Central Susquehanna Community Foundation

Financial Statements

Years Ended December 31, 2017 and 2016 with
Independent Auditor's Reports

MaherDuessel

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CENTRAL SUSQUEHANNA
COMMUNITY FOUNDATION

YEARS ENDED DECEMBER 31, 2017 AND 2016

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<u>**Independent Auditor's Report**</u>

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, 2017 and 2016, 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, 2017 and 2016, 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 30, 2018, 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 30, 2018

CENTRAL SUSQUEHANNA
COMMUNITY FOUNDATION

STATEMENTS OF FINANCIAL POSITION

DECEMBER 31, 2017 AND 2016

Assets	2017	2016
Current assets:		
Cash and cash equivalents	$ 929,971	$ 368,697
Pledges receivable	60,275	28,920
Other receivable	-	29
Accrued interest receivable	6,950	9,151
Prepaid expense	35	-
Total current assets	997,231	406,797
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	67,211	67,211
Equipment	31,424	31,424
Less: accumulated depreciation	(493,737)	(450,505)
Land, buildings, and equipment, net	1,342,217	1,385,449
Investments	51,784,003	47,135,895
Investments - property	-	153,496
Beneficial interest in charitable remainder trust	11,884	12,294
Beneficial interest in perpetual trusts held by others	342,863	325,472
Total noncurrent assets	53,480,967	49,012,606
Total Assets	$ 54,478,198	$ 49,419,403

(Continued)

Liabilities and Net Assets	2017	2016
Liabilities:		
Current liabilities:		
Accounts payable	$ 11,009	$ 22,468
Accrued expenses	13,850	16,646
Grants payable	711,097	940,641
Current portion of note payable	-	79,776
Total current liabilities	735,956	1,059,531
Noncurrent liabilities:		
Grants payable, net of current portion	-	94,197
Note payable, net of current portion	-	243,750
Funds held as agency endowments	12,365,471	10,442,677
Total noncurrent liabilities	12,365,471	10,780,624
Total Liabilities	13,101,427	11,840,155
Net Assets:		
Unrestricted	41,022,024	37,241,482
Temporarily restricted	11,884	12,294
Permanently restricted	342,863	325,472
Total Net Assets	41,376,771	37,579,248
Total Liabilities and Net Assets	$ 54,478,198	$ 49,419,403

(Concluded)

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

CENTRAL SUSQUEHANNA
COMMUNITY FOUNDATION

STATEMENT OF ACTIVITIES

YEAR ENDED DECEMBER 31, 2017

	Unrestricted	Temporarily Restricted	Permanently Restricted	Total
Revenues and Other Support:				
Contributions	$ 771,913	$ -	$ -	$ 771,913
Grant revenue	592,324	-	-	592,324
Medical Assistance revenue	99,869	-	-	99,869
Trust income	18,336	-	-	18,336
Interest and dividends	698,537	-	-	698,537
Realized and unrealized gain on investments	5,074,950	-	-	5,074,950
Change in value of charitable remainder trust	-	(410)	-	(410)
Gain on beneficial interest in perpetual trusts held by others	-	-	17,391	17,391
Gain on cancellation of grants	55,118	-	-	55,118
Other income	152,118	-	-	152,118
Total revenues and other support	7,463,165	(410)	17,391	7,480,146
Expenses:				
Program expenses	2,926,363	-	-	2,926,363
Development	246,856	-	-	246,856
Administrative expenses	509,404	-	-	509,404
Total expenses	3,682,623	-	-	3,682,623
Change in Net Assets	3,780,542	(410)	17,391	3,797,523
Net Assets:				
Beginning of year	37,241,482	12,294	325,472	37,579,248
End of year	$41,022,024	$ 11,884	$ 342,863	$41,376,771

