



**Lehigh County Historical Society
Lehigh Valley Heritage Museum**

432 West Walnut Street
Allentown, PA 18102
610-435-1074

March 2019

Re: IRS 990 & Annual Audit FY 2018

Dear Friends,

As President of the Lehigh County Historical Society, I would like to clarify a significant point concerning our recent audit for the year ended March 31, 2018 and associated IRS 990.

My point deals with page 4 of the audit and page 10 of the 990 (Part IX, column A, line 22) referencing a substantial deduction of \$183,229 for Depreciation & Amortization. This is a nonoperation expense charge that does not involve an expenditure of any cash actually spent or transferred. It is an accounting procedure that amortizes the cost of an asset over a given period of years. **In this instance**, the asset is the cost of our museum building erected nearly fifteen years ago now being amortized and depreciated over a prescribed period of forty years. This deduction for depreciation is also carried on page one of our Form 990 in the expense section. When applied against our revenue for a given year, the deduction for depreciation could give the false impression that our cash expenses exceeded our income. This is not true.

I hope this correspondence helps to better clarify our overall financial picture.

Sincerely,

Alan C. France

**Alan C. France, CPA
President**

**LEHIGH COUNTY HISTORICAL SOCIETY
(A Not-for-Profit Corporation)**

**Financial Statements and
Independent Auditor's Report**

For the Year Ended March 31, 2018

**LEHIGH COUNTY HISTORICAL SOCIETY
(A Not-for-Profit Corporation)
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INDEPENDENT AUDITOR'S REPORT

To the Board of Directors of
Lehigh County Historical Society
Allentown, PA

We have audited the accompanying financial statements of Lehigh County Historical Society (a Not-for-Profit Corporation), which comprise the statement of financial position as of March 31, 2018 and the related statements of activities and changes in net assets, cash flows, and functional expenses 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 of Lehigh County Historical Society as of March 31, 2018 and the changes in its net assets and its cash flows for the year then ended in accordance with accounting principles generally accepted in the United States of America.

Report on Summarized Comparative Information

We have previously audited the Lehigh County Historical Society's 2017 financial statements, and in our report dated February 5, 2018 we expressed an unmodified opinion on those audited financial statements. In our opinion, the summarized comparative information presented herein as of and for the year ended March 31, 2017, is consistent, in all material respects, with the audited financial statements from which it has been derived.

Corybell, Rappold & Yasaita LLP

February 8, 2019

**LEHIGH COUNTY HISTORICAL SOCIETY
(A Not-for-Profit Corporation)
STATEMENTS OF FINANCIAL POSITION**

- ASSETS -	March 31,	
	2018	2017
Cash and Cash Equivalents	\$ 330,212	\$ 282,027
Accounts Receivable	8,000	14,950
Prepaid Expenses	1,489	3,616
Inventory (Note 2)	3,797	8,189
Pledges and Grants Receivable, Net (Note 8)	58,488	58,238
Investments (Note 3)	2,318,551	2,125,364
Outside Perpetual Trusts (Note 6)	1,165,305	1,127,214
Land, Building and Equipment, Net (Note 5)	4,852,270	5,033,540
COLLECTIONS (Note 2 and 4)		
TOTAL ASSETS	\$ 8,738,112	\$ 8,653,138
- LIABILITIES AND NET ASSETS -		
Accounts Payable	\$ 6,885	\$ 4,988
Accrued Payroll and Related Expenses	50,672	48,587
COMMITMENTS (Note 11)		
TOTAL LIABILITIES	57,557	53,575
Net Assets: (Note 10)		
Unrestricted	6,826,706	6,830,571
Temporarily Restricted	268,116	221,350
Permanently Restricted	1,585,733	1,547,642
TOTAL NET ASSETS	8,680,555	8,599,563
TOTAL LIABILITIES AND NET ASSETS	\$ 8,738,112	\$ 8,653,138

See independent auditor's report and notes to financial statements.

