

# **Selinsgrove Area Community Foundation**

Financial Statements in Liquidation

Year Ended December 31, 2018 with  
Independent Auditor's Report

**MaherDuessel**  
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Pittsburgh | Harrisburg | Butler

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# SELINGROVE AREA COMMUNITY FOUNDATION

YEAR ENDED DECEMBER 31, 2018

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## Independent Auditor's Report

**Board of Directors  
Selinsgrove Area  
Community  
Foundation**

We have audited the accompanying financial statements in liquidation (financial statements) of the Selinsgrove Area Community Foundation (Foundation), which comprise the statement of financial position in liquidation as of December 31, 2018, and the related statements of activities in liquidation, functional expenses in liquidation, and cash flows in liquidation for the year 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 audit. We conducted our audit in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

## Opinion

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position in liquidation of the Foundation as of December 31, 2018, and the changes in its net assets in liquidation and its cash flows in liquidation for the year then ended, in accordance with accounting principles generally accepted in the United States of America.

## Basis of Accounting

As described in Note 1 to the financial statements, the Foundation's Board of Directors and the Commonwealth of Pennsylvania, Bureau of Corporations and Charitable Organizations, approved a plan of dissolution and, accordingly, the Foundation's financial statements are prepared on the liquidation basis of accounting. Generally accepted accounting principles require financial statements to be prepared on the liquidation basis of accounting when an entity is in liquidation or when liquidation is imminent. Our opinion is not modified with respect to that matter.

## Change in Accounting Principle

As described in Note 1 to the financial statements, the Foundation adopted Accounting Standards Update 2016-14, *Not-for-Profit Entities (Topic 958): Presentation of Financial Statements of Not-for-Profit Entities*, which requires not-for-profit entities to use the placed-in-service approach for contributions related to long-lived assets, changes how nonprofit organizations classify net assets, and provides information in its financial statements and notes about its financial performance, cash flow, and liquidity, among other requirements. Our opinion is not modified with respect to this matter.

*Maher Duessel*

Harrisburg, Pennsylvania  
July 11, 2019

# SELINGROVE AREA COMMUNITY FOUNDATION

## STATEMENT OF FINANCIAL POSITION IN LIQUIDATION

DECEMBER 31, 2018

<b>Assets</b>	
Beneficial interest in net assets of a community foundation	\$ 1,810,661
Items previously unrecognized	<u>74,976</u>
<b>Total Assets</b>	<b><u>\$ 1,885,637</u></b>
<b>Liabilities and Net Assets in Liquidation</b>	
<b>Liabilities:</b>	
Grants payable	\$ 35,300
Accrued expenses expected to be incurred in liquidation	<u>4,721</u>
<b>Total Liabilities</b>	<b><u>40,021</u></b>
<b>Net Assets in Liquidation:</b>	
With donor restrictions	<u>1,845,616</u>
<b>Total Net Assets in Liquidation</b>	<b><u>1,845,616</u></b>
<b>Total Liabilities and Net Assets in Liquidation</b>	<b><u>\$ 1,885,637</u></b>

