Central Susquehanna Community Foundation

Financial Statements

Years Ended December 31, 2013 and 2012 with
Independent Auditor's Reports

MaherDuessel
Certified Public Accountants

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CENTRAL SUSQUEHANNA COMMUNITY FOUNDATION

YEARS ENDED DECEMBER 31, 2013 AND 2012

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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, 2013 and 2012, 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, 2013 and 2012, 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 May 28, 2014, 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
May 28, 2014

CENTRAL SUSQUEHANNA COMMUNITY FOUNDATION

STATEMENTS OF FINANCIAL POSITION

DECEMBER 31, 2013 AND 2012

Assets	2013	2012 (Restated)
Current assets:		
Cash and cash equivalents	$ 505,798	$ 470,720
Pledges receivable	22,970	-
Accrued interest receivable	45,633	46,543
Prepaid expenses	6,474	9,711
Total current assets	580,875	526,974
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	63,741	63,741
Less: accumulated depreciation	(316,054)	(263,775)
Land, buildings, and equipment, net	1,561,668	1,613,947
Investments	41,718,182	35,515,824
Beneficial interest in charitable remainder trust	13,698	14,444
Beneficial interest in perpetual trusts held by others	361,088	345,104
Total noncurrent assets	43,654,636	37,489,319
Total Assets	$ 44,235,511	$ 38,016,293

(Continued)

	2013	2012 (Restated)
Liabilities and Net Assets		
Liabilities:		
Current liabilities:		
Accounts payable	$ 5,770	$ 9,335
Accrued expenses	7,097	601
Grants payable	988,229	1,122,161
Current portion of note payable	46,103	43,968
Total current liabilities	1,047,199	1,176,065
Noncurrent liabilities:		
Grants payable, net of current portion	112,000	332,000
Note payable, net of current portion	978,352	1,023,625
Funds held as agency endowments	8,017,019	5,907,295
Total noncurrent liabilities	9,107,371	7,262,920
Total Liabilities	10,154,570	8,438,985
Net Assets:		
Unrestricted	33,706,155	29,217,760
Temporarily restricted	13,698	14,444
Permanently restricted	361,088	345,104
Total Net Assets	34,080,941	29,577,308
Total Liabilities and Net Assets	$ 44,235,511	$ 38,016,293

(Concluded)

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

CENTRAL SUSQUEHANNA COMMUNITY FOUNDATION

STATEMENT OF ACTIVITIES

YEAR ENDED DECEMBER 31, 2013

	Unrestricted	Temporarily Restricted	Permanently Restricted	Total
Revenues and Other Support:				
Contributions	$ 467,290	$ -	$ -	$ 467,290
Grant revenue	523,002	-	-	523,002
Medical Assistance revenue	58,751	-	-	58,751
Trust income	13,137	-	-	13,137
Interest and dividends	534,277	-	-	534,277
Realized and unrealized gain on investments	5,024,749	-	-	5,024,749
Change in value of charitable remainder trust	-	(746)	-	(746)
Gain on beneficial interest in perpetual trusts held by others	-	-	15,984	15,984
Other income	92,610	-	-	92,610
Total revenues and other support	6,713,816	(746)	15,984	6,729,054
Expenses:				
Program expenses	1,557,455	-	-	1,557,455
Development	262,114	-	-	262,114
Administrative expenses	405,852	-	-	405,852
Total expenses	2,225,421	-	-	2,225,421
Change in Net Assets	4,488,395	(746)	15,984	4,503,633
Net Assets:				
Beginning of year	29,217,760	14,444	345,104	29,577,308
End of year	$ 33,706,155	$ 13,698	$ 361,088	$ 34,080,941

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

CENTRAL SUSQUEHANNA
COMMUNITY FOUNDATION

STATEMENT OF ACTIVITIES

YEAR ENDED DECEMBER 31, 2012

	Unrestricted (Restated)	Temporarily Restricted	Permanently Restricted	Total (Restated)
Revenues and Other Support:				
Contributions	$ 252,962	$ -	$ -	$ 252,962
Grant revenue	501,371	-	-	501,371
Medical Assistance revenue	87,164	-	-	87,164
Trust income	15,267	-	-	15,267
Interest and dividends	750,624	-	-	750,624
Realized and unrealized gain on investments	2,675,515	-	-	2,675,515
Change in value of charitable remainder trust	-	203	-	203
Gain on beneficial interest in perpetual trusts	-	-	16,929	16,929
Other income	98,218	-	-	98,218
Total revenues and other support	4,381,121	203	16,929	4,398,253
Expenses:				
Program expenses	2,501,005	-	-	2,501,005
Development	100,264	-	-	100,264
Administrative expenses	514,300	-	-	514,300
Total expenses	3,115,569	-	-	3,115,569
Change in Net Assets	1,265,552	203	16,929	1,282,684
Net Assets:				
Beginning of year	27,952,208	14,241	328,175	28,294,624
End of year	$ 29,217,760	$ 14,444	$ 345,104	$ 29,577,308

