

**Central Susquehanna
Community Foundation**

Financial Statements

Years Ended December 31, 2012 and 2011 with
Independent Auditor's Reports

CENTRAL SUSQUEHANNA COMMUNITY FOUNDATION

YEARS ENDED DECEMBER 31, 2012 AND 2011

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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 Central Susquehanna Community Foundation (Foundation), which comprise the statements of financial position as of December 31, 2012 and 2011, 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, 2012 and 2011, 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 7, 2013, 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.

Mahe Duessel

Harrisburg, Pennsylvania
June 7, 2013

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CENTRAL SUSQUEHANNA COMMUNITY FOUNDATION

STATEMENTS OF FINANCIAL POSITION

DECEMBER 31, 2012 AND 2011

<u>Assets</u>	<u>2012</u>	<u>2011</u>
Current assets:		
Cash and cash equivalents	\$ 470,720	\$ 1,159,366
Accrued interest receivable	46,543	1,183
Prepaid expenses	9,711	-
Total current assets	<u>526,974</u>	<u>1,160,549</u>
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	<u>(263,775)</u>	<u>(210,794)</u>
Land, buildings, and equipment, net	1,613,947	1,666,928
Investments	35,515,824	32,460,956
Beneficial interest in charitable remainder trust	14,444	14,241
Beneficial interest in perpetual trusts held by others	<u>345,104</u>	<u>328,175</u>
Total noncurrent assets	<u>37,489,319</u>	<u>34,470,300</u>
Total Assets	<u>\$ 38,016,293</u>	<u>\$ 35,630,849</u>

(Continued)

	2012	2011
Liabilities and Net Assets		
Liabilities:		
Current liabilities:		
Accounts payable	\$ 9,335	\$ 11,668
Accrued expenses	601	97
Grants payable	1,122,161	956,782
Current portion of note payable	43,968	41,933
Total current liabilities	1,176,065	1,010,480
Noncurrent liabilities:		
Grants payable, net of current portion	332,000	241,000
Note payable, net of current portion	1,023,625	1,066,630
Funds held as agency endowments	5,534,569	5,018,115
Total noncurrent liabilities	6,890,194	6,325,745
Total Liabilities	8,066,259	7,336,225
Net Assets:		
Unrestricted	29,590,486	27,952,208
Temporarily restricted	14,444	14,241
Permanently restricted	345,104	328,175
Total Net Assets	29,950,034	28,294,624
Total Liabilities and Net Assets	\$ 38,016,293	\$ 35,630,849
		(Concluded)

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

CENTRAL SUSQUEHANNA COMMUNITY FOUNDATION

STATEMENT OF ACTIVITIES

YEAR ENDED DECEMBER 31, 2012

	Unrestricted	Temporarily Restricted	Permanently Restricted	Total
Revenues and Other Support:				
Contributions	\$ 625,688	\$ -	\$ -	\$ 625,688
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 held by others	-	-	16,929	16,929
Other income	98,218	-	-	98,218
Total revenues and other support	<u>4,753,847</u>	<u>203</u>	<u>16,929</u>	<u>4,770,979</u>
Expenses:				
Program expenses	2,501,005	-	-	2,501,005
Development	100,264	-	-	100,264
Fund management	391,800	-	-	391,800
Administrative expenses	122,500	-	-	122,500
Total expenses	<u>3,115,569</u>	<u>-</u>	<u>-</u>	<u>3,115,569</u>
Change in Net Assets	1,638,278	203	16,929	1,655,410
Net Assets:				
Beginning of year	<u>27,952,208</u>	<u>14,241</u>	<u>328,175</u>	<u>28,294,624</u>
End of year	<u>\$29,590,486</u>	<u>\$ 14,444</u>	<u>\$ 345,104</u>	<u>\$29,950,034</u>

