

**COMMUNITY FOUNDATION
SERVING THE HEART OF WESTERN PENNSYLVANIA**

**FINANCIAL STATEMENTS
FOR THE YEARS ENDED
DECEMBER 31, 2017 AND 2016
&
INDEPENDENT AUDITORS' REPORT**



TABLE OF CONTENTS

	PAGE
INDEPENDENT AUDITORS' REPORT	2
FINANCIAL STATEMENTS:	
STATEMENTS OF FINANCIAL POSITION.....	4
STATEMENTS OF ACTIVITIES.....	5
STATEMENTS OF CASH FLOWS	7
NOTES TO FINANCIAL STATEMENTS	8



McCall Scanlon & Tice, LLC
Certified Public Accountants

INDEPENDENT AUDITORS' REPORT

To the Board of Directors of
Community Foundation Serving the Heart of Western Pennsylvania:

We have audited the accompanying financial statements of the Community Foundation Serving the Heart of Western Pennsylvania (the "Foundation"), which comprise the statements of financial position as of December 31, 2017 and 2016, and the related statements of activities 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.

Auditors' 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. 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.

5500 Corporate Drive, Suite 240
Pittsburgh, PA 15237
412.635.9314 Fax:412.635.9358

Members of the American
and Pennsylvania Institutes of
Certified Public Accountants

11931 State Route 85, Suite G
Kittanning, PA 16201
724.543.1135 Fax:724.919.8587

Opinion

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of the Community Foundation Serving the Heart of Western Pennsylvania 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.

McCall Scanlon & Tice, LLC

Kittanning, Pennsylvania
May 15, 2018

**COMMUNITY FOUNDATION
SERVING THE HEART OF WESTERN PENNSYLVANIA**

STATEMENTS OF FINANCIAL POSITION
DECEMBER 31, 2017 AND 2016

		<u>ASSETS</u>	
		<u>2017</u>	<u>2016</u>
CURRENT ASSETS:			
Cash		\$ 91,064	\$ 21,997
Restricted cash		184,805	191,952
Total cash		275,869	213,949
Prepaid expenses		2,875	2,852
Total current assets		278,744	216,801
INVESTMENTS		9,265,130	7,845,154
COMPUTER SOFTWARE, NET		12,867	21,667
TOTAL		<u>\$ 9,556,741</u>	<u>\$ 8,083,622</u>
<u>LIABILITIES AND NET ASSETS</u>			
CURRENT LIABILITIES:			
Funds payable		\$ 10,007	\$ 11,110
YMCA grants payable		32,000	29,900
Scholarship payable		-	300
Total current liabilities		42,007	41,310
NET ASSETS:			
Unrestricted		500,035	428,751
Temporarily restricted:			
Programs		174,798	180,842
Endowment		8,839,901	7,432,719
Total net assets		9,514,734	8,042,312
TOTAL		<u>\$ 9,556,741</u>	<u>\$ 8,083,622</u>