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

CENTRAL SUSQUEHANNA COMMUNITY FOUNDATION

STATEMENT OF ACTIVITIES

YEAR ENDED DECEMBER 31, 2016

	Unrestricted	Temporarily Restricted	Permanently Restricted	Total
Revenues and Other Support:				
Contributions	$ 1,258,468	$ -	$ -	$ 1,258,468
Grant revenue	603,516	-	-	603,516
Medical Assistance revenue	115,731	-	-	115,731
Trust income	19,506	-	-	19,506
Interest and dividends	746,210	-	-	746,210
Realized and unrealized gain on investments	1,603,333	-	-	1,603,333
Change in value of charitable remainder trust	-	(317)	-	(317)
Loss on beneficial interest in perpetual trusts held by others	-	-	(5,503)	(5,503)
Gain on cancellation of grants	71,804	-	-	71,804
Other income	157,708	-	-	157,708
Total revenues and other support	4,576,276	(317)	(5,503)	4,570,456
Expenses:				
Program expenses	2,290,905	-	-	2,290,905
Development	226,996	-	-	226,996
Administrative expenses	532,945	-	-	532,945
Total expenses	3,050,846	-	-	3,050,846
Change in Net Assets	1,525,430	(317)	(5,503)	1,519,610
Net Assets:				
Beginning of year	35,716,052	12,611	330,975	36,059,638
End of year	$ 37,241,482	$ 12,294	$ 325,472	$ 37,579,248

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

CENTRAL SUSQUEHANNA
COMMUNITY FOUNDATION

STATEMENT OF FUNCTIONAL EXPENSES

YEAR ENDED DECEMBER 31, 2017

	Program Expenses	Development	Administrative Expenses	Total
Expenses:				
Board development	$ 1,249	$ 1,181	$ 2,339	$ 4,769
Community events	10,623	10,043	19,894	40,560
Dues and subscriptions	2,489	2,353	4,662	9,504
Employee benefits	32,685	42,943	65,547	141,175
Grants approved	2,551,349	-	-	2,551,349
Special projects	187,645	27,029	-	214,674
Insurance	4,557	4,309	8,535	17,401
Interest expense	1,176	1,112	2,203	4,491
Investment fees	-	-	118,129	118,129
Marketing expense	8,764	8,286	16,415	33,465
Meeting supplies	817	773	1,531	3,121
Miscellaneous	2,468	2,333	4,623	9,424
Office expenses	3,695	3,494	6,921	14,110
Printing	362	342	677	1,381
Professional fees	8,435	7,975	15,796	32,206
Repairs and maintenance	11,238	10,625	21,048	42,911
Salaries and wages	83,164	109,264	166,779	359,207
Telephone	1,992	1,884	3,731	7,607
Utilities	2,333	2,205	4,369	8,907
Workers' compensation claim	-	-	25,000	25,000
Depreciation expense	11,322	10,705	21,205	43,232
Total expenses	$ 2,926,363	$ 246,856	$ 509,404	$ 3,682,623

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

CENTRAL SUSQUEHANNA
COMMUNITY FOUNDATION

STATEMENT OF FUNCTIONAL EXPENSES

YEAR ENDED DECEMBER 31, 2016

	Program Expenses	Development	Administrative Expenses	Total
Expenses:				
Board development	$ 1,069	$ 1,017	$ 2,647	$ 4,733
Community events	5,359	5,096	13,267	23,722
Dues and subscriptions	2,547	2,422	6,307	11,276
Employee benefits	28,349	36,694	54,054	119,097
Grants approved	2,018,083	-	-	2,018,083
Special projects	101,498	25,883	-	127,381
Insurance	3,760	3,575	9,309	16,644
Interest expense	3,983	3,788	9,861	17,632
Investment fees	-	-	147,087	147,087
Marketing expense	5,606	5,330	13,877	24,813
Meeting supplies	513	488	1,271	2,272
Miscellaneous	631	600	1,563	2,794
Office expenses	3,710	3,528	9,184	16,422
Printing	691	657	1,711	3,059
Professional fees	6,769	6,436	16,755	29,960
Repairs and maintenance	11,797	11,217	29,205	52,219
Salaries and wages	82,877	107,273	158,022	348,172
Telephone	1,688	1,605	4,180	7,473
Utilities	2,208	2,100	5,467	9,775
Workers' compensation claim	-	-	25,000	25,000
Depreciation expense	9,767	9,287	24,178	43,232
Total expenses	$ 2,290,905	$ 226,996	$ 532,945	$ 3,050,846