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

CENTRAL SUSQUEHANNA COMMUNITY FOUNDATION

STATEMENT OF ACTIVITIES

YEAR ENDED DECEMBER 31, 2011

	Unrestricted	Temporarily Restricted	Permanently Restricted	Total
Revenues and Other Support:				
Contributions	\$ 564,666	\$ -	\$ -	\$ 564,666
Grant revenue	403,652	-	-	403,652
Medical Assistance revenue	95,557	-	-	95,557
Trust income	14,944	-	-	14,944
Interest and dividends	722,886	-	-	722,886
Realized and unrealized loss on investments	(402,997)	-	-	(402,997)
Change in value of charitable remainder trust	-	390	-	390
Loss on beneficial interest in perpetual trusts	-	-	(15,688)	(15,688)
Auxiliary loss, net	(9,874)	-	-	(9,874)
Other income	115,672	-	-	115,672
Total revenues and other support	1,504,506	390	(15,688)	1,489,208
Expenses:				
Program expenses	1,523,734	-	-	1,523,734
Development	91,911	-	-	91,911
Fund management	374,159	-	-	374,159
Administrative expenses	119,620	-	-	119,620
Total expenses	2,109,424	-	-	2,109,424
Net income (loss) before extraordinary item	(604,918)	390	(15,688)	(620,216)
Extraordinary Item:				
Settlement of perpetual trust	-	-	(743,642)	(743,642)
Change in Net Assets	(604,918)	390	(759,330)	(1,363,858)
Net Assets:				
Beginning of year	28,557,126	13,851	1,087,505	29,658,482
End of year	\$27,952,208	\$ 14,241	\$ 328,175	\$28,294,624

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	Fund Management	Administrative Expenses	Total
Expenses:					
Board development	\$ 372	\$ 120	\$ 268	\$ 104	\$ 864
Community events	1,265	413	912	353	2,943
Dues and subscriptions	3,890	1,266	2,804	1,086	9,046
Employee benefits	41,711	13,580	30,071	11,640	97,002
Grants	2,193,045	-	-	-	2,193,045
Insurance	9,115	2,967	6,571	2,544	21,197
Interest expense	22,635	7,369	16,318	6,317	52,639
Investment fees	-	-	169,785	-	169,785
Marketing expense	14,342	4,669	10,339	4,003	33,353
Meeting supplies	1,361	443	981	380	3,165
Miscellaneous	6,968	2,268	5,023	1,945	16,204
Office expenses	7,534	2,453	5,432	2,102	17,521
Printing	1,259	411	908	351	2,929
Professional fees	29,975	9,760	21,610	8,365	69,710
Repairs and maintenance	5,654	1,840	4,076	1,578	13,148
Salaries and wages	128,206	41,741	92,427	35,779	298,153
Telephone	3,056	996	2,203	853	7,108
Travel	2,637	858	1,901	736	6,132
Utilities	5,199	1,692	3,748	1,451	12,090
Workers' compensation claim	-	-	-	36,555	36,555
Depreciation expense	22,781	7,418	16,423	6,358	52,980
Total expenses	\$ 2,501,005	\$ 100,264	\$ 391,800	\$ 122,500	\$ 3,115,569

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

CENTRAL SUSQUEHANNA COMMUNITY FOUNDATION

STATEMENT OF FUNCTIONAL EXPENSES

YEAR ENDED DECEMBER 31, 2011

	Program Expenses	Development	Fund Management	Administrative Expenses	Total
Expenses:					
Board development	\$ 1,307	\$ 425	\$ 942	\$ 365	\$ 3,039
Community events	1,150	374	829	321	2,674
Dues and subscriptions	4,020	1,308	2,898	1,122	9,348
Employee benefits	42,538	13,850	30,667	11,871	98,926
Grants	1,241,421	-	-	-	1,241,421
Insurance	8,907	2,900	6,421	2,486	20,714
Interest expense	23,400	7,619	16,870	6,530	54,419
Investment fees	-	-	170,631	-	170,631
Marketing expense	11,054	3,600	7,969	3,085	25,708
Meeting supplies	2,011	654	1,450	561	4,676
Miscellaneous	1,459	475	1,052	407	3,393
Office expenses	6,675	2,172	4,812	1,863	15,522
Printing	43	14	31	12	100
Professional fees	20,866	6,794	15,043	5,823	48,526
Repairs and maintenance	11,421	3,718	8,234	3,187	26,560
Salaries and wages	114,660	37,330	82,662	31,998	266,650
Telephone	2,888	941	2,082	806	6,717
Travel	1,501	487	1,082	419	3,489
Utilities	5,837	1,900	4,208	1,629	13,574
Workers' compensation claim	-	-	-	40,835	40,835
Depreciation expense	22,576	7,350	16,276	6,300	52,502
Total expenses	\$ 1,523,734	\$ 91,911	\$ 374,159	\$ 119,620	\$ 2,109,424