See Notes to Financial Statements

**COMMUNITY FOUNDATION
SERVING THE HEART OF WESTERN PENNSYLVANIA**

STATEMENTS OF ACTIVITIES
FOR THE YEAR ENDED DECEMBER 31, 2017

REVENUES, GAINS AND OTHER SUPPORT:	Unrestricted	Temporarily Restricted		Total
		Programs	Endowment	
Direct public support	\$ 54,940	\$ 175,786	\$ 626,308	\$ 857,034
Interest income	876	-	-	876
Investment income (loss)	66,775	-	1,267,266	1,334,041
Net assets released from restrictions	<u>668,222</u>	<u>(181,830)</u>	<u>(486,392)</u>	<u>-</u>
Total revenues, gains and other support	790,813	(6,044)	1,407,182	2,191,951
EXPENSES:				
Tuition Scholarship Program and grants to charitable agencies	529,943	-	-	529,943
Salaries and wages	105,486	-	-	105,486
Special events and activities	11,732	-	-	11,732
Office equipment and supplies	14,039	-	-	14,039
Printing and publications	1,655	-	-	1,655
Marketing	2,257	-	-	2,257
Rent	5,570	-	-	5,570
Telephone and internet	1,999	-	-	1,999
Utilities	4,960	-	-	4,960
Taxes	8,843	-	-	8,843
Insurance	3,299	-	-	3,299
Postage	1,242	-	-	1,242
Employee benefits	4,160	-	-	4,160
Professional fees	10,000	-	-	10,000
Dues and subscriptions	1,642	-	-	1,642
Travel/meals	794	-	-	794
Payroll services	1,457	-	-	1,457
Education/training	925	-	-	925
Depreciation	8,800	-	-	8,800
Miscellaneous	<u>726</u>	<u>-</u>	<u>-</u>	<u>726</u>
Total expenses	<u>719,529</u>	<u>-</u>	<u>-</u>	<u>719,529</u>
INCREASE (DECREASE) IN NET ASSETS	71,284	(6,044)	1,407,182	1,472,422
NET ASSETS, BEGINNING OF YEAR	<u>428,751</u>	<u>180,842</u>	<u>7,432,719</u>	<u>8,042,312</u>
NET ASSETS, END OF YEAR	<u>\$ 500,035</u>	<u>\$ 174,798</u>	<u>\$ 8,839,901</u>	<u>\$ 9,514,734</u>

See Notes to Financial Statements

**COMMUNITY FOUNDATION
SERVING THE HEART OF WESTERN PENNSYLVANIA**

STATEMENTS OF ACTIVITIES
FOR THE YEAR ENDED DECEMBER 31, 2016

REVENUES, GAINS AND OTHER SUPPORT:	Unrestricted	Temporarily Restricted		Total
		Programs	Endowment	
Direct public support	\$ 50,966	\$ 178,034	\$ 205,717	\$ 434,717
Interest income	748	-	-	748
Investment income (loss)	44,748	-	468,434	513,182
Net assets released from restrictions	449,964	(154,188)	(295,776)	-
Total revenues, gains and other support	546,426	23,846	378,375	948,647
EXPENSES:				
Tuition Scholarship Program and grants to charitable agencies	439,291	-	-	439,291
Salaries and wages	110,475	-	-	110,475
Special events and activities	6,759	-	-	6,759
Office equipment and supplies	17,194	-	-	17,194
Printing and publications	1,998	-	-	1,998
Marketing	3,427	-	-	3,427
Rent	5,434	-	-	5,434
Telephone and internet	1,967	-	-	1,967
Utilities	3,506	-	-	3,506
Taxes	10,032	-	-	10,032
Insurance	3,128	-	-	3,128
Postage	1,909	-	-	1,909
Employee benefits	6,376	-	-	6,376
Professional fees	9,500	-	-	9,500
Dues and subscriptions	1,337	-	-	1,337
Travel/meals	858	-	-	858
Payroll services	1,440	-	-	1,440
Education/training	373	-	-	373
Depreciation	5,600	-	-	5,600
Miscellaneous	5,429	-	-	5,429
Total expenses	636,033	-	-	636,033
INCREASE (DECREASE) IN NET ASSETS	(89,607)	23,846	378,375	312,614
NET ASSETS, BEGINNING OF YEAR	518,358	156,996	7,054,344	7,729,698
NET ASSETS, END OF YEAR	\$ 428,751	\$ 180,842	\$ 7,432,719	\$ 8,042,312

See Notes to Financial Statements

**COMMUNITY FOUNDATION
SERVING THE HEART OF WESTERN PENNSYLVANIA**

STATEMENTS OF CASH FLOWS
FOR THE YEARS ENDED DECEMBER 31, 2017 AND 2016

	2017	2016
CASH FLOWS FROM OPERATING ACTIVITIES:		
Increase (decrease) in net assets	\$ 1,472,422	\$ 312,614
Adjustments to reconcile increase (decrease) in net assets to net cash provided by (used in) operating activities:		
Contribution of noncash gifts	(3,947)	(2,370)
Net realized and unrealized (gains) losses on investments	(1,087,468)	(256,330)
Depreciation	8,800	5,600
(Increase) decrease in, Prepaid expenses	(23)	(132)
Increase (decrease) in:		
Funds payable	(1,103)	(9,641)
YMCA grants payable	2,100	(7,640)
Scholarship payable	(300)	(2,725)
	390,481	39,376
Net cash provided by (used in) operating activities		
CASH FLOWS FROM INVESTING ACTIVITIES:		
Purchases of computer software	-	(9,600)
Purchases of investments	(799,815)	(418,294)
Proceeds from sales of investments	471,254	374,503
	(328,561)	(53,391)
Net cash provided by (used in) investing activities		
NET INCREASE (DECREASE) IN CASH	61,920	(14,015)
CASH, BEGINNING OF YEAR	213,949	227,964
CASH, END OF YEAR	\$ 275,869	\$ 213,949