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

CENTRAL SUSQUEHANNA
COMMUNITY FOUNDATION

STATEMENTS OF CASH FLOWS

YEARS ENDED DECEMBER 31, 2017 AND 2016

	2017	2016
Cash Flows From Operating Activities:		
Change in net assets	$ 3,797,523	$ 1,519,610
Adjustments to reconcile change in net assets to net cash used in operating activities:		
Net realized and unrealized gain on investments	(6,543,724)	(2,062,275)
Net change in beneficial interest in charitable remainder trust	410	317
(Gain) loss on beneficial interest in perpetual trusts held by others	(17,391)	5,503
Gain on cancellation of grants	(55,118)	(71,804)
Depreciation expense	43,232	43,232
Donated stock	(54,103)	(68,192)
Donated property	153,496	(153,496)
(Increase) decrease in:		
Pledges receivable	(31,355)	(8,775)
Grants receivable	-	95,594
Other receivable	29	(29)
Accrued interest receivable	2,201	46,795
Prepaid expenses	(35)	-
Increase (decrease) in:		
Accounts payable	(11,459)	13,970
Accrued expenses	(2,796)	3,208
Grants payable	(268,623)	(503,747)
Funds held as agency endowments	1,922,794	652,302
Net cash used in operating activities	(1,064,919)	(487,787)
Cash Flows From Investing Activities:		
Proceeds from the sale of investments	27,659,225	25,982,558
Purchases of investments	(25,709,506)	(25,179,063)
Net cash provided by investing activities	1,949,719	803,495
Cash Flows From Financing Activities:		
Repayments on note payable	(323,526)	(75,977)
Net cash used in financing activities	(323,526)	(75,977)
Net Increase in Cash and Cash Equivalents	561,274	239,731
Cash and Cash Equivalents:		
Beginning of year	368,697	128,966
End of year	$ 929,971	$ 368,697

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 37 agency endowment funds and 169 other charitable endowment funds; each established with an instrument of gift describing either the general or specific purposes for which the grants are to be made.

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

Further, the Foundation annually files a Form 990.

B. *Basis of Accounting*

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

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, 2017 and 2016 is reported in the financial statements as follows:

	2017	2016
Net realized and unrealized gain	$ 5,074,950	$ 1,603,333
Attributable to assets held in agency endowment funds	1,468,774	458,942
	$ 6,543,724	$ 2,062,275

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, and certain mutual funds.

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

Investments classified within Level 3 have significant unobservable inputs, as they trade infrequently or not at all. Level 3 instruments include beneficial interest in charitable trusts and in perpetual trusts and investment property. When observable prices are not available for Level 3 securities, the Foundation uses one or more valuation techniques (e.g., the market approach, the income approach, or the cost approach) for which sufficient and reliable data is available. Within Level 3, the use of the market approach generally consists of using comparable market transactions, while the use of the income approach generally consists of the net present value of estimated future cash flows, adjusted as appropriate for liquidity, credit, market, and/or other risk factors.

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

E. *Land, Buildings, and Equipment*

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

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

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

For the years ended December 31, 2017 and 2016, depreciation expense was $43,232.

F. *Unrestricted, Temporarily, and Permanently Restricted Net Assets*

Unrestricted net assets are those whose use by the Foundation is not subject to donor-imposed restrictions. Temporarily restricted net assets are those whose use by the Foundation has been limited by donors to a specific time period or purpose. Permanently restricted net assets are restricted by donors to investments held in perpetuity, the income from which is expendable to support the activities of the Foundation.

Pursuant to donor instructions, the Foundation has classified each of its component funds into six types: unrestricted funds, field of interest funds, donor advised, scholarship funds, agency endowment, and acorn funds. While it is the intent of the Foundation to hold these assets as endowment funds, its Board of Directors may, by majority vote, modify any restriction or condition on the distribution of funds from its component funds if, in the Board of Directors' judgment, such restriction becomes unnecessary, incapable of fulfillment, or inconsistent with the charitable needs of the community (i.e., variance power). Due to the governing body having variance power, contributions are classified as unrestricted net assets if the ultimate beneficiary is not also the contributing entity. Accordingly, all net assets and related activity over which the management of the Foundation exercises direct control are classified as unrestricted net assets in the accompanying financial statements.

G. *Contributions*

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

H. *Contributed Services, Facilities, and Equipment*

A number of unpaid volunteers, which include the Directors of the Foundation, have made significant contributions of their time toward developing and achieving the Foundation's goals and objectives. Contributions of donated services that create or enhance nonfinancial assets, or that require specialized skills, are provided by individuals possessing those skills, and would typically need to be purchased if not provided by donation, are recorded at their fair values in the period received. During the years ended December 31, 2017 and 2016, there were no donated services that met the reporting requirements.

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. The fees are included in other income in the statements of activities to the extent that they are earned from outside parties.

L. *Funds Held as Agency Endowments*

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

M. *Use of Estimates*

The preparation of financial statements in conformity with accounting principles generally accepted in the United States of America requires management to make estimates and assumptions that affect the reported amounts and disclosures in the financial statements. Actual results could differ from those estimates.

