

Central Susquehanna Community Foundation

Financial Statements

Years Ended December 31, 2015 and 2014 with
Independent Auditor's Reports

MaherDuessel
Certified Public Accountants

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CENTRAL SUSQUEHANNA COMMUNITY FOUNDATION

YEARS ENDED DECEMBER 31, 2015 AND 2014

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Independent Auditor's Report

Board of Directors
Central Susquehanna Community Foundation

Report on the Financial Statements

We have audited the accompanying financial statements of the Central Susquehanna Community Foundation (Foundation), which comprise the statements of financial position as of December 31, 2015 and 2014, and the related statements of activities, functional expenses, 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.

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 and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audits 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 financial position of the Foundation as of December 31, 2015 and 2014, 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.

Other Reporting Required by *Government Auditing Standards*

In accordance with *Government Auditing Standards*, we have also issued our report dated June 9, 2016, on our consideration of the Foundation's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the Foundation's internal control over financial reporting and compliance.

Maher Duessel

Harrisburg, Pennsylvania
June 9, 2016

CENTRAL SUSQUEHANNA COMMUNITY FOUNDATION

STATEMENTS OF FINANCIAL POSITION

DECEMBER 31, 2015 AND 2014

Assets	2015	2014
Current assets:		
Cash and cash equivalents	\$ 128,966	\$ 471,815
Pledges receivable	20,145	38,114
Grants receivable	95,594	-
Accrued interest receivable	55,946	65,072
Prepaid expenses	-	3,237
Total current assets	300,651	578,238
Noncurrent assets:		
Land, buildings, and equipment:		
Land	95,324	95,324
Land improvements	224,502	224,502
Building and building improvements	1,417,493	1,417,493
Furniture and fixtures	76,662	76,662
Equipment	56,583	56,583
Less: accumulated depreciation	(441,882)	(398,650)
Land, buildings, and equipment, net	1,428,682	1,471,914
Investments	45,808,922	46,780,300
Beneficial interest in charitable remainder trust	12,611	13,294
Beneficial interest in perpetual trusts held by others	330,975	359,226
Total noncurrent assets	47,581,190	48,624,734
Total Assets	\$ 47,881,841	\$ 49,202,972

(Continued)

Liabilities and Net Assets	<u>2015</u>	<u>2014</u>
Liabilities:		
Current liabilities:		
Accounts payable	\$ 8,498	\$ 13,963
Accrued expenses	13,438	-
Grants payable	1,416,471	1,202,827
Current portion of note payable	<u>75,982</u>	<u>72,467</u>
Total current liabilities	<u>1,514,389</u>	<u>1,289,257</u>
Noncurrent liabilities:		
Grants payable, net of current portion	193,918	458,087
Note payable, net of current portion	323,521	399,499
Funds held as agency endowments	<u>9,790,375</u>	<u>9,871,105</u>
Total noncurrent liabilities	<u>10,307,814</u>	<u>10,728,691</u>
Total Liabilities	<u>11,822,203</u>	<u>12,017,948</u>
Net Assets:		
Unrestricted	35,716,052	36,812,504
Temporarily restricted	12,611	13,294
Permanently restricted	<u>330,975</u>	<u>359,226</u>
Total Net Assets	<u>36,059,638</u>	<u>37,185,024</u>
Total Liabilities and Net Assets	<u><u>\$ 47,881,841</u></u>	<u><u>\$ 49,202,972</u></u>
		(Concluded)

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

CENTRAL SUSQUEHANNA COMMUNITY FOUNDATION

STATEMENT OF ACTIVITIES

YEAR ENDED DECEMBER 31, 2015

	Unrestricted	Temporarily Restricted	Permanently Restricted	Total
Revenues and Other Support:				
Contributions	\$ 413,888	\$ -	\$ -	\$ 413,888
Grant revenue	690,097	-	-	690,097
Medical Assistance revenue	91,861	-	-	91,861
Trust income	15,299	-	-	15,299
Interest and dividends	1,176,902	-	-	1,176,902
Realized and unrealized loss on investments	(961,741)	-	-	(961,741)
Change in value of charitable remainder trust	-	(683)	-	(683)
Loss on beneficial interest in perpetual trusts held by others	-	-	(28,251)	(28,251)
Gain on cancellation of grants	268,245	-	-	268,245
Other income	153,685	-	-	153,685
	1,848,236	(683)	(28,251)	1,819,302
Expenses:				
Program expenses	2,315,472	-	-	2,315,472
Development	203,604	-	-	203,604
Administrative expenses	425,612	-	-	425,612
	2,944,688	-	-	2,944,688
Change in Net Assets	(1,096,452)	(683)	(28,251)	(1,125,386)
Net Assets:				
Beginning of year	36,812,504	13,294	359,226	37,185,024
End of year	\$ 35,716,052	\$ 12,611	\$ 330,975	\$ 36,059,638