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

CENTRAL SUSQUEHANNA
COMMUNITY FOUNDATION

STATEMENT OF FUNCTIONAL EXPENSES

YEAR ENDED DECEMBER 31, 2013

	Program Expenses	Development	Administrative Expenses	Total
Expenses:				
Board development	$ 1,454	$ 1,632	$ 1,365	$ 4,451
Community events	919	1,032	863	2,814
Dues and subscriptions	1,889	2,120	1,774	5,783
Employee benefits	30,042	33,721	28,205	91,968
Grants	1,323,936	-	-	1,323,936
Insurance	6,920	7,768	6,497	21,185
Interest expense	16,487	18,505	15,478	50,470
Investment fees	-	-	169,150	169,150
Marketing expense	10,244	11,498	9,617	31,359
Meeting supplies	2,384	2,675	2,238	7,297
Miscellaneous	157	176	147	480
Office expenses	8,372	9,398	7,860	25,630
Printing	1,132	1,270	1,062	3,464
Professional fees	17,025	19,109	15,983	52,117
Repairs and maintenance	7,090	7,959	6,657	21,706
Salaries and wages	106,085	119,075	99,596	324,756
Telephone	1,745	1,959	1,639	5,343
Travel	900	1,011	845	2,756
Utilities	3,597	4,037	3,376	11,010
Workers' compensation claim	-	-	17,467	17,467
Depreciation expense	17,077	19,169	16,033	52,279
Total expenses	$ 1,557,455	$ 262,114	$ 405,852	$ 2,225,421

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

CENTRAL SUSQUEHANNA
COMMUNITY FOUNDATION

STATEMENT OF FUNCTIONAL EXPENSES

YEAR ENDED DECEMBER 31, 2012

	Program Expenses	Development	Administrative Expenses	Total
Expenses:				
Board development	$ 372	$ 120	$ 372	$ 864
Community events	1,265	413	1,265	2,943
Dues and subscriptions	3,890	1,266	3,890	9,046
Employee benefits	41,711	13,580	41,711	97,002
Grants	2,193,045	-	-	2,193,045
Insurance	9,115	2,967	9,115	21,197
Interest expense	22,635	7,369	22,635	52,639
Investment fees	-	-	169,785	169,785
Marketing expense	14,342	4,669	14,342	33,353
Meeting supplies	1,361	443	1,361	3,165
Miscellaneous	6,968	2,268	6,968	16,204
Office expenses	7,534	2,453	7,534	17,521
Printing	1,259	411	1,259	2,929
Professional fees	29,975	9,760	29,975	69,710
Repairs and maintenance	5,654	1,840	5,654	13,148
Salaries and wages	128,206	41,741	128,206	298,153
Telephone	3,056	996	3,056	7,108
Travel	2,637	858	2,637	6,132
Utilities	5,199	1,692	5,199	12,090
Workers' compensation claim	-	-	36,555	36,555
Depreciation expense	22,781	7,418	22,781	52,980
Total expenses	$ 2,501,005	$ 100,264	$ 514,300	$ 3,115,569