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

# SELINGROVE AREA COMMUNITY FOUNDATION

## STATEMENT OF ACTIVITIES IN LIQUIDATION

YEAR ENDED DECEMBER 31, 2018

	<u>Without Donor Restrictions</u>	<u>With Donor Restrictions</u>	<u>Total</u>
<b>Revenues, Gains, and Other Support:</b>			
Contributions	\$ -	\$ 819,033	\$ 819,033
Investment return, net	116,029	-	116,029
Change in beneficial interest in net assets of a community foundation	-	(248,900)	(248,900)
Other income	-	1,000	1,000
	<u>116,029</u>	<u>571,133</u>	<u>687,162</u>
Total revenues, gains, and other support before adjustments to liquidation basis	116,029	571,133	687,162
Adjustment to liquidation basis	-	74,976	74,976
	<u>116,029</u>	<u>646,109</u>	<u>762,138</u>
<b>Expenses:</b>			
Program	71,211	-	71,211
Development	28,037	-	28,037
Administrative	12,060	-	12,060
	<u>111,308</u>	<u>-</u>	<u>111,308</u>
Total expenses before adjustment to liquidation basis	111,308	-	111,308
Adjustment to liquidation basis:			
Program	1,487	-	1,487
Development	1,085	-	1,085
Administrative	2,149	-	2,149
	<u>4,721</u>	<u>-</u>	<u>4,721</u>
Total adjustment to liquidation basis	4,721	-	4,721
Total expenses	<u>116,029</u>	<u>-</u>	<u>116,029</u>
<b>Change in Net Assets in Liquidation</b>	-	646,109	646,109
<b>Net Assets in Liquidation:</b>			
Beginning of year	-	1,199,507	1,199,507
End of year	<u>\$ -</u>	<u>\$ 1,845,616</u>	<u>\$ 1,845,616</u>

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

# SELINGROVE AREA COMMUNITY FOUNDATION

## STATEMENT OF FUNCTIONAL EXPENSES IN LIQUIDATION

YEAR ENDED DECEMBER 31, 2018

	<u>Program</u>	<u>Development</u>	<u>Administrative</u>	<u>Total</u>
<b>Expenses:</b>				
Grants	\$ 62,100	\$ -	\$ -	\$ 62,100
Fund management	5,666	5,357	10,612	21,635
Special events	-	22,680	-	22,680
Professional fees	2,950	-	-	2,950
Insurance	-	-	1,448	1,448
Miscellaneous	495	-	-	495
	<u>71,211</u>	<u>28,037</u>	<u>12,060</u>	<u>111,308</u>
Total functional expenses before expenses to be incurred in liquidation				
Expenses expected to be incurred in liquidation:				
Grants	339	-	-	339
Fund management	1,148	1,085	2,149	4,382
	<u>1,487</u>	<u>1,085</u>	<u>2,149</u>	<u>4,721</u>
Total expenses expected to be incurred in liquidation				
Total functional expenses	<u>\$ 72,698</u>	<u>\$ 29,122</u>	<u>\$ 14,209</u>	<u>\$ 116,029</u>

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

# SELINGROVE AREA COMMUNITY FOUNDATION

## STATEMENT OF CASH FLOWS IN LIQUIDATION

YEAR ENDED DECEMBER 31, 2018

### Cash Flows From Operating Activities:

Change in net assets	\$ 646,109
Adjustment to reconcile change in net assets to net cash provided by operating activities:	
Change in beneficial interest in net assets of a community foundation	(574,054)
(Increase) decrease in:	
Items previously unrecognized	(74,976)
Increase (decrease) in:	
Grants payable	(1,800)
Accrued expenses expected to be incurred in liquidation	4,721
Net cash provided by operating activities	<u>-</u>
<b>Net Increase in Cash and Cash Equivalents</b>	-
<b><u>Cash and Cash Equivalents:</u></b>	
Beginning of year	<u>-</u>
End of year	<u><u>\$ -</u></u>

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



# SELINGSGROVE AREA COMMUNITY FOUNDATION

## NOTES TO FINANCIAL STATEMENTS IN LIQUIDATION

YEAR ENDED DECEMBER 31, 2018

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### 1. Nature of Operations and Summary of Significant Accounting Policies

#### A. *Nature of Operations*

The Selingsgrove Area Community Foundation (Foundation) was organized in June 1994 as the Selingsgrove Area Youth Foundation with the intent of operating as a community trust primarily to increase the philanthropic resources for youth in the Selingsgrove area. During 2010, the Foundation changed its name to the Selingsgrove Area Community Foundation to reflect a broader mission of improving the lives of the residents of Selingsgrove and the surrounding community.