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

CENTRAL SUSQUEHANNA COMMUNITY FOUNDATION

STATEMENTS OF CASH FLOWS

YEARS ENDED DECEMBER 31, 2012 AND 2011

	2012	2011
Cash Flows From Operating Activities:		
Change in net assets	\$ 1,655,410	\$ (1,363,858)
Adjustments to reconcile change in net assets to net cash used in operating activities:		
Gain on disposal of fixed asset	-	(2,873)
Net realized and unrealized (gain) loss on investments	(3,167,447)	482,991
Net change in beneficial interest in charitable remainder trust	(203)	(390)
Net change in beneficial interest in perpetual trusts held by others	(16,929)	15,688
Settlement of perpetual trust	-	743,642
Donated investments	-	(23,129)
Depreciation expense	52,980	52,502
(Increase) decrease in:		
Accrued interest receivable	(45,360)	17,974
Prepaid expenses	(9,711)	-
Increase (decrease) in:		
Accounts payable	(2,333)	3,185
Accrued expenses	504	(76)
Grants payable	256,379	(156,847)
Funds held as agency endowments	516,454	191,642
Net cash used in operating activities	<u>(760,256)</u>	<u>(39,549)</u>
Cash Flows From Investing Activities:		
Proceeds from the sale of investments	18,321,804	16,109,036
Purchases of investments	(18,209,224)	(15,589,904)
Proceeds from the disposal of a fixed asset	-	17,570
Net cash provided by investing activities	<u>112,580</u>	<u>536,702</u>
Cash Flows From Financing Activities:		
Repayments on note payable	(40,970)	(39,190)
Gift annuity payments	-	(578)
Net cash used in financing activities	<u>(40,970)</u>	<u>(39,768)</u>
Net (Decrease) Increase in Cash and Cash Equivalents	<u>(688,646)</u>	<u>457,385</u>
Cash and Cash Equivalents:		
Beginning of year	1,159,366	701,981
End of year	<u>\$ 470,720</u>	<u>\$ 1,159,366</u>
Supplemental Disclosure of Cash Flow Information:		
Cash paid during the year for interest	<u>\$ 52,639</u>	<u>\$ 54,419</u>

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

CENTRAL SUSQUEHANNA COMMUNITY FOUNDATION

NOTES TO FINANCIAL STATEMENTS

YEAR ENDED DECEMBER 31, 2012 AND 2011

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 17 agency endowment funds and 86 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.

CENTRAL SUSQUEHANNA COMMUNITY FOUNDATION

NOTES TO FINANCIAL STATEMENTS

YEAR ENDED DECEMBER 31, 2012 AND 2011

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 (loss) on investments presented in the statements of cash flows for the years ended December 31, 2012 and 2011 is reported in the financial statements as follows:

	2012	2011
Net realized and unrealized gain (loss)	\$ 2,675,515	\$ (402,997)
Attributable to assets held in agency endowment funds	491,932	(79,994)
	<u>\$ 3,167,447</u>	<u>\$ (482,991)</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

YEAR ENDED DECEMBER 31, 2012 AND 2011

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 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

CENTRAL SUSQUEHANNA COMMUNITY FOUNDATION

NOTES TO FINANCIAL STATEMENTS

YEAR ENDED DECEMBER 31, 2012 AND 2011

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, 2012 and 2011, depreciation expense was \$52,980 and \$52,502, respectively.

CENTRAL SUSQUEHANNA COMMUNITY FOUNDATION

NOTES TO FINANCIAL STATEMENTS

YEAR ENDED DECEMBER 31, 2012 AND 2011

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.

CENTRAL SUSQUEHANNA COMMUNITY FOUNDATION

NOTES TO FINANCIAL STATEMENTS

YEAR ENDED DECEMBER 31, 2012 AND 2011

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 not-for-profit organizations with endowed agency 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.