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

CENTRAL SUSQUEHANNA COMMUNITY FOUNDATION

STATEMENTS OF CASH FLOWS

YEARS ENDED DECEMBER 31, 2013 AND 2012

	2013	2012 (Restated)
Cash Flows From Operating Activities:		
Change in net assets	$ 4,503,633	$ 1,282,684
Adjustments to reconcile change in net assets to net cash provided by (used in) operating activities:		
Net realized and unrealized gain on investments	(6,169,539)	(3,167,447)
Net change in beneficial interest in charitable remainder trust	746	(203)
Net change in beneficial interest in perpetual trusts held by others	(15,984)	(16,929)
Depreciation expense	52,279	52,980
(Increase) decrease in:		
Accrued interest receivable	910	(45,360)
Pledges receivable	(22,970)	-
Prepaid expenses	3,237	(9,711)
Increase (decrease) in:		
Accounts payable	(3,565)	(2,333)
Accrued expenses	6,496	504
Grants payable	(353,932)	256,379
Funds held as agency endowments	2,109,724	889,180
Net cash provided by (used in) operating activities	111,035	(760,256)
Cash Flows From Investing Activities:		
Proceeds from the sale of investments	11,156,234	18,321,804
Purchases of investments	(11,189,053)	(18,209,224)
Net cash provided by (used in) investing activities	(32,819)	112,580
Cash Flows From Financing Activities:		
Repayments on note payable	(43,138)	(40,970)
Net cash used in financing activities	(43,138)	(40,970)
Net Increase (Decrease) in Cash and Cash Equivalents	35,078	(688,646)
Cash and Cash Equivalents:		
Beginning of year	470,720	1,159,366
End of year	$ 505,798	$ 470,720
Supplemental Disclosure of Cash Flow Information:		
Cash paid during the year for interest	$ 50,470	$ 52,639

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

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 53 agency endowment funds and 68 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 non-profit 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. The filed Forms 990 are subject to examination by the Internal Revenue Service generally for three years after they are filed.

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.

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 on investments presented in the statements of cash flows for the years ended December 31, 2013 and 2012 is reported in the financial statements as follows:

	2013	2012
Net realized and unrealized gain	$ 5,024,749	$ 2,675,515
Attributable to assets held in agency endowment funds	1,144,790	491,932
	$ 6,169,539	$ 3,167,447

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.

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, certain mutual funds, and certificates of deposit.

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 contributions due from charitable trusts, beneficial interest in perpetual trusts, and hedge funds. When observable prices are not available for these 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 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 market 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, 2013 and 2012, depreciation expense was $52,279 and $52,980, respectively.

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 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. The value of such contributions by the volunteers is not reflected in these statements, since it is not susceptible to objective measurement or valuation.

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 not-for-profit organizations for the purpose of establishing an endowment for the benefit of the not-for-profit 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 not-for-profit.

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.

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% - 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, and 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 5% of a 12-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. ***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, 2013 had a book value and bank balance of $505,798 and $498,223, respectively. Cash and cash equivalents at December 31, 2012 had a book value and bank balance of $470,720 and $487,109, respectively. Deposits held in financial institutions are insured up to $250,000 by the Federal Deposit Insurance Corporation (FDIC). At various times during the years ended December 31, 2013 and 2012, 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, 2013 and 2012:

	2013			
	Level	Fair Value	Cost	Unrealized Appreciation (Depreciation)
Money market funds	1	$ 2,540,095	$ 2,540,095	$ -
Common stock:				
Basic materials	1	617,137	430,454	186,683
Capital goods	1	219,388	161,350	58,038
Communication services	1	163,049	123,762	39,287
Consumer cyclicals	1	64,970	50,407	14,563
Consumer discretionary	1	1,561,689	912,133	649,556
Consumer staples	1	897,927	695,895	202,032
Energy	1	797,340	437,346	359,994
Financials	1	1,846,693	1,283,595	563,098
Healthcare	1	1,121,751	749,034	372,717
Industrials	1	1,522,845	903,465	619,380
Other	1	53,000	41,138	11,862
Services	1	31,476	27,120	4,356
Technology	1	2,402,975	1,609,334	793,641
Utilities	1	100,119	110,532	(10,413)
Equity mutual funds:				
Large cap funds	1	9,548,723	6,963,316	2,585,407
International developed	1	4,549,579	3,297,304	1,252,275
Emerging markets	1	1,397,934	1,340,225	57,709
Equity REITs	1	645,340	642,748	2,592
Other	1	1,390,273	1,379,873	10,400
Fixed income mutual funds:				
Domestic bond market	1	3,316,359	3,490,160	(173,801)
Taxable pooled	1	1,464,044	1,438,514	25,530
High yield pooled	1	628,750	500,000	128,750
Debt securities:				
Corporate bonds	2	2,177,249	2,040,138	137,111
U.S. Treasury	1	1,515,125	1,549,031	(33,906)
U.S. Agency obligation	1	646,692	609,001	37,691
Foreign bonds	1	205,855	213,085	(7,230)
Municipal bonds	2	291,805	303,964	(12,159)
		$ 41,718,182	$ 33,843,019	$ 7,875,163
Beneficial interest in:				
Charitable remainder trust	3	$ 13,698		
Perpetual trusts	3	$ 361,088		