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

CENTRAL SUSQUEHANNA COMMUNITY FOUNDATION

STATEMENT OF ACTIVITIES

YEAR ENDED DECEMBER 31, 2014

	Unrestricted	Temporarily Restricted	Permanently Restricted	Total
Revenues, Other Support, and Transfer:				
Contributions	\$ 489,655	\$ -	\$ -	\$ 489,655
Grant revenue	459,334	-	-	459,334
Medical Assistance revenue	126,049	-	-	126,049
Trust income	12,341	-	-	12,341
Interest and dividends	1,528,295	-	-	1,528,295
Realized and unrealized gain on investments	608,683	-	-	608,683
Change in value of charitable remainder trust	-	(404)	-	(404)
Loss on beneficial interest in perpetual trusts held by others	-	-	(1,862)	(1,862)
Other income	132,318	-	-	132,318
	3,356,675	(404)	(1,862)	3,354,409
Total revenues and other support				
Transfer of assets from another community foundation	2,934,643	-	-	2,934,643
	6,291,318	(404)	(1,862)	6,289,052
Total revenues, other support, and transfer				
Expenses:				
Program expenses	2,449,109	-	-	2,449,109
Development	298,174	-	-	298,174
Administrative expenses	437,686	-	-	437,686
	3,184,969	-	-	3,184,969
Total expenses				
Change in Net Assets	3,106,349	(404)	(1,862)	3,104,083
Net Assets:				
Beginning of year	33,706,155	13,698	361,088	34,080,941
End of year	\$ 36,812,504	\$ 13,294	\$ 359,226	\$ 37,185,024

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

CENTRAL SUSQUEHANNA COMMUNITY FOUNDATION

STATEMENT OF FUNCTIONAL EXPENSES

YEAR ENDED DECEMBER 31, 2015

	Program Expenses	Development	Administrative Expenses	Total
Expenses:				
Board development	\$ 1,477	\$ 1,590	\$ 1,533	\$ 4,600
Community events	397	428	413	1,238
Dues and subscriptions	1,478	1,592	1,535	4,605
Employee benefits	26,579	25,976	34,307	86,862
Grants approved	2,115,471	-	-	2,115,471
Insurance	3,533	3,804	3,669	11,006
Interest expense	6,788	7,308	7,049	21,145
Investment fees	-	-	156,773	156,773
Marketing expense	15,369	16,546	15,959	47,874
Meeting supplies	1,135	1,222	1,179	3,536
Miscellaneous	657	708	683	2,048
Office expenses	6,041	6,503	6,273	18,817
Printing	1,189	1,280	1,234	3,703
Professional fees	10,878	11,710	11,294	33,882
Repairs and maintenance	11,818	12,722	12,271	36,811
Salaries and wages	91,419	89,346	118,003	298,768
Telephone	2,272	2,447	2,360	7,079
Travel	1,410	1,519	1,465	4,394
Utilities	3,681	3,962	3,822	11,465
Workers' compensation claim	-	-	31,379	31,379
Depreciation expense	13,880	14,941	14,411	43,232
 Total expenses	 <u>\$ 2,315,472</u>	 <u>\$ 203,604</u>	 <u>\$ 425,612</u>	 <u>\$ 2,944,688</u>

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

CENTRAL SUSQUEHANNA COMMUNITY FOUNDATION

STATEMENT OF FUNCTIONAL EXPENSES

YEAR ENDED DECEMBER 31, 2014

Expenses:	<u>Program Expenses</u>	<u>Development</u>	<u>Administrative Expenses</u>	<u>Total</u>
Board development	\$ 1,395	\$ 1,684	\$ 1,251	\$ 4,330
Community events	1,878	2,268	1,685	5,831
Dues and subscriptions	1,274	1,538	1,142	3,954
Employee benefits	35,002	42,243	31,383	108,628
Grants approved	2,202,030	-	-	2,202,030
Insurance	4,362	5,264	3,911	13,537
Interest expense	13,250	15,990	11,879	41,119
Investment fees	-	-	179,770	179,770
Marketing expense	10,432	12,591	9,354	32,377
Meeting supplies	1,591	1,920	1,427	4,938
Miscellaneous	271	327	243	841
Office expenses	8,865	10,694	7,946	27,505
Printing	344	414	308	1,066
Professional fees	13,409	16,176	12,019	41,604
Repairs and maintenance	5,012	6,045	4,492	15,549
Salaries and wages	113,225	136,648	101,517	351,390
Telephone	2,326	2,806	2,085	7,217
Travel	1,866	2,251	1,673	5,790
Utilities	3,656	4,411	3,277	11,344
Workers' compensation claim	-	-	36,394	36,394
Depreciation expense	28,921	34,904	25,930	89,755
Total expenses	<u>\$ 2,449,109</u>	<u>\$ 298,174</u>	<u>\$ 437,686</u>	<u>\$ 3,184,969</u>