CENTRAL SUSQUEHANNA COMMUNITY FOUNDATION

NOTES TO FINANCIAL STATEMENTS

YEAR ENDED DECEMBER 31, 2012 AND 2011

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 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 30% to 90% in equity securities, 20% - 30% in fixed income securities, 5% to 15% 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 32% of the S&P 500, 8% of the Russell 2000, 14% of the Europe, Australasia, and Far East index (EAFE), 35% of the Barclays Capital Aggregate Bond Index, and 10% of the 90-day U.S. Treasury Bill 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 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. *Reclassification*

Certain reclassifications have been made to the prior year financial statements in order for them to be in conformity with 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.

CENTRAL SUSQUEHANNA COMMUNITY FOUNDATION

NOTES TO FINANCIAL STATEMENTS

YEAR ENDED DECEMBER 31, 2012 AND 2011

2. DEPOSITS

Cash and cash equivalents at December 31, 2012 had a book value and bank balance of \$470,720 and \$487,109, respectively. Cash and cash equivalents at December 31, 2011 had a book value and bank balance of \$1,159,366 and \$1,346,674, 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, 2012 and 2011, the Foundation had cash balances in excess of the federally insured limit.

CENTRAL SUSQUEHANNA COMMUNITY FOUNDATION

NOTES TO FINANCIAL STATEMENTS

YEAR ENDED DECEMBER 31, 2012 AND 2011

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, 2012 and 2011:

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 cyclical	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
		<u>\$ 35,515,824</u>	<u>\$ 32,394,926</u>	<u>\$ 3,120,898</u>
Beneficial interest in:				
Charitable remainder trust	3	\$ 14,444		
Perpetual trusts	3	<u>\$ 345,104</u>		

CENTRAL SUSQUEHANNA COMMUNITY FOUNDATION

NOTES TO FINANCIAL STATEMENTS

YEAR ENDED DECEMBER 31, 2012 AND 2011

	Level	2011		
		Fair Value	Cost	Unrealized Appreciation (Depreciation)
Certificate of deposit	1	\$ 233,417	\$ 233,417	\$ -
Money market funds	1	1,231,717	1,231,682	35
Common stock:				
Basic materials	1	633,137	503,141	129,996
Capital goods	1	182,668	172,849	9,819
Communication services	1	494,069	398,212	95,857
Consumer cyclical	1	137,157	122,268	14,889
Consumer discretionary	1	1,643,056	1,340,344	302,712
Consumer staples	1	1,377,151	1,162,022	215,129
Energy	1	894,754	815,698	79,056
Financials	1	919,345	984,356	(65,011)
Healthcare	1	1,330,166	1,216,301	113,865
Industrials	1	1,406,131	1,276,118	130,013
Other	1	129,023	82,149	46,874
Technology	1	2,786,806	2,309,853	476,953
Utilities	1	282,744	317,483	(34,739)
Equity mutual funds:				
Large cap funds	1	3,149,045	3,024,374	124,671
International developed	1	2,942,284	3,141,901	(199,617)
Emerging markets	1	834,218	924,473	(90,255)
Equity REITs	1	480,198	475,125	5,073
Other	1	439,276	547,859	(108,583)
Fixed income mutual funds:				
Taxable pooled	1	940,924	895,242	45,682
High yield pooled	1	465,106	470,005	(4,899)
Debt securities:				
Corporate bonds	2	4,094,143	3,855,283	238,860
U.S. Treasury	1	178,608	175,458	3,150
U.S. Agency taxable	1	2,559,257	2,532,221	27,036
U.S. Agency obligations	1	1,861,515	1,790,028	71,487
Municipal bonds	2	102,278	101,797	481
Hedge fund:				
Equity long/short	3	732,763	498,989	233,774
		<u>\$ 32,460,956</u>	<u>\$ 30,598,648</u>	<u>\$ 1,862,308</u>
Beneficial interest in:				
Charitable remainder trust	3	\$ 14,241		
Perpetual trusts	3	<u>\$ 328,175</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

YEAR ENDED DECEMBER 31, 2012 AND 2011

Fair Value of Financial Instruments

The following is a description of the valuation methodologies used for level three investments.

Hedge Fund

During the year ended December 31, 2011, the Foundation invested in the Commonfund Hedged Investors Company (Fund) operated by The Common Fund for Nonprofit Organizations. Investments in the Fund are valued at their net asset value as reported as of the close of business on the last day of business each month, or at such other times as a valuation becomes necessary. As of December 31, 2012, the Foundation has redeemed all investments held in the Fund and has reinvested the cash into the Foundation's pooled investments.