See Notes to Financial Statements

COMMUNITY FOUNDATION
SERVING THE HEART OF WESTERN PENNSYLVANIA

NOTES TO FINANCIAL STATEMENTS

1. NATURE OF OPERATIONS AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

NATURE OF OPERATIONS

The Community Foundation Serving the Heart of Western Pennsylvania (the "Foundation"), formerly Armstrong County Community Foundation, is a nonprofit organization incorporated to meet the needs of individuals and charitable agencies within mid-Western Pennsylvania. Since inception, the Foundation has allowed donors and nonprofit organizations to work together to improve the quality of life in the area. The purpose of the Foundation is to develop, manage and distribute charitable funding to meet existing and changing community needs.

BASIS OF ACCOUNTING

The financial statements of the Foundation have been prepared on the accrual basis of accounting and, accordingly, report all significant receivables, payables, and other liabilities as prescribed by accounting principles generally accepted in the United States of America ("GAAP").

FINANCIAL STATEMENT PRESENTATION

The Foundation is required to report information regarding its financial position according to three classes of net assets: unrestricted, temporarily restricted, and permanently restricted.

Unrestricted net assets consist of resources available for the various programs and administration of the Foundation, which have not been restricted by a donor or grantor.

Temporarily restricted net assets consist of donor-restricted contributions. Amounts restricted by the donor or grantor for a particular purpose are reported as temporarily restricted net assets in the statements of financial position. When a donor restriction expires, that is, when a stipulated time restriction ends or a purpose restriction is accomplished, temporarily restricted net assets are reclassified to unrestricted net assets.

Permanently restricted net assets represent endowments which require that the principal be invested in perpetuity and only the income be used as designated by the donor. The Foundation did not have any permanently restricted net assets as of December 31, 2017 and 2016.

REVENUES AND OTHER SUPPORT

Grants and other contributions of cash and other assets are reported as temporarily restricted support if they are received with donor stipulations that limit the use of the donated assets. When a donor restriction expires, that is, when a stipulated time restriction ends or purpose restriction is accomplished, temporarily restricted net assets are reclassified to unrestricted net assets and reported in the statements of activities as net assets released from restrictions. Contributions received with donor-imposed restrictions that are met in the same year in which the contributions are received are classified as unrestricted contributions.

Unconditional promises to give are recorded when the pledge is received. Unconditional promises to give due in the next year are reflected as current promises to give and are recorded at their net realizable value. Unconditional promises to give due in subsequent years are reflected as long-term promises to give and are recorded at the present value of their net realizable value, using risk-free interest rates applicable to the years in which the promises are received to discount the amounts. An allowance for uncollectible promises is provided based on management's evaluation of potential uncollectible promises receivable at year end. The Foundation had no unconditional promises to give as of December 31, 2017 and 2016.

INVESTMENTS

Investments in marketable securities with readily determinable fair values and all investments in debt securities are recorded at fair value in the statements of financial position.

Although the Foundation's investments are invested in a variety of financial instruments managed by investment advisors, the fair values, reported in the statements of financial position, are subject to various market risks including changes in the equity markets, the interest rate environment, and economic conditions. Due to the level of risk associated with investment securities and the level of uncertainty related to changes in the fair value of investment securities, it is reasonably possible that the fair value of investments reported in the accompanying statements of financial position could change materially in the near term.

FAIR VALUE MEASUREMENTS

Accounting Standards require the Foundation to measure various assets and liabilities at fair value. Fair value is defined as the price that would be received to sell an asset or the price that would be paid to dispose of a liability in an orderly transaction between market participants at the measurement date. The framework for measuring fair value includes a hierarchy used to classify the inputs used in measuring fair value.