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. *Plan for Liquidation*

In January 2015, the Board of Directors (Board) approved the dissolution of the Foundation and the transfer of the Foundation assets to the Central Susquehanna Community Foundation (CSCF). Final dissolution of the Foundation was approved by the Commonwealth of Pennsylvania, Bureau of Corporations and Charitable Organizations on January 21, 2019. Foundation assets remaining after payments of expenses through January 21, 2019 were transferred to CSCF.

#### C. *Basis of Accounting*

The Foundation has prepared its financial statements on the liquidation basis of accounting. Under this method, revenues are recorded when earned and expenses are recorded when liabilities are incurred. Revenues and expenses expected to be incurred in liquidation are recorded when there is a reasonable basis for their estimation.

#### D. *Items Previously Unrecognized*

The financial statements include an accrual for revenues estimated to be received through the date of liquidation. Included in this accrual is net investment return.

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# SELINGROVE AREA COMMUNITY FOUNDATION

## NOTES TO FINANCIAL STATEMENTS IN LIQUIDATION

YEAR ENDED DECEMBER 31, 2018

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### **E. *Accrued Expenses Expected to be Incurred in Liquidation***

The financial statements include an accrual for expenses estimated to be incurred through the date of liquidation. Included in this accrual are administrative fees, investment fees, and grant expense.

### **F. *Statement of Cash Flows***

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

### **G. *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

# SELINGROVE AREA COMMUNITY FOUNDATION

## NOTES TO FINANCIAL STATEMENTS IN LIQUIDATION

YEAR ENDED DECEMBER 31, 2018

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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 are classified within Level 1. The Foundation has no Level 1 investments.

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. 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. The Foundation has no Level 2 investments.

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

# SELINGROVE AREA COMMUNITY FOUNDATION

## NOTES TO FINANCIAL STATEMENTS IN LIQUIDATION

YEAR ENDED DECEMBER 31, 2018

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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.

### **H. *Net Assets***

Net assets without donor restrictions are those whose use by the Foundation is not subject to donor-imposed restrictions. Net assets with donor restrictions are those whose use by the Foundation has been limited by donors to a specific time period or purpose or have been restricted by donors to investments held in perpetuity, the income from which is expendable to support the activities of the Foundation.

### **I. *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), net assets with donor restrictions are released to net assets without donor restrictions 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 net assets without donor restrictions.

### **J. *Contributed Services***

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

# SELINGROVE AREA COMMUNITY FOUNDATION

## NOTES TO FINANCIAL STATEMENTS IN LIQUIDATION

YEAR ENDED DECEMBER 31, 2018

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donation, are recorded at their fair values in the period received. During the year ended December 31, 2018, there were no donated services that met the reporting requirements.

### **K. *Functional Expense Allocation***

The costs of providing the various program and supporting services have been summarized on a functional basis in the statement of functional expenses in liquidation. This statement reports expenses that are attributed to more than one program or supporting function. Therefore, some expenses require allocation on a reasonable basis that is consistently applied. Fund management is allocated based on an estimate of time and effort. Other expenses are directly related to a specific function and are charged to that function.

### **L. *Affiliate Fund Agreement***

The Foundation entered into an agreement with CSCF (a 501(c)(3) organization) to administer the assets of the Foundation for investment purposes. The agreement also provides for CSCF to perform program, development, and administrative services on behalf of the Foundation. The agreement may be terminated by the Foundation at any time. For the year ended December 31, 2018, the administrative fees amounted to \$21,635.

### **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.

### **N. *Adoption of Accounting Standard***

The requirements of the following Financial Accounting Standards Board (FASB) Accounting Standards Update (ASU) were adopted during the year ended December 31, 2018.

ASU-2016-14, "*Not-for-Profit Entities (Topic 958): Presentation of Financial Statements of Not-for-Profit Entities*," aims to improve how a nonprofit organization classifies its net assets and provides information in its financial statements and notes about its financial

# SELINGROVE AREA COMMUNITY FOUNDATION

## NOTES TO FINANCIAL STATEMENTS IN LIQUIDATION

YEAR ENDED DECEMBER 31, 2018

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performance, cash flow, and liquidity. As a result of adoption, the permanently restricted net assets as of January 1, 2018 were transferred to net assets with donor restrictions.