Charitable Remainder Trust and Beneficial Interest in 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 and government debt securities, equity securities and equity mutual funds, fixed income mutual funds, and real asset funds. The Foundation uses the income approach to value the charitable remainder trust and the beneficial interest in perpetual trusts.

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.

CENTRAL SUSQUEHANNA COMMUNITY FOUNDATION

NOTES TO FINANCIAL STATEMENTS

YEAR ENDED DECEMBER 31, 2012 AND 2011

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

	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
Beneficial interest in perpetual trusts	328,175	-	-	16,929	345,104
	<u>\$ 1,075,179</u>	<u>\$ -</u>	<u>\$ (762,985)</u>	<u>\$ 47,354</u>	<u>\$ 359,548</u>

	Balance as of January 1, 2011	Contributions/ Purchases	Withdrawals/ Redemptions/ Payments	Settlement of Perpetual Trust Agreement	Change in Value	Balance as of December 31, 2011
Hedge fund	\$ 2,360,210	\$ -	\$ (1,550,000)	\$ -	\$ (77,447)	\$ 732,763
Charitable remainder trust	13,851	-	-	-	390	14,241
Beneficial interest in perpetual trusts	1,087,505	-	-	(743,642)	(15,688)	328,175
	<u>\$ 3,461,566</u>	<u>\$ -</u>	<u>\$ (1,550,000)</u>	<u>\$ (743,642)</u>	<u>\$ (92,745)</u>	<u>\$ 1,075,179</u>

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, 2012 and 2011 were \$15,267 and \$14,944, respectively. The Foundation's estimated beneficial interest in these perpetual trusts as of December 31, 2012 and 2011 is \$345,104 and \$328,175, respectively. During the year ended December 31, 2011, there was a settlement agreement entered into by the Foundation related to the Foundation's interest in one of the perpetual trusts. See Note 9 for additional explanation of the settlement.

CENTRAL SUSQUEHANNA COMMUNITY FOUNDATION

NOTES TO FINANCIAL STATEMENTS

YEAR ENDED DECEMBER 31, 2012 AND 2011

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, 2012 and 2011, as the one-year rate was less than 1%.

Total cash flow requirements in subsequent years are as follows:

	December 31, 2012	December 31, 2011
2012	\$ -	\$ 956,782
2013	1,122,161	183,000
2014	230,000	58,000
2015	52,000	-
2016	50,000	-
Total	<u>\$ 1,454,161</u>	<u>\$ 1,197,782</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 the bank. Principal and interest payments of \$7,801 are due monthly, with final payment due by September 2024.

CENTRAL SUSQUEHANNA COMMUNITY FOUNDATION

NOTES TO FINANCIAL STATEMENTS

YEAR ENDED DECEMBER 31, 2012 AND 2011

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

2013	\$ 43,968
2014	46,103
2015	48,341
2016	50,688
2017	53,149
2018-2022	307,045
2023-2024	518,299
	<u>\$ 1,067,593</u>

Interest expense for the years ending December 31, 2012 and 2011 was \$52,639 and \$54,419, 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, 2012 and 2011, the Foundation has recorded \$5,534,569 and \$5,018,115, respectively, in investments and funds held as agency endowments for these funds.

8. RESTRICTIONS ON NET ASSETS

At December 31, 2012 and 2011, unrestricted net assets consist of approximately \$29,042,700 and \$27,352,300, respectively, in endowment funds. Additionally, at December 31, 2012 and 2011, \$547,800 and \$600,000, 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, 2012 and 2011, temporarily restricted net assets consist of a beneficial interest in a charitable remainder trust subject to time restrictions totaling \$14,444 and \$14,241, respectively.