The hierarchy prioritizes the inputs used in determining valuations into three levels. The level in the fair value hierarchy within which the fair value measurement falls is determined based on the lowest level input that is significant to the fair value measurement. The levels of the fair value hierarchy are as follows:

Level 1 – Fair value is based on unadjusted quoted prices in active markets that are accessible to the Foundation for identical assets. These generally provide the most reliable evidence and are used to measure fair value whenever available.

Level 2 – Fair value is based on significant inputs, other than Level 1 inputs, that are observable either directly or indirectly for substantially the full term of the asset through corroboration with observable market data. Level 2 inputs include quoted market prices in active markets for similar assets, quoted market prices in markets that are not active for identical or similar assets, and other observable inputs.

Level 3 – Fair value would be based on significant unobservable inputs. Examples of valuation methodologies that would result in Level 3 classification include option pricing models, discounted cash flows, and other techniques.

COMPUTER SOFTWARE

Computer software purchased is recorded at cost. Depreciation is computed using the straight-line method over the estimated useful lives of the software.

ENDOWMENT FUNDS

Accounting Standards provide guidance on the net asset classification of donor-restricted endowment funds for a nonprofit organization that is subject to an enacted version of the Uniform Prudent Management of Institutional Funds Act of 2006 (“UPMIFA”) and also improves disclosures about an organization’s endowment funds (both donor restricted endowment funds and board designated endowment funds) whether or not the organization is subject to UPMIFA.

The Commonwealth of Pennsylvania has not adopted UPMIFA. The Commonwealth of Pennsylvania has enacted Act 141 (the "Act"). The Act allows the Foundation to elect a "total return investment policy" in regard to its endowment. Income is defined by the Act to mean a fixed percentage of the "value of the assets" held by the Foundation, not less than 2% or more than 7%. The "value of the assets" for purposes of the Act, is the average fair value of the assets over a three-year period (or the average value of the assets over any shorter period in the cases of assets held less than three years). The Foundation adopted a total investment return policy with a spending policy of 5% of the three-year average fair value of the endowment's investments for 2017 and 2016. This spending policy determines the funds available for grant making and administrative expenses. This calculation excludes funds where the spending policy would reduce the individual fund balances below its stipulated minimum.

The Foundation's investment objective is to maximize returns through a highly diversified portfolio of assets consisting of equity, fixed income and money market funds. The return objective of the Foundation is the desired annual payout, or spending policy, plus inflation plus growth. The Foundation maintains a prudent risk policy through its investment and the asset allocation policies that are consistent with its public nature and the position of the Foundation.

INCOME TAX STATUS

The Foundation has been classified as a tax-exempt, nonprofit organization under Section 501(c)(3) of the Internal Revenue Code. Accordingly, no provision for federal and state income taxes is required. In general, the Foundation's tax positions for open tax years remain subject to examination by the tax authorities in the jurisdictions in which the Foundation operates.

USE OF ESTIMATES

The preparation of the 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 disclosures 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.

ADVERTISING

Advertising costs are expensed as incurred. Advertising expense was \$824 and \$888 for the years ended December 31, 2017 and 2016, respectively.

SUBSEQUENT EVENTS

In preparing these financial statements, the Foundation has evaluated events and transactions for potential recognition or disclosure through May 15, 2018, the date the financial statements were available to be issued.

2. INVESTMENTS

Investments are measured at fair value using level 1 inputs and consist of the following at December 31, 2017 and 2016:

	<u>2017</u>	<u>2016</u>
Money market funds	\$ 112,353	\$ 119,864
Corporate/Government Bonds	27,719	29,875
Mutual Funds:		
Growth	1,370,122	869,473
Growth & Income	5,836,871	4,303,026
Income	1,379,442	1,686,247
Aggressive Income	173,181	359,122
Aggressive	<u>365,442</u>	<u>477,547</u>
Total	<u>\$ 9,265,130</u>	<u>\$ 7,845,154</u>

The Foundation does not have any investments measured using level 2 or 3 inputs.