M. *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 in September 2017, the endowment assets have a strategic target of 70% equity securities, 24% fixed income securities, 4%

alternative securities, and 2% cash and cash equivalents. The allowable investment bounds are 50% to 85% in equity securities, 15% to 40% in fixed income securities, 0% to 20% in alternative investments, and 0% to 15% in cash and cash equivalents. Under the previous investment policy approved by the Board of Directors and effective through September 2017, the endowment assets had a strategic target of 60% equity securities, 25% fixed income securities, 10% alternative securities, and 5% cash and cash equivalents. The allowable investment bounds were 40% to 80% in equity securities, 10% to 40% in fixed income securities, 0% to 20% in alternative investments, and 0% to 10% in cash and cash equivalents.

The Foundation expects its endowment funds, over time, to provide an average rate of return that exceeds a weighted index comprised of 36% of the Russell 1000, 9% of the Russell 2000, 18% MSCI EAFE (net), 7% MSCI Emerging Markets (net), 22% Barclays Aggregate, 2% Barclays High Yield, 0.75% Barclays US Gov't ILB, 0.75% S&P US REITS, 2.5% DJ Global REIT ex US (net), and 2% IA SBBI US 30 day T-Bill. The Foundation's actual returns may vary from this amount in any given year.

The spending policy calculates the amount of money annually distributed from the Foundation's various endowed funds for grant-making and administration. Based on the investment model selected by the donor, the current spending policy is to distribute not in excess of 4.25% 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. *Pending Standards Update*

Accounting Standards Update (ASU) 2016-02, *"Leases (Topic 842),"* is effective for the Foundation's financial statements for the year ending December 31, 2020. This amendment will require lessees to recognize assets and liabilities on the statement of financial position for the rights and obligations created by all leases with terms of more than twelve months. Disclosures also will be required by lessees to meet the objective of enabling users of financial statements to assess the amount, timing, and uncertainty of cash flows arising from leases. Early application of the amendments in the ASU is allowed.

ASU 2016-14, *"Not-for-Profit Entities (Topic 958): Presentation of Financial Statements of Not-for-Profit Entities,"* is effective for the Foundation's financial statements for the year ending December 31, 2018. This amendment aims to improve how a nonprofit organization classifies its net assets and provides information it its financial statements and notes about its financial performance, cash flow, and liquidity. The ASU changes the net asset classification, how underwater donor-restricted endowment funds are treated, increases the information available about liquidity and the availability of resources, requires financial statements for not-for-profits to provide expenses both by nature and function, as well as an analysis of those expenses by both nature and function, along with disclosures of the methods used to allocate those costs among the various functions, and standardizes how organizations present investment returns and what expenses should be netted against those returns. There are qualitative and quantitative requirements in a number of areas, including net asset classes, investment return, expenses, liquidity and availability of resources, and presentation of operating cash flows. Early application of the amendments in the ASU is allowed.

ASU 2014-09, *"Revenue from Contracts with Customers,"* is effective for the Foundation's financial statements for the year ending December 31, 2019 (as amended by ASU 2015-14). This amendment provides guidance for revenue recognition related to contracts with the transfer of promised goods or services to customers and related disclosures. Early application of the amendments in the ASU is not allowed.

Management has not yet determined the impact of these amendments on the Foundation's financial statements.

Q. ***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, 2017 had a book value and bank balance of $929,971 and $878,187, respectively. Cash and cash equivalents at December 31, 2016 had a book value and bank balance of $368,697 and $278,530, 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, 2017 and 2016, the Foundation had cash balances in excess of the federally insured limit.

3. Investments

The following tables set forth by level, within the fair value hierarchy, the investments at fair value, cost, and unrealized appreciation (depreciation) as of December 31, 2017 and 2016:

	2017			
	Level	Fair Value	Cost	Unrealized Appreciation (Depreciation)
Money market funds	1	$ 15,166,089	$ 15,166,089	$ -
Common stock:				
Consumer discretionary	1	12,130	11,571	559
Financials	1	1,031	1,026	5
Utilities	1	36,596	36,376	220
Equity mutual funds:				
Large cap funds	1	9,630,508	7,681,054	1,949,454
Small cap funds	1	3,823,791	3,475,689	348,102
International developed	1	7,987,955	6,126,270	1,861,685
Emerging markets	1	1,499,054	1,171,874	327,180
Equity REITs	1	953,350	957,081	(3,731)
Other	1	440,167	432,836	7,331
Fixed income mutual funds:				
Domestic bond market	1	3,557,708	3,640,109	(82,401)
Taxable pooled	1	3,500,000	3,500,000	-
Inflation hedge funds	1	420,890	425,000	(4,110)
High yield pooled	1	853,516	850,000	3,516
Debt securities:				
Corporate bonds	2	2,659,379	2,632,833	26,546
U.S. Treasury	1	1,241,839	1,255,445	(13,606)
		$ 51,784,003	$ 47,363,253	$ 4,420,750
Beneficial interest in:				
Charitable remainder trust	3	$ 11,884		
Perpetual trusts	3	$ 342,863		