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

CENTRAL SUSQUEHANNA COMMUNITY FOUNDATION

STATEMENTS OF CASH FLOWS

YEARS ENDED DECEMBER 31, 2015 AND 2014

	2015	2014
Cash Flows From Operating Activities:		
Change in net assets	\$ (1,125,386)	\$ 3,104,083
Adjustments to reconcile change in net assets to net cash provided by (used in) operating activities:		
Net realized and unrealized (gain) loss on investments	1,154,480	(1,006,239)
Net change in beneficial interest in charitable remainder trust	683	404
Net change in beneficial interest in perpetual trusts held by others	28,251	1,862
Gain on cancellation of grants	(268,245)	-
Depreciation expense	43,232	89,755
(Increase) decrease in:		
Pledges receivable	17,969	(15,144)
Grants receivable	(95,594)	-
Accrued interest receivable	9,126	(19,439)
Prepaid expenses	3,237	3,237
Increase (decrease) in:		
Accounts payable	(5,465)	8,193
Accrued expenses	13,438	(7,097)
Grants payable	217,720	560,685
Funds held as agency endowments	(80,730)	1,854,086
Net cash provided by (used in) operating activities	(87,284)	4,574,386
Cash Flows From Investing Activities:		
Proceeds from the sale of investments	13,468,260	7,934,143
Purchases of investments	(13,651,362)	(11,990,023)
Net cash used in investing activities	(183,102)	(4,055,880)
Cash Flows From Financing Activities:		
Repayments on note payable	(72,463)	(552,489)
Net cash used in financing activities	(72,463)	(552,489)
Net Decrease in Cash and Cash Equivalents	(342,849)	(33,983)
Cash and Cash Equivalents:		
Beginning of year	471,815	505,798
End of year	\$ 128,966	\$ 471,815
Supplemental Disclosure of Cash Flow Information:		
Cash paid during the year for interest	\$ 21,145	\$ 41,119

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

CENTRAL SUSQUEHANNA COMMUNITY FOUNDATION

NOTES TO FINANCIAL STATEMENTS

YEARS ENDED DECEMBER 31, 2015 AND 2014

1. NATURE OF OPERATIONS AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

A. *Nature of Operations*

The Central Susquehanna Community Foundation (Foundation) was organized in March 1999 as the Berwick Health and Wellness Foundation with the proceeds from the sale of the Berwick Hospital. The Foundation's mission was to improve the health and welfare of the Berwick area community.

During 2003, the Foundation changed its name to reflect a greater mission and area to be served. The Foundation now serves Columbia, Montour, Union, Snyder, Northumberland, and Lower-Luzerne Counties in Pennsylvania and encourages philanthropy to benefit the charities and communities within this region to improve the quality of life of the residents of these communities. The Foundation's support comes primarily from contributions and investment income. The original Berwick Health and Wellness Fund is reserved for promoting health and wellness in the Berwick area community, comprising boroughs and townships in eastern Columbia County and western Luzerne County.

The Foundation administers 32 agency endowment funds and 188 other charitable endowment funds; each established with an instrument of gift describing either the general or specific purposes for which the grants are to be made.

The Foundation is a nonprofit organization, as described in Section 501(c)(3) of the Internal Revenue Code and is exempt from federal and state income taxes. In addition, the Foundation qualifies for the charitable contribution deduction under Section 170(b)(1)(A) and has been classified as an organization other than a private foundation.

Further, the Foundation annually files a Form 990.

B. *Basis of Accounting*

The Foundation prepares its financial statements on the accrual basis of accounting. Under this method, revenues are recorded when earned and expenses are recorded when liabilities are incurred.

CENTRAL SUSQUEHANNA COMMUNITY FOUNDATION

NOTES TO FINANCIAL STATEMENTS

YEARS ENDED DECEMBER 31, 2015 AND 2014

C. *Statements of Cash Flows*

For the purpose of the statements of cash flows, the Foundation considers all highly liquid investments with an initial maturity of three months or less to be cash equivalents.

The net realized and unrealized gain or loss on investments presented in the statements of cash flows for the years ended December 31, 2015 and 2014 is reported in the financial statements as follows:

	2015	2014
Net realized and unrealized gain (loss)	\$ (961,741)	\$ 608,683
Attributable to assets held in agency endowment funds	<u>(192,739)</u>	<u>397,556</u>
	<u>\$ (1,154,480)</u>	<u>\$ 1,006,239</u>

D. *Investments*

Fair Value Measurements

The Foundation records its investments based on fair value. The use of observable inputs is maximized and the use of unobservable inputs is minimized by using observable inputs when available.

Observable inputs are inputs that market participants would use in pricing the asset or liability based on market data obtained from independent sources. Unobservable inputs reflect assumptions that market participants would use in pricing the asset or liability based on the best information available in the circumstances. The hierarchy is broken down into three levels based on the transparency of inputs as follows:

Level 1 — Quoted prices are available in active markets for identical assets or liabilities as of the report date. A quoted price for an identical asset or liability in an active market provides the most reliable fair value measurement because it is directly observable to the market.

Level 2 — Pricing inputs are other than quoted prices in active markets, which are either directly or indirectly observable as of the report date. The nature of these securities includes investments for which quoted prices are available, but traded less frequently, and investments that are fair valued using other securities, the parameters of which can be directly observed.

CENTRAL SUSQUEHANNA COMMUNITY FOUNDATION

NOTES TO FINANCIAL STATEMENTS

YEARS ENDED DECEMBER 31, 2015 AND 2014

Level 3 — Securities that have little to no pricing observability as of the report date. These securities are measured using management’s best estimate of fair value, where the inputs into the determination of fair value are not observable and require significant management judgment or estimation.