### **O. Subsequent Events**

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

## **2. Investments**

### Fair Value of Financial Instruments

Following is a description of the valuation methodologies used for assets measured at fair value. There have been no changes in the methodologies used at December 31, 2018.

#### *Beneficial Interests in Net Assets of a Community Foundation:*

The Foundation has a beneficial interest in net assets of a community foundation, CSCF. The Foundation does not have a direct interest in the underlying assets. As such, the inputs it considers in determining fair value are related to the value of its right to receive future distributions from CSCF. The beneficial interest in net assets of a community foundation is calculated using the unit of account basis valued using net asset value per share.

The Foundation's beneficial interest in net assets of a community foundation are part of CSCF's investments, whose audited financial statements show the underlying investments.

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 is 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.

# SELINGROVE AREA COMMUNITY FOUNDATION

## NOTES TO FINANCIAL STATEMENTS IN LIQUIDATION

YEAR ENDED DECEMBER 31, 2018

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The following table summarizes the changes in fair values associated with Level 3 financial instruments for the year ended December 31, 2018:

Balance, January 1	\$ 1,236,607
Contributions/purchases	821,033
Withdrawals/payments	(118,303)
Change in value	<u>(128,676)</u>
Balance, December 31	<u><u>\$ 1,810,661</u></u>

All changes in value of beneficial interests in the table above are reflected in the accompanying statement of activities in liquidation.

### 3. Beneficial Interest in Net Assets of a Community Foundation

The Foundation has certain assets held by CSCF. CSCF administers the Foundation's assets for investment purposes and performs administrative tasks on behalf of the Foundation. CSCF will distribute funds to the Foundation in accordance with CSCF's investment and spending policy for endowment assets, as approved by the Foundation's Board, that attempt to provide a predictable stream of funding to programs supported by its endowment. In the event it becomes impractical or impossible to utilize any portion of these funds for any designated purpose, or to comply with any condition, restriction, or limitation of the administration of any portion of the Foundation's assets, the Foundation and CSCF will utilize the Foundation's assets for other charitable purposes within the Selingsrove area or to modify or eliminate such condition, restriction, or limitation on these funds, as deemed appropriate in accordance with the Foundation's governing documents.

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 CSCF's current investment policy, approved by CSCF's 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. 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

# SELINGROVE AREA COMMUNITY FOUNDATION

## NOTES TO FINANCIAL STATEMENTS IN LIQUIDATION

YEAR ENDED DECEMBER 31, 2018

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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 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. The Foundation's beneficial interest in net assets of a community foundation is determined based on the Foundation's share of the fair value of the underlying investments of the assets held by CSCF. As of December 31, 2018, the Foundation's beneficial interest in net assets of a community foundation is \$1,810,661.

#### 4. Grants Payable

Grants are recorded as expenses when authorized by the Board of Directors (Board) and the grant agreement is signed with the recipient agency. Grants authorized but not paid at December 31, 2018 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, 2018, as the one-year rate was less than 1%.

As of December 31, 2018, cash flow requirements in subsequent years are as follows:

2019	\$	25,900
2020		6,200
2021		<u>3,200</u>
Total	\$	<u><u>35,300</u></u>

Grants payable subsequent to the date of liquidation will be paid by CSCF.



# SELINGROVE AREA COMMUNITY FOUNDATION

## NOTES TO FINANCIAL STATEMENTS IN LIQUIDATION

YEAR ENDED DECEMBER 31, 2018

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### **5. Restrictions on Net Assets**

For financial statement purposes, at December 31, 2018, net assets with donor restrictions consists of the beneficial interest in the net assets of a community foundation and items previously unrecognized, less grants payable and accrued expenses expected to be incurred in liquidation, in the amount of \$1,845,616.