	2016			
	Level	Fair Value	Cost	Unrealized Appreciation (Depreciation)
Money market funds	1	$ 1,625,537	$ 1,625,537	$ -
Common stock:				
Basic materials	1	132,237	66,559	65,678
Consumer discretionary	1	468,198	290,888	177,310
Consumer staples	1	188,713	108,944	79,769
Energy	1	27,563	18,023	9,540
Financials	1	424,144	301,153	122,991
Healthcare	1	199,170	132,829	66,341
Industrials	1	641,756	372,825	268,931
Technology	1	413,499	182,797	230,702
Equity mutual funds:				
Large cap funds	1	18,232,041	17,405,311	826,730
Small cap funds	1	1,735,706	1,639,330	96,376
International developed	1	6,461,319	6,164,481	296,838
Emerging markets	1	1,213,347	1,281,819	(68,472)
Equity REITs	1	1,459,981	1,637,507	(177,526)
Other	1	2,885,715	2,910,511	(24,796)
Fixed income mutual funds:				
Domestic bond market	1	3,367,150	3,490,160	(123,010)
Taxable pooled	1	3,304,378	3,378,260	(73,882)
High yield pooled	1	1,058,000	1,000,000	58,000
Debt securities:				
Corporate bonds	2	1,993,437	2,012,480	(19,043)
U.S. Treasury	1	1,304,004	1,314,422	(10,418)
		$ 47,135,895	$ 45,333,836	$ 1,802,059
Investment - property	3	$ 153,496		
Beneficial interest in:				
Charitable remainder trust	3	$ 12,294		
Perpetual trusts	3	$ 325,472		

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 Charitable Remainder Trust and Perpetual Trusts

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

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

Investment Property

During the year ended December 31, 2016, the Foundation received a donation of certain property. The Foundation used the market approach to value the property. On January 10, 2017, the property was donated to a nonprofit entity.

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

	Balance as of January 1, 2017	Contributions/ Purchases	Withdrawals/ Redemptions/ Donations	Change in Value	Balance as of December 31, 2017
Investment - property	$ 153,496	$ -	$ (153,496)	$ -	$ -
Charitable remainder trust	12,294	-	-	(410)	11,884
Perpetual trusts	325,472	-	-	17,391	342,863
	$ 491,262	$ -	$ (153,496)	$ 16,981	$ 354,747

	Balance as of January 1, 2016	Contributions/ Purchases	Withdrawals/ Redemptions/ Payments	Change in Value	Balance as of December 31, 2016
Investment - property	$ -	$ 153,496	$ -	$ -	$ 153,496
Charitable remainder trust	12,611	-	-	(317)	12,294
Perpetual trusts	330,975	-	-	(5,503)	325,472
	$ 343,586	$ 153,496	$ -	$ (5,820)	$ 491,262

4. Beneficial Interest in Perpetual Trusts Held by Others

The Foundation is a beneficiary of two irrevocable trusts held by a financial institution's trust department. Under the terms of the trust agreements, the Foundation has the irrevocable right to receive a portion of the income earned on trust assets in perpetuity, but never receives the assets held in the trusts. The Foundation recorded its proportionate share of the fair value of the principal of the trusts when received. Distributions from the trusts are recorded as trust income in unrestricted net assets. Distributions for the trusts for the years ended December 31, 2017 and 2016 were $18,336 and $19,506, respectively. The Foundation's estimated beneficial interest in these perpetual trusts as of December 31, 2017 and 2016 is $342,863 and $325,472, 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, 2017 and 2016, as the one-year rate was less than 1%.

Total cash flow requirements in subsequent years are as follows:

	December 31, 2017	December 31, 2016
2017	$ -	$ 940,641
2018	711,097	94,197
Total	$ 711,097	$ 1,034,838

6. Note 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 were due monthly, with final payment due by September 2023.

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

During the year ended December 31, 2017, the Foundation paid off the remaining $323,526 due on the note payable.

