate of 1% or 2%. For the years ended June 30, 2016 and 2015, the Foundation incurred excise tax at the rate of 1%. Private foundations are also subject to tax on the amount by which their minimum investment return exceeds qualifying distributions, but the Foundation has never incurred this tax and does not expect to in the future. As of June 30, 2016, the Foundation had no undistributed income.

Tax returns on Form 990-PF (*Return of Private Foundation*) and Form 990-T (*Exempt Organization Business Income Tax Return*) for tax years ended in June 2013 and later remain subject to examination by the Internal Revenue Service. Pennsylvania does not impose excise taxes or taxes on unrelated business income; however, several other states impose taxes on unrelated business income generated by partnership investments.

6. Grant Payments, Net

	Year ended June 30,	
	<u>2016</u>	<u>2015</u>
Colcom Foundation	\$ 28,589,441	\$ 23,306,819
Laurel Foundation	<u>1,353,500</u>	<u>1,721,500</u>
	<u>\$ 29,942,941</u>	<u>\$ 25,028,319</u>

The amount appropriated for grants payable in future years is due to either an installment payment schedule approved by the Foundation or to contingencies or restrictions not yet met by a grant recipient. The amount appropriated for future grants as of June 30, 2016 (Colcom Foundation: \$6,435,000, Laurel Foundation: none) is expected to be paid by June 30, 2017.

Grant payments are sometimes accelerated to qualify for the 1% excise tax rate.

Colcom Foundation

Notes to Financial Statements (continued)

7. Lease Obligation - The Foundation leases office space under an agreement that expires on October 31, 2018. Total lease expense for the years ended June 30, 2016 and 2015 were \$124,126 and \$119,431, respectively. For the years ending June 30, future minimum rental payments are:

2017	\$ 115,909
2018	115,909
2019	<u>38,636</u>
	\$ <u>270,454</u>

8. Commitments - In connection with certain partnership investments, the Foundation is committed to make additional capital contributions of \$23,240,379 as of June 30, 2016. Such contributions are due when called by the general partners of those partnerships.

9. Assets allocated for future grants - Assets are allocated to each foundation based on unit values adjusted for contributions received and donations paid. The unaudited fair value of assets of each foundation is set forth below as of June 30, 2016:

Colcom Foundation	\$ 450,862,532
Laurel Foundation	<u>36,742,402</u>
	\$ <u>487,604,934</u>