Inputs are used in applying the various valuation techniques and broadly refer to the assumptions that market participants use to make valuation decisions, including assumptions about risk. Inputs may include price information, volatility statistics, specific and broad credit data, liquidity statistics, and other factors. A financial instrument’s level within the fair value hierarchy is based on the lowest level of any input that is significant to the fair value measurement. However, the determination of what constitutes “observable” requires significant judgment by the Foundation. The Foundation considers observable data to be that market data that is readily available, regularly distributed or updated, reliable and verifiable, not proprietary, and provided by independent sources that are actively involved in the relevant market. The categorization of a financial instrument within the hierarchy is based upon the pricing transparency of the instrument and does not necessarily correspond to the Foundation's perceived risk of that instrument.

Valuation of Investments

Investments whose values are based on quoted market prices in active markets, and are therefore classified within Level 1, include active listed equities, certain U.S. government, U.S. agency and sovereign obligations, certain money market securities, and certain mutual funds.

Investments that trade in markets that are not considered to be active, but are valued based on quoted market prices, dealer quotations, or alternative pricing sources supported by observable inputs are classified within Level 2. These include investment-grade corporate bonds and municipal obligations. The Foundation’s Level 2 investments are valued using the market approach based on current exchange prices. For securities that don’t trade on exchanges, the dealer utilizes a modeling system based on current market data including benchmark yields, reported trades and broker-dealer quotes. As Level 2 investments include positions that are not traded in active markets and/or are subject to transfer restrictions, valuations may be adjusted to reflect illiquidity and/or non-transferability, which are generally based on available market information.

Investments classified within Level 3 have significant unobservable inputs, as they trade infrequently or not at all. Level 3 instruments include beneficial interest in charitable trusts and in perpetual trusts. When observable prices are not available for Level 3 securities, the Foundation uses one or more valuation techniques (e.g., the market approach, the income approach, or the cost approach) for which sufficient and reliable

CENTRAL SUSQUEHANNA COMMUNITY FOUNDATION

NOTES TO FINANCIAL STATEMENTS

YEARS ENDED DECEMBER 31, 2015 AND 2014

data is available. Within Level 3, the use of the market approach generally consists of using comparable market transactions, while the use of the income approach generally consists of the net present value of estimated future cash flows, adjusted as appropriate for liquidity, credit, market, and/or other risk factors.

The inputs used by the Foundation in estimating the value of Level 3 investments may include the original transaction price, recent transactions in the same or similar instruments, completed or pending third-party transactions in the underlying investment or comparable issuers, subsequent rounds of financing, recapitalizations, and other transactions across the capital structure, offerings in the equity or debt capital markets, and changes in financial ratios or cash flows. Level 3 investments may also be adjusted to reflect illiquidity and/or non-transferability, with the amount of such discount estimated by the Foundation in the absence of market information. The fair value measurement of Level 3 investments does not include transaction costs that may have been capitalized as part of the security's cost basis. Assumptions used by the Foundation due to the lack of observable inputs may significantly impact the resulting fair value and, therefore, the Foundation's results of operations.

E. Land, Buildings, and Equipment

Land, buildings, and equipment are recorded at cost or fair value (if donated), less accumulated depreciation. Donated assets are reported as unrestricted contributions unless the donor has restricted the donated asset to a specific purpose. Land improvements, buildings, and equipment are being depreciated over their estimated useful lives by the straight-line method as follows:

Computers	3 years
Equipment	3 - 7 years
Furniture and fixtures	5 - 7 years
Land improvements	15 - 40 years
Buildings and building improvements	7 - 40 years

When assets are retired or disposed of, the cost and the related accumulated depreciation are removed from the accounts and any resulting gain or loss is recognized in income for the period. The cost of maintenance and repairs is charged to expense as incurred; significant renewals and betterments are capitalized.

For the years ended December 31, 2015 and 2014, depreciation expense was \$43,232 and \$89,755, respectively.

CENTRAL SUSQUEHANNA COMMUNITY FOUNDATION

NOTES TO FINANCIAL STATEMENTS

YEARS ENDED DECEMBER 31, 2015 AND 2014

F. 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 restricted by donors to investments held in perpetuity, the income from which is expendable to support the activities of the Foundation.

Pursuant to donor instructions, the Foundation has classified each of its component funds into six types: unrestricted funds, field of interest funds, donor advised, scholarship funds, agency endowment, and acorn 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 funds if, in the Board of Directors' judgment, such restriction becomes unnecessary, incapable of fulfillment, or inconsistent with the charitable needs of the community (i.e., variance power). Due to the governing body having variance power, contributions are classified as unrestricted net assets if the ultimate beneficiary is not also the contributing entity. 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.

G. Contributions

The Foundation reports gifts of cash and other assets as restricted contributions when they are received with donor stipulations that limit the use of the donated assets. When a donor restriction expires (such as when a stipulated time restriction ends or purpose restriction is accomplished), temporarily restricted net assets are released to unrestricted net assets and reported in the statement of activities as net assets released from restrictions. However, if a restriction is fulfilled in the same time period in which the contribution is received, the Foundation reports the support as unrestricted.

H. Contributed Services, Facilities, and Equipment

A number of unpaid volunteers, which include the Directors of the Foundation, have made significant contributions of their time toward developing and achieving the Foundation's goals and objectives. Contributions of donated services that create or enhance nonfinancial assets, or that require specialized skills, are provided by individuals possessing those skills, and would typically need to be purchased if not provided by donation, are recorded at their fair values in the period received. During the years ended December 31, 2015 and 2014, there were no donated services that met the reporting requirements.