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, 2017 and 2016, the Foundation has recorded $12,365,471 and $10,442,677, respectively, in investments and funds held as agency endowments for these organizations.

8. Restrictions on Net Assets

At December 31, 2017 and 2016, unrestricted net assets consist of approximately $41,022,000 and $37,160,300, respectively, in endowment funds. Additionally, at December 31, 2017 and 2016, $0 and $81,411, 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, 2017 and 2016, temporarily restricted net assets consist of a beneficial interest in a charitable remainder trust subject to time restrictions totaling $11,884 and $12,294, respectively.

At December 31, 2017 and 2016, permanently restricted net assets consist of $342,863 and $325,472, 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:

	2017 Total Unrestricted Net Assets	2016 Total Unrestricted Net Assets
Endowment funds with variance power - beginning of year	$ 37,160,300	$ 35,561,100
Contributions	771,900	1,258,500
Grant revenue	592,300	603,500
Medical assistance revenue	99,900	115,700
Trust income	18,300	19,500
Gain on grant cancellations	55,100	71,800
Other income	152,100	157,700
Investment income	5,773,600	2,349,500
Expenses	(3,601,500)	(2,977,000)
Endowment funds with variance power - end of year	$ 41,022,000	$ 37,160,300

9. Commitments and Contingencies

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

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. During 2007, the Corporation transferred the remaining funds to the Foundation. In September 2015, the Foundation became the administrator and began handling the Corporation's claims. As of December 31, 2017 and 2016, the Foundation paid $25,000 for claims and related expenses. The Corporation and now the Foundation have attempted to settle the claim to no avail. The Foundation cannot determine the potential liability and will continue to remit amounts to the third-party insurance trust as funds are needed. The Foundation will continue to record these amounts as expenses are incurred. The Foundation receives periodic reimbursement from an insurance carrier for a portion of the expenses and records the revenue when received.

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

10. Potential Dissolution of Selinsgrove Foundation

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

11. Potential Dissolution of Sunbury Foundation

In January 2017, the Sunbury Foundation's Board of Directors approved the dissolution of the Sunbury Foundation and the transfer of the Sunbury Foundation assets to the Foundation. The dissolution requires the approval of the Court of Common Please before the transfer of assets can be finalized. During 2017, the Sunbury Hospital was purchased by a nonprofit entity. Due to this purchase and discussions surrounding the custody of trust assets that were transferred to the Foundation as a result of the initial sale of the hospital, the dissolution proceedings have been temporarily suspended.

12. Related Party Transactions

During the years ended December 31, 2017 and 2016, the Foundation awarded grants to the Berwick Area School District (District) totaling $221,227 and $203,902, respectively. As of December 31, 2017 and 2016, $13,028 and $153,645, respectively, is included in grants payable to the District. During the year ended December 31, 2016, a member of the Board of Directors of the Foundation was the Business Administrator for the District.

During the year ended December 31, 2017, the Foundation awarded the Berwick Area YMCA grants totaling $523,003 for the year ended December 31, 2017. A member of the Board of Directors of the Foundation is also member of the Board of Directors of the Berwick Area YMCA.

First Keystone Community Bank (First Keystone) provides banking, investment, and loan services to the Foundation. One of the Foundation's Board members is the President and CEO of First Keystone. Total cash held by First Keystone as of December 31, 2017 and 2016 was $929,571 and $368,697, respectively. Total investments held by First Keystone as of December 31, 2017 and 2016 were $7,690,241 and $7,454,362, respectively. The outstanding balance on the note payable with First Keystone as of December 31, 2017 and 2016 was $0 and $323,526, respectively (see Note 6).

13. Subsequent Event

In January 2018, the Foundation entered into an agreement with Bloomsburg Area Community Foundation (Bloomsburg Foundation) (a 501(c)(3) organization) to administer their assets for investment purposes. This agreement also provides for the Foundation to perform administrative tasks on behalf of the Bloomsburg Foundation. This agreement may be terminated by the Bloomsburg Foundation at any time.

Central Susquehanna Community Foundation

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

Year Ended December 31, 2017

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, 2017, 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 30, 2018.

Internal Control over Financial Reporting

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

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

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

Compliance and Other Matters

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

Purpose of this Report

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

Maher Duessel

Harrisburg, Pennsylvania
May 30, 2018

CENTRAL SUSQUEHANNA
COMMUNITY FOUNDATION

SCHEDULE OF FINDINGS AND RESPONSES

YEAR ENDED DECEMBER 31, 2017

NONE