	2012			
	Level	Fair Value	Cost	Unrealized Appreciation (Depreciation)
Certificate of deposit	1	$ 209,592	$ 209,592	$ -
Money market funds	1	974,840	974,840	-
Common stock:				
Basic materials	1	669,615	594,427	75,188
Capital goods	1	193,632	180,752	12,880
Communication services	1	165,544	151,135	14,409
Consumer cyclicals	1	76,620	71,032	5,588
Consumer discretionary	1	1,058,022	739,086	318,936
Consumer staples	1	725,656	605,665	119,991
Energy	1	706,310	551,397	154,913
Financials	1	1,267,660	1,095,457	172,203
Healthcare	1	891,053	713,795	177,258
Industrials	1	1,247,989	981,080	266,909
Other	1	96,738	48,314	48,424
Technology	1	1,618,738	1,347,115	271,623
Utilities	1	214,347	261,060	(46,713)
Equity mutual funds:				
Large cap funds	1	3,366,857	2,849,571	517,286
International developed	1	4,502,293	4,028,688	473,605
Emerging markets	1	1,023,856	993,492	30,364
Equity REITs	1	520,589	484,146	36,443
Other	1	5,978,840	5,891,298	87,542
Fixed income mutual funds:				
Domestic bond market	1	3,461,252	3,490,160	(28,908)
Taxable pooled	1	1,025,992	937,646	88,346
High yield pooled	1	496,278	484,696	11,582
Debt securities:				
Corporate bonds	2	2,785,616	2,546,099	239,517
U.S. Treasury	1	1,327,239	1,321,890	5,349
U.S. Agency obligations	1	753,893	689,690	64,203
Municipal bonds	2	156,763	152,803	3,960
		$ 35,515,824	$ 32,394,926	$ 3,120,898
Beneficial interest in:				
Charitable remainder trust	3	$ 14,444		
Perpetual trusts	3	$ 345,104		

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.

Fair Value of Financial Instruments

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

Beneficial Interest in Perpetual Trusts

The Foundation is the beneficiary of several perpetual 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 and government debt securities, equity securities and equity mutual funds, fixed income mutual funds, complementary strategies, and real asset funds. 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, 2013	Contributions/ Purchases	Withdrawals/ Redemptions/ Payments	Change in Value	Balance as of December 31, 2013
Charitable remainder trust	$ 14,444	$ -	$ -	$ (746)	$ 13,698
Perpetual trusts	345,104	-	-	15,984	361,088
	$ 359,548	$ -	$ -	$ 15,238	$ 374,786

	Balance as of January 1, 2012	Contributions/ Purchases	Withdrawals/ Redemptions/ Payments	Change in Value	Balance as of December 31, 2012
Hedge fund	$ 732,763	$ -	$ (762,985)	$ 30,222	$ -
Charitable remainder trust	14,241	-	-	203	14,444
Perpetual trusts	328,175	-	-	16,929	345,104
	$ 1,075,179	$ -	$ (762,985)	$ 47,354	$ 359,548

4. Beneficial Interest in Perpetual Trusts Held by Others

The Foundation is a beneficiary of three 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 and temporarily restricted net assets. Distributions for the trusts for the years ended December 31, 2013 and 2012 were $13,137 and $15,267, respectively. The Foundation's estimated beneficial interest in these perpetual trusts as of December 31, 2013 and 2012 is $361,088 and $345,104, 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, 2013 and 2012, as the one-year rate was less than 1%.

Total cash flow requirements in subsequent years are as follows:

	December 31, 2013	December 31, 2012
2013	$ -	$ 1,122,161
2014	988,229	230,000
2015	62,000	52,000
2016	50,000	50,000
Total	$ 1,100,229	$ 1,454,161

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 the bank. Principal and interest payments of $7,801 are due monthly, with final payment due by September 2024.

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

2014	$ 46,103
2015	48,341
2016	50,688
2017	53,149
2018	55,729
2019-2023	321,951
2024	448,494
	$ 1,024,455

Interest expense for the years ended December 31, 2013 and 2012 was $50,470 and $52,639, 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, 2013 and 2012, the Foundation has recorded $8,017,019 and $5,907,295, respectively, in investments and funds held as agency endowments for these organizations.

8. RESTRICTIONS ON NET ASSETS

At December 31, 2013 and 2012, unrestricted net assets consist of approximately $33,717,300 and $29,216,400, respectively, in endowment funds. Additionally, at December 31, 2013 and 2012, ($11,032) and $1,470, 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.