CENTRAL SUSQUEHANNA COMMUNITY FOUNDATION

NOTES TO FINANCIAL STATEMENTS

YEARS ENDED DECEMBER 31, 2015 AND 2014

I. *Functional Expense Allocations*

The costs of providing the programs and activities of the Foundation are summarized and allocated on the statements of functional expenses among the programs and supporting services benefited.

J. *Affiliation Agreement*

The Foundation entered into agreements with Sunbury Area Community Foundation (Sunbury Foundation) (a 501(c)(3) organization) and the Selinsgrove Area Community Foundation (Selinsgrove Foundation) (a 501(c)(3) organization) to administer their assets for investment purposes. These agreements also provide for the Foundation to perform administrative tasks on behalf of the Sunbury Foundation and the Selinsgrove Foundation. These agreements may be terminated by the Sunbury Foundation and the Selinsgrove Foundation at any time. The Sunbury Foundation agreement has been approved by the Attorney General of the Commonwealth of Pennsylvania.

K. *Administrative Fees*

The Foundation charges an administrative fee of between one and one-half and two percent of a 16-quarter trailing average of the fund balance to all permanent endowed funds and agency endowment funds. These fees are included in other income in the statements of activities.

L. *Funds Held as Agency Endowments*

Assets transferred to the Foundation from other nonprofit organizations for the purpose of establishing an endowment for the benefit of the nonprofit organization are accounted for as funds held as agency endowments. In such circumstances, the Foundation recognizes the fair value of the assets transferred as an increase in its investments and a liability payable to the nonprofit.

M. *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.

CENTRAL SUSQUEHANNA COMMUNITY FOUNDATION

NOTES TO FINANCIAL STATEMENTS

YEARS ENDED DECEMBER 31, 2015 AND 2014

N. *Endowment Investment and Spending Policy*

The Foundation has adopted investment and spending policies, approved by the Board of Directors, for endowment assets that attempt to provide a predictable stream of funding to programs supported by its endowment. The goal of the Foundation's investment policy is to maintain the purchasing power of the current assets and all future contributions, to maintain the level of services and programs, and to maximize return within reasonable and prudent levels of risk. Under the current investment policy approved by the Board of Directors, the endowment assets have a strategic target of 60% equity securities, 25% fixed income securities, 10% alternative securities, and 5% cash and cash equivalents. The allowable investment bounds are 40% to 80% in equity securities, 10% to 40% in fixed income securities, 0% to 20% in alternative investments, and 0% to 10% in cash and cash equivalents. The Foundation expects its endowment funds, over time, to provide an average rate of return that exceeds the Callan's Small Endowment/Foundation database or a weighted index comprised of 36% of the S&P 500, 10% of the Russell 2000, 14% MSCI ACWI ex US, 25% of the Barclays Capital Aggregate Bond Index, 10% Consumer Price Index (CPI) plus 3%, and 5% of the 90-day U.S. Treasury Bill. The Foundation's actual returns may vary from this amount in any given year.

The spending policy calculates the amount of money annually distributed from the Foundation's various endowed funds for grant-making and administration. Based on the investment model selected by the donor, the current spending policy is to distribute not in excess of 4.5% of a 16-quarter trailing average of the fund balance of the endowment funds. For funds less than four years old, the fair value will be the average of all quarterly market values to date.

O. *Reclassifications*

Certain prior year amounts were reclassified to conform to the current year presentation.

P. *Subsequent Events*

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

2. DEPOSITS

Cash and cash equivalents at December 31, 2015 had a book value and bank balance of \$128,966 and \$115,345, respectively. Cash and cash equivalents at December 31, 2014 had a book value and bank balance of \$471,815 and \$437,330, respectively. Deposits held in

CENTRAL SUSQUEHANNA COMMUNITY FOUNDATION

NOTES TO FINANCIAL STATEMENTS

YEARS ENDED DECEMBER 31, 2015 AND 2014

financial institutions are insured up to \$250,000 by the Federal Deposit Insurance Corporation (FDIC). At various times during the years ended December 31, 2015 and 2014, the Foundation had cash balances in excess of the federally insured limit.

3. INVESTMENTS

The following tables sets forth by level, within the fair value hierarchy, the investments at fair value, cost, and unrealized appreciation (depreciation) as of December 31, 2015 and 2014:

	2015			Unrealized Appreciation (Depreciation)
	Level	Fair Value	Cost	
Money market funds	1	\$ 871,565	\$ 871,565	\$ -
Common stock:				
Basic materials	1	367,377	264,948	102,429
Consumer discretionary	1	1,112,296	638,750	473,546
Consumer staples	1	756,837	556,816	200,021
Energy	1	373,326	208,109	165,217
Financials	1	1,329,183	1,029,663	299,520
Healthcare	1	786,038	794,595	(8,557)
Industrials	1	1,131,448	864,671	266,777
Technology	1	1,287,011	742,178	544,833
Utilities	1	303,575	388,192	(84,617)
Equity mutual funds:				
Large cap funds	1	11,894,264	9,665,974	2,228,290
Small cap funds	1	1,159,047	1,266,942	(107,895)
International developed	1	5,920,535	5,216,338	704,197
Emerging markets	1	1,188,466	1,413,255	(224,789)
Equity REITs	1	1,339,338	1,442,879	(103,541)
Other	1	3,802,476	4,015,611	(213,135)
Fixed income mutual funds:				
Domestic bond market	1	3,365,592	3,490,161	(124,569)
Taxable pooled	1	3,982,436	4,049,733	(67,297)
High yield pooled	1	1,000,000	1,000,000	-
Debt securities:				
Corporate bonds	2	1,423,790	1,417,920	5,870
U.S. Treasury	1	1,799,382	1,814,109	(14,727)
U.S. Agency obligation	1	614,940	609,000	5,940
		\$ 45,808,922	\$ 41,761,409	\$ 4,047,513
Beneficial interest in:				
Charitable remainder trust	3	\$ 12,611		
Perpetual trusts	3	\$ 330,975		

CENTRAL SUSQUEHANNA COMMUNITY FOUNDATION

NOTES TO FINANCIAL STATEMENTS

YEARS ENDED DECEMBER 31, 2015 AND 2014

2014				
	Level	Fair Value	Cost	Unrealized Appreciation (Depreciation)
Money market funds	1	\$ 1,453,475	\$ 1,453,475	\$ -
Common stock:				
Basic materials	1	579,394	448,569	130,825
Communication services	1	114,679	99,222	15,457
Consumer cyclicals	1	73,940	50,407	23,533
Consumer discretionary	1	1,931,246	1,193,263	737,983
Consumer staples	1	991,564	716,010	275,554
Energy	1	564,461	395,008	169,453
Financials	1	1,624,924	1,195,700	429,224
Healthcare	1	1,305,816	909,687	396,129
Industrials	1	1,827,518	1,290,499	537,019
Services	1	239,646	212,263	27,383
Technology	1	2,584,855	1,649,200	935,655
Utilities	1	318,228	310,564	7,664
Equity mutual funds:				
Large cap funds	1	12,231,707	9,254,725	2,976,982
International developed	1	4,979,295	4,005,217	974,078
Emerging markets	1	1,417,737	1,451,695	(33,958)
Equity REITs	1	1,002,335	1,017,235	(14,900)
Other	1	3,231,928	3,419,227	(187,299)
Fixed income mutual funds:				
Domestic bond market	1	3,431,339	3,490,160	(58,821)
Taxable pooled	1	1,003,181	981,390	21,791
High yield pooled	1	645,250	500,000	145,250
Debt securities:				
Corporate bonds	2	2,297,532	2,215,995	81,537
U.S. Treasury	1	1,946,587	1,964,086	(17,499)
U.S. Agency obligation	1	631,848	609,000	22,848
Municipal bonds	2	351,815	352,870	(1,055)
		<u>\$ 46,780,300</u>	<u>\$ 39,185,467</u>	<u>\$ 7,594,833</u>
Beneficial interest in:				
Charitable remainder trust	3	<u>\$ 13,294</u>		
Perpetual trusts	3	<u>\$ 359,226</u>		

Marketable securities are in the custody of a custodial bank contracted by the Foundation's investment advisor. The custodian provides insurance coverage up to \$500,000 on securities, including up to \$250,000 on cash, through the Securities Investor Protection Corporation and supplemental coverage up to the full net equity value of the assets held in these accounts. Such coverage, however, does not insure against losses resulting from changes in securities markets.

CENTRAL SUSQUEHANNA COMMUNITY FOUNDATION

NOTES TO FINANCIAL STATEMENTS

YEARS ENDED DECEMBER 31, 2015 AND 2014

Fair Value of Financial Instruments

The following is a description of the valuation methodologies used for Level 3 investments.

Beneficial Interest in Charitable Remainder Trust and Perpetual Trusts

The Foundation is the beneficiary of several trusts which are managed by various financial institutions. The financial institutions hold the investments in diversified and balanced portfolios consisting of cash and money market funds, corporate debt securities, equity securities and equity mutual funds, fixed income mutual funds, real asset funds, and other funds with complementary investment strategies. The Foundation uses the income approach to value the beneficial interest in charitable remainder trust. Fair value of the beneficial interest in perpetual trusts is based on fair value information received from the trustee.

The methods described previously may produce a fair value calculation that may not be indicative of net realizable value or reflective of future fair values. Furthermore, while the Foundation believes its reliance on these valuation methods are appropriate and consistent with other market participants, the use of different methodologies or assumptions to determine the fair value of certain financial instruments could result in a different fair value measurement at the reporting date.