CENTRAL SUSQUEHANNA COMMUNITY FOUNDATION

NOTES TO FINANCIAL STATEMENTS

YEAR ENDED DECEMBER 31, 2012 AND 2011

At December 31, 2012 and 2011, permanently restricted net assets consist of \$345,104 and \$328,175, 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:

	2012 Total Unrestricted Net Assets	2011 Total Unrestricted Net Assets
Endowment funds with variance power - beginning of year	\$ 27,352,300	\$ 27,928,300
Contributions	625,700	555,600
Grant revenue	501,400	403,700
Medical assistance	87,200	95,600
Trust income	15,300	14,900
Other income	98,200	114,900
Investment income	3,426,100	319,900
Expenses	<u>(3,063,500)</u>	<u>(2,080,600)</u>
Endowment funds with variance power - end of year	<u>\$ 29,042,700</u>	<u>\$ 27,352,300</u>

9. EXTRAORDINARY LOSS – SETTLEMENT OF PERPETUAL TRUST

The Foundation entered into a Collective Release and Settlement Agreement regarding one of its beneficial interest in a perpetual trust. According to the settlement agreement, the Foundation relinquished its right to receive any further distributions from the trust. During the year ended December 31, 2011, the Foundation recorded an extraordinary loss of \$743,642 related to the settlement of a perpetual trust, which represented the present value of the future distributions expected to be received from the trust.

10. 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, 2012 and 2011, the

CENTRAL SUSQUEHANNA COMMUNITY FOUNDATION

NOTES TO FINANCIAL STATEMENTS

YEAR ENDED DECEMBER 31, 2012 AND 2011

Foundation paid \$36,555 and \$40,835, 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 as 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.

11. SUBSEQUENT EVENT

During the year ended December 31, 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 \$5 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. The Foundation's attorney is currently drafting an Orphans' Court Petition that will be jointly submitted by the Foundation and FCFPA.

**Central Susquehanna
Community Foundation**

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

Year Ended December 31, 2012

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, 2012, 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 7, 2013.

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 responses, we identified a deficiency in internal control over financial reporting that we consider to be a material weakness and another deficiency that we consider to be a significant deficiency.

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 Foundation'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 2012-01 to be a material weakness.

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

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. We consider the deficiency described in the accompanying schedule of findings and responses as Finding 2012-02 to be a significant deficiency.

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 Findings

The Foundation's responses to the findings identified in our audit are 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
June 7, 2013

CENTRAL SUSQUEHANNA COMMUNITY FOUNDATION

SCHEDULE OF FINDINGS AND RESPONSES

YEAR ENDED DECEMBER 31, 2012

Material Weakness

Finding 2012-01: Enhancing Controls over Cash Receipts

Statement of Condition: A process has been developed to reconcile amounts received and reported in the cash receipts log to amounts recorded in the general ledger and amounts deposited per the bank statement; however, the Central Susquehanna Community Foundation (Foundation) has not yet fully implemented the procedures.

Criteria: Cash receipts recorded in the general ledger and amounts deposited per the bank statement should be reconciled to source documents.

Effect of Condition: The cash receipts recorded in the general ledger system and amounts deposited per the bank statement may not include all amounts received and reported in the cash receipts log.

Cause of Condition: Procedures to ensure that cash receipts per the cash receipts log reconcile to the amounts recorded in the general ledger and amounts deposited per the bank statement have been unable to be implemented.

Recommendation: We recommend that the Foundation regularly perform reconciliations of the cash receipts log to the amounts reported in the general ledger and amounts deposited per the bank statement by a person independent of the deposit and general ledger functions.

Views of responsible officials: The Foundation has a reconciliation process, but personnel changes in late 2011/early 2012 prevented consistent reconciliations from being performed. The reconciliation of cash receipts to bank deposits and general ledger entries is being done on a regular basis. The reconciliations show there are no discrepancies in gift records, deposits and general ledger entries.

Significant Deficiency

Finding 2012-02: Enhancing Controls over General Journal Entries

Statement of Condition: The Foundation has no review process for general journal entries.

Criteria: All general journal entries should be reviewed by someone other than the preparer to determine that the purpose of the entry is appropriate, supported by adequate documentation, and has been entered into the general ledger system properly.

CENTRAL SUSQUEHANNA COMMUNITY FOUNDATION

SCHEDULE OF FINDINGS AND RESPONSES

YEAR ENDED DECEMBER 31, 2012

Effect of Condition: General journal entries could be recorded erroneously or without adequate supporting documentation.

Cause of Condition: Procedures were not in place to ensure that all general journal entries and supporting documentation were reviewed by someone other than the preparer.

Recommendation: We recommend that someone other than the preparer review the general journal entries and the supporting documentation.

View of responsible official: General journal entries will be reviewed regularly.