At December 31, 2013 and 2012, temporarily restricted net assets consist of a beneficial interest in a charitable remainder trust subject to time restrictions totaling $13,698 and $14,444, respectively.

At December 31, 2013 and 2012, permanently restricted net assets consist of $361,088 and $345,104, 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:

	2013 Total Unrestricted Net Assets	2012 Total Unrestricted Net Assets
		(Restated)
Endowment funds with variance power - beginning of year	$ 29,216,400	$ 27,910,700
Contributions	467,300	253,000
Grant revenue	523,000	501,400
Medical assistance	58,800	87,200
Trust income	13,100	15,300
Other income	92,600	98,200
Investment income	5,559,100	3,426,100
Expenses	(2,213,000)	(3,075,500)
Endowment funds with variance power - end of year	$ 33,717,300	$ 29,216,400

9. Contingencies

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, 2013 and 2012, the Foundation paid $17,467 and $36,555, respectively, to the third-party insurance trust that is handling the claim for 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. Subsequent Event

During the years ended December 31, 2013 and 2012, the Foundation worked with First Community Foundation Partnership of Pennsylvania (FCFPA) and the Danville Area Community Foundation (DACF) to complete and sign an agreement that would transfer 50 DACF funds with an approximate value of $4 million from FCFPA to the Foundation. In early 2013, the Office of the Attorney General issued a "Letter of No Objection" approving the transfer of the funds. During January 2014, approximately $3.75 million of funds were transferred to the Foundation. The approximate value of the remaining funds to be transferred to the Foundation is $150,000.

11. Restatement of Unrestricted Net Assets

At December 31, 2012, the Foundation reported a contribution of $372,726 as unrestricted net assets. However, during the year ended December 31, 2013, it was determined that the contribution was associated with a fund that was to be held as an agency endowment and, as such, the contribution should have been reported as a liability on the statement of financial position. The change in net assets for the year ended December 31, 2012 and ending unrestricted net assets as of December 31, 2012 have been restated by $372,276. Funds held as agency endowment as of December 31, 2012 has been restated to include the $372,726.

Central Susquehanna Community Foundation

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

Year Ended December 31, 2013

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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, 2013, 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 May 28, 2014.

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.

Our consideration of internal control was for the limited purpose described in the preceding paragraph and was not designed to identify all deficiencies in internal control that might be material weaknesses or significant deficiencies and, therefore, material weaknesses or significant deficiencies may exist that were not identified. However, as described in the accompanying schedule of findings and questioned costs, we identified a certain deficiency in internal control that we consider to be a material weakness.

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. We consider the deficiency described in the accompanying schedule of findings and responses as Finding 2013-01 to be a material weakness.

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.*

Foundation's Response to Finding

The Foundation's response to the finding identified in our audit is described in the accompanying schedule of findings and responses. The Foundation's response was not subjected to the auditing procedures applied in the audit of the financial statements and, accordingly, we express no opinion on it.

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.

Maher Duessel

Harrisburg, Pennsylvania
May 28, 2014

Material Weakness

Finding 2013-01: Reporting Agency Endowment Funds

Statement of Condition: During the year ended December 31, 2012, the Central Susquehanna Community Foundation (Foundation) received a $372,726 contribution from a non-profit organization, to be placed in an agency endowment fund. The non-profit specified itself as the beneficiary. Accounting standards state that if a resource provider specifies itself as the beneficiary and, therefore, retains a future economic benefit in the transferred assets, the transfer is considered a reciprocal transaction. As such, the transfer of assets should be reported as an asset and liability by the recipient organization, the Foundation, and not as contribution revenue.

Criteria: Contributions to agency endowment funds, where the resource provider specifies itself as the beneficiary, should be recorded in the general ledger of the recipient organization as an asset and a liability.

Effect of Condition: Ending net assets and contribution revenue as of and for the year ended December 31, 2012 were overstated.

Cause of Condition: Procedures to ensure that contributions made to agency endowment funds were properly recorded were not followed.

Recommendation: We recommend that the Foundation complete its internal checklist to ensure that revenue recognition criteria have been met prior to recording the revenue and to distinguish between a contribution and an agency transaction.

Views of responsible officials: The Foundation will review all funds and related cash receipts to ensure that the revenue recognition criteria have been met prior to recording the revenue and to distinguish between a contribution and an agency transaction.