Investment income (loss) is comprised of the following for the years ended December 31, 2017 and 2016:

	<u>2017</u>	<u>2016</u>
Dividends and interest income	\$ 301,704	\$ 307,887
Net unrealized gain (loss) on investments	185,111	287,116
Net realized gain (loss) on investments	902,357	(30,786)
Investment fees	<u>(55,131)</u>	<u>(51,035)</u>
	<u>\$ 1,334,041</u>	<u>\$ 513,182</u>

3. TEMPORARILY RESTRICTED NET ASSETS

Temporarily restricted net assets have been restricted by donors for the following purposes at December 31, 2017 and 2016:

	2017		2016	
	<u>Programs</u>	<u>Endowment</u>	<u>Programs</u>	<u>Endowment</u>
Administration	\$ -	\$ 382,740	\$ 5,011	\$ 356,703
Organizational	-	1,149,059	-	940,636
Scholarship	174,798	1,654,211	175,831	1,348,369
Donor advised	-	5,238,868	-	4,419,584
Donor designated	<u>10,007</u>	<u>447,023</u>	<u>11,110</u>	<u>397,627</u>
Total	184,805	8,871,901	191,952	7,462,919
Less payables	<u>(10,007)</u>	<u>(32,000)</u>	<u>(11,110)</u>	<u>(30,200)</u>
Total	<u>\$ 174,798</u>	<u>\$8,839,901</u>	<u>\$ 180,842</u>	<u>\$7,432,719</u>

4. ENDOWMENT NET ASSETS

The Foundation's endowment consists of various investment funds established for a variety of purposes. Its endowment includes donor-restricted endowment funds. As required by GAAP, net assets associated with endowment funds are classified and reported based on the existence or absence of donor-imposed restrictions.

The Foundation's endowment-related activity during the years ended December 31, 2017 and 2016 is as follows:

	Temporarily Restricted	
	<u>2017</u>	<u>2016</u>
Beginning endowment net assets	\$ 7,432,719	\$ 7,054,344
Contributions	626,308	205,717
Income on investments	282,389	286,035
Expenses	(55,111)	(51,805)
Net assets released from restrictions	(486,392)	(295,776)
Net appreciation in investments	<u>1,039,988</u>	<u>234,204</u>
Change in endowment net assets	<u>1,407,182</u>	<u>378,375</u>
Ending endowment net assets	<u>\$ 8,839,901</u>	<u>\$ 7,432,719</u>

Included in net assets released from restrictions is \$94,466 and \$78,449 or a 1% internal fee charged for management of the endowment funds as of December 31, 2017 and 2016, respectively. The fees are transferred to unrestricted to help offset expenses of the Foundation. The Foundation has no unrestricted or permanently restricted endowment funds.

5. FUNDS PAYABLE

As a party to agreements with local nonprofit organizations, the Foundation serves as an administrator for funds.

The Foundation accepts grants and donations on behalf of the nonprofit organizations, and disburses funds for approved expenses as directed by the nonprofit organizations.

Activity related to these funds during 2017 and 2016 is summarized as follows:

	<u>2017</u>	<u>2016</u>
Beginning balance, reserved for future commitments	\$ 11,110	\$ 20,751
Grants and donations received	1,007	10,395
Expenses disbursed	<u>(2,110)</u>	<u>(20,036)</u>
Ending balance, reserved for future commitments	<u>\$ 10,007</u>	<u>\$ 11,110</u>

6. FUNCTIONAL EXPENSES

The Foundation incurred expenses in the following functional areas during the years ended December 31, 2017 and 2016:

	<u>2017</u>	<u>2016</u>
Program services	\$ 594,923	\$ 505,725
General and administrative	66,915	74,149
Fundraising	<u>57,691</u>	<u>56,159</u>
Total	<u>\$ 719,529</u>	<u>\$ 636,033</u>

7. OPERATING LEASES

The Foundation has operating leases for its office space and software. Rent expense was \$17,570 and \$17,434 for the years ended December 31, 2017 and 2016, respectively. At December 31, 2017, the Foundation's future non-cancellable minimum lease payments under these operating leases is \$9,255.

8. RETIREMENT PLAN

The Foundation has a retirement plan covering all employees. Retirement plan expense was \$3,161 and \$3,296 for the years ended December 31, 2017 and 2016, respectively.

9. CONCENTRATION OF CREDIT RISK

The Foundation maintains cash accounts, which, at times, may exceed federally insured limits. The Foundation has not experienced losses from maintaining cash accounts in excess of federally insured limits. Management believes it is not subject to any significant credit risk on cash accounts.