The following table summarizes the changes in fair values associated with Level 3 assets:

	Balance as of January 1, 2015	Contributions/ Purchases	Withdrawals/ Redemptions/ Payments	Change in Value	Balance as of December 31, 2015
Charitable remainder trust	\$ 13,294	\$ -	\$ -	\$ (683)	\$ 12,611
Perpetual trusts	359,226	-	-	(28,251)	330,975
	<u>\$ 372,520</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ (28,934)</u>	<u>\$ 343,586</u>
	Balance as of January 1, 2014	Contributions/ Purchases	Withdrawals/ Redemptions/ Payments	Change in Value	Balance as of December 31, 2014
Charitable remainder trust	\$ 13,698	\$ -	\$ -	\$ (404)	\$ 13,294
Perpetual trusts	361,088	-	-	(1,862)	359,226
	<u>\$ 374,786</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ (2,266)</u>	<u>\$ 372,520</u>

CENTRAL SUSQUEHANNA COMMUNITY FOUNDATION

NOTES TO FINANCIAL STATEMENTS

YEARS ENDED DECEMBER 31, 2015 AND 2014

4. BENEFICIAL INTEREST IN PERPETUAL TRUSTS HELD BY OTHERS

The Foundation is a beneficiary of two irrevocable trusts held by a financial institution's trust department. Under the terms of the trust agreements, the Foundation has the irrevocable right to receive a portion of the income earned on trust assets in perpetuity, but never receives the assets held in the trusts. The Foundation recorded its proportionate share of the fair value of the principal of the trusts when received. Distributions from the trusts are recorded as trust income in unrestricted net assets. Distributions for the trusts for the years ended December 31, 2015 and 2014 were \$15,299 and \$12,341, respectively. The Foundation's estimated beneficial interest in these perpetual trusts as of December 31, 2015 and 2014 is \$330,975 and \$359,226, respectively.

5. GRANTS PAYABLE

Grants are recorded as expenses when authorized by the Board of Directors and the grant agreement is signed with the recipient agency. Grants authorized but not paid at December 31 of each year are recorded as liabilities in accordance with accounting principles generally accepted in the United States of America. Grants to be paid in more than one year are discounted using the U.S. Treasury one-year rate, which was negligible at December 31, 2015 and 2014, as the one-year rate was less than 1%.

Total cash flow requirements in subsequent years are as follows:

	December 31, 2015	December 31, 2014
2015	\$ -	\$ 1,202,827
2016	1,416,471	202,169
2017	99,721	130,721
2018	94,197	125,197
Total	<u>\$ 1,610,389</u>	<u>\$ 1,660,914</u>

6. NOTES PAYABLE

The Foundation entered into a note payable with a bank for \$1,200,000, bearing interest at 4.75%, for construction of a new facility with the note secured by the related facility, and a first priority perfected security interest in \$320,000 of assets held in a securities account with

CENTRAL SUSQUEHANNA COMMUNITY FOUNDATION

NOTES TO FINANCIAL STATEMENTS

YEARS ENDED DECEMBER 31, 2015 AND 2014

the bank. Principal and interest payments of \$7,801 are due monthly, with final payment due by September 2023.

During the year ended December 31, 2014, the Foundation made an additional \$500,000 principal payment on the note payable. With the exception of the change in the maturities, all other terms of the note payable remained the same.

Maturities on this long-term debt are as follows for the years ending December 31:

2016	\$	75,982
2017		79,776
2018		83,704
2019		87,826
2020		72,215
	\$	<u>399,503</u>

Interest expense for the years ended December 31, 2015 and 2014 was \$21,145 and \$41,119, respectively.

7. FUNDS HELD AS AGENCY ENDOWMENTS

The Foundation holds funds on behalf of other organizations. In accordance with accounting principles generally accepted in the United States of America, the Foundation is reporting the funds it has received and all earnings on these funds as liabilities. The Foundation administers and invests these funds in accordance with the agreements established with each organization. At December 31, 2015 and 2014, the Foundation has recorded \$9,790,375 and \$9,871,105, respectively, in investments and funds held as agency endowments for these organizations.

8. RESTRICTIONS ON NET ASSETS

At December 31, 2015 and 2014, unrestricted net assets consist of approximately \$35,561,100 and \$36,802,700, respectively, in endowment funds. Additionally, at December 31, 2015 and 2014, \$154,961 and \$9,813, respectively, is maintained in an Operating Fund. While the Foundation retains variance power, it is Foundation policy that the donors' intention will be honored unless it is impossible, impractical, undesirable, or inadvisable to do so. Therefore, the principal of the endowment funds will remain intact.

CENTRAL SUSQUEHANNA COMMUNITY FOUNDATION

NOTES TO FINANCIAL STATEMENTS

YEARS ENDED DECEMBER 31, 2015 AND 2014

At December 31, 2015 and 2014, temporarily restricted net assets consist of a beneficial interest in a charitable remainder trust subject to time restrictions totaling \$12,611 and \$13,294, respectively.

At December 31, 2015 and 2014, permanently restricted net assets consist of \$330,975 and \$359,226, respectively, in beneficial interests in perpetual trusts, the income from which is expendable to support the activities of the Foundation.

Endowment net asset composition as of and for the years ended December 31 is as follows:

	2015 Total Unrestricted Net Assets	2014 Total Unrestricted Net Assets
	<u>Net Assets</u>	<u>Net Assets</u>
Endowment funds with variance power - beginning of year	\$ 36,802,700	\$ 33,717,300
Contributions	413,900	489,700
Grant revenue	690,100	459,300
Medical assistance revenue	91,900	126,000
Trust income	15,300	12,300
Other income	153,600	132,300
Investment income	215,200	2,137,000
Expenses	(2,821,600)	(3,205,800)
Transfers of assets from another community foundation	-	2,934,600
Endowment funds with variance power - end of year	<u>\$ 35,561,100</u>	<u>\$ 36,802,700</u>

9. COMMITMENTS AND CONTINGENCIES

The Foundation has an employment agreement with the Chief Executive Officer (CEO). The agreement began June 22, 2015 and will remain in effect until June 22, 2016. The agreement will be extended annually, or until terminated by either party upon sixty (60) days' written notice to the other party. In the event of termination of the agreement, the CEO will receive severance equal to one month's current salary for each full year of employment with the Foundation, not to exceed an amount equal to six month's salary. Additionally, the CEO will receive six months of health insurance benefits at the existing coverage levels.

CENTRAL SUSQUEHANNA COMMUNITY FOUNDATION

NOTES TO FINANCIAL STATEMENTS

YEARS ENDED DECEMBER 31, 2015 AND 2014

The Foundation is liable for any excess liability resulting from claims against the Berwick Healthcare Corporation (Corporation), not to exceed the amount originally transferred to the Foundation. One workers' compensation claim is pending and, during 2007, the Corporation transferred the remaining funds to the Foundation. As of December 31, 2014, the Foundation paid \$36,394, to the third-party insurance trust that was handling the claim for expenses. In September 2015, the Foundation became the administrator and began handling the Corporation's claims. As of December 31, 2015, the Foundation paid \$31,379 for claims and related expenses. The Corporation and now the Foundation have attempted to settle the claim to no avail. The Foundation cannot determine the potential liability and will continue to remit amounts to the third-party insurance trust as funds are needed. The Foundation will continue to record these amounts as expenses are incurred. The Foundation receives periodic reimbursement from an insurance carrier for a portion of the expenses and records the revenue when received.

The Foundation is not aware of any material pending claims against the Corporation. In the opinion of the Board of Directors of the Foundation, the Foundation's liability will not materially affect its financial position.

10. TRANSFER OF ASSETS FROM A COMMUNITY FOUNDATION

During the year ended December 31, 2014, the Foundation received certain assets, totaling \$3,838,909 from another community foundation, subject to certain terms and conditions with notification of donors, approval by the Court of Common Pleas Orphan's Court Division for Lycoming and Montour counties, and approval by the Office of the Attorney General under a "Letter of No Objection". The transferred assets consisted of endowment funds of \$2,934,643, agency endowment funds of \$901,685, and a charitable gift annuity of \$2,581.

11. POTENTIAL DISSOLUTION OF SELINGROVE FOUNDATION

In January 2015, the Selingsrove Foundation's Board of Directors approved the dissolution of the Selingsrove Foundation and the transfer of the Selingsrove Foundation assets to the Foundation. In October 2015, the Board adopted a Plan of Dissolution and Liquidation. The dissolution requires the approval of the Court of Common Pleas before the transfer of assets can be finalized.

**Central Susquehanna
Community Foundation**

Independent Auditor's Report in
Accordance with *Government Auditing
Standards*

Year Ended December 31, 2015

Independent Auditor's Report on Internal Control over Financial Reporting and on Compliance and Other Matters Based on an Audit of Financial Statements Performed in Accordance with *Government Auditing Standards*

Board of Directors
Central Susquehanna Community Foundation

We have audited, in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States, the financial statements of the Central Susquehanna Community Foundation (Foundation), which comprise the statement of financial position as of December 31, 2015, and the related statements of activities, functional expenses, and cash flows for the year then ended, and the related notes to the financial statements, and have issued our report thereon dated June 9, 2016.

Internal Control over Financial Reporting

In planning and performing our audit of the financial statements, we considered the Foundation's internal control over financial reporting (internal control) to determine the audit procedures that are appropriate in the circumstances for the purpose of expressing our opinion on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the Foundation's internal control. Accordingly, we do not express an opinion on the effectiveness of the Foundation's internal control.

A deficiency in internal control exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct, misstatements on a timely basis. A material weakness is a deficiency, or a combination of deficiencies, in internal control, such that there is a reasonable possibility that a material misstatement of the entity's financial statements will not be prevented, or detected and corrected on a timely basis. A significant deficiency is a deficiency, or a combination of deficiencies, in internal control that is less severe than a material weakness, yet important enough to merit attention by those charged with governance.

Our consideration of internal control was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control that might be material weaknesses or significant deficiencies. Given these limitations, during our audit we did not identify any deficiencies in internal control that we consider to be material weaknesses. However, material weaknesses may exist that have not been identified.

Board of Directors
Central Susquehanna Community Foundation
Independent Auditor's Report on Internal Control over
Financial Reporting and on Compliance and Other Matters

Compliance and Other Matters

As part of obtaining reasonable assurance about whether the Foundation's financial statements are free from material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit and, accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards*.

Purpose of this Report

The purpose of this report is solely to describe the scope of our testing of internal control and compliance and the results of that testing, and not to provide an opinion on the effectiveness of the Foundation's internal control or on compliance. This report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the Foundation's internal control and compliance. Accordingly, this communication is not suitable for any other purpose.

Mahe Duessel

Harrisburg, Pennsylvania
June 9, 2016

**CENTRAL SUSQUEHANNA
COMMUNITY FOUNDATION**

SCHEDULE OF FINDINGS AND RESPONSES

YEAR ENDED DECEMBER 31, 2015

None