LEHIGH COUNTY HISTORICAL SOCIETY
(A Not-for-Profit Corporation)
STATEMENT OF ACTIVITIES AND CHANGES IN NET ASSETS
For the Year Ended March 31, 2018
With Comparative Totals for the Year Ended March 31, 2017

<u>OPERATING:</u>	<u>Unrestricted</u>	<u>Temporarily Restricted</u>	<u>Permanently Restricted</u>
<i><u>Support and Revenue:</u></i>			
Contributions	\$ 65,643	\$ 215,729	\$ -
Government Appropriations	96,000	-	-
Admissions and Tour Income	24,978	-	-
Memberships	86,506	-	-
Research Fees	17,604	-	-
Rental Income	5,040	-	-
Gift Shop Sales (Net of Cost of Goods of \$5,827)	4,046	-	-
Investment Income (Net of Fees of \$11,080)	82,068	11,151	-
	<u>381,885</u>	<u>226,880</u>	<u>-</u>
Net Assets Released from Restrictions	<u>232,184</u>	<u>(232,184)</u>	<u>-</u>
Total Support and Revenue	<u>614,069</u>	<u>(5,304)</u>	<u>-</u>
<i><u>Expenses:</u></i>			
Collections and Exhibits	185,633	-	-
Library and Archives	104,973	-	-
Education	143,891	-	-
Management and General	123,575	-	-
Development	33,717	-	-
	<u>591,789</u>	<u>-</u>	<u>-</u>
Total Expenses	<u>591,789</u>	<u>-</u>	<u>-</u>
Increase (Decrease) in Net Assets from Operating Activities	<u>22,280</u>	<u>(5,304)</u>	<u>-</u>
<u>NONOPERATING:</u>			
Sale of Donated Items	16,045	-	-
Depreciation Expense	(183,229)	-	-
Realized/Unrealized Gains on Investments and Other Assets	141,039	52,070	-
Change in Value of Outside Perpetual Trusts	-	-	38,091
Increase (Decrease) in Net Assets from Nonoperating Activities	<u>(26,145)</u>	<u>52,070</u>	<u>38,091</u>
Change in Net Assets	(3,865)	46,766	38,091
Net Assets at Beginning of Year	<u>6,830,571</u>	<u>221,350</u>	<u>1,547,642</u>
Net Assets at End of Year	<u>\$ 6,826,706</u>	<u>\$ 268,116</u>	<u>\$ 1,585,733</u>

See independent auditor's report and notes to financial statements.

**LEHIGH COUNTY HISTORICAL SOCIETY
(A Not-for-Profit Corporation)
STATEMENT OF ACTIVITIES AND CHANGES IN NET ASSETS (Continued)
For the Year Ended March 31, 2018
With Comparative Totals for the Year Ended March 31, 2017**

Total Year Ended 3/31/2018	Total Year Ended 3/31/2017
\$ 281,372	\$ 304,566
96,000	96,000
24,978	34,615
86,506	89,485
17,604	12,716
5,040	5,944
4,046	5,247
93,219	89,172
608,765	637,745
-	-
608,765	637,745
185,633	179,575
104,973	117,719
143,891	140,811
123,575	115,203
33,717	35,267
591,789	588,575
16,976	49,170
16,045	-
(183,229)	(183,547)
193,109	171,726
38,091	30,823
64,016	19,002
80,992	68,172
8,599,563	8,531,391
\$ 8,680,555	\$ 8,599,563

LEHIGH COUNTY HISTORICAL SOCIETY
(A Not-for-Profit Corporation)
STATEMENTS OF CASH FLOWS

	Year Ended 3/31/2018	Year Ended 3/31/2017
<i><u>Cash Flows from Operating Activities:</u></i>		
Change in Net Assets	\$ 80,992	\$ 68,172
Adjustment to Reconcile Change in Net Assets to Net Cash Provided by Operating Activities:		
Depreciation Expense	183,229	183,547
Net Realized and Unrealized Gains on Investments	(193,109)	(171,726)
Change in Value of Outside Perpetual Trusts	(38,091)	(30,823)
(Increase) Decrease in:		
Accounts Receivable	6,950	(6,750)
Prepaid Expenses	2,127	965
Inventory	4,392	3,011
Pledges and Grants Receivable	(250)	19,177
Increase (Decrease) in:		
Accounts Payable and Accrued Expenses	3,982	(17,917)
Net Cash Provided by Operating Activities	50,222	47,656
<i><u>Cash Flows from Investing Activities:</u></i>		
Purchase of Equipment	(1,959)	(4,509)
Purchase of Investments	(64,738)	(61,912)
Proceeds from Sale of Investments	64,660	59,142
Net Cash Used by Investing Activities	(2,037)	(7,279)
Net Increase in Cash and Cash Equivalents	48,185	40,377
Cash and Cash Equivalents at Beginning of Year	282,027	241,650
Cash and Cash Equivalents at End of Year	\$ 330,212	\$ 282,027
<i><u>Non-Cash Financing Activities:</u></i>		
Donated Stock	\$ 1,118	\$ 926

See independent auditor's report and notes to financial statements.

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LEHIGH COUNTY HISTORICAL SOCIETY
(A Not-for-Profit Corporation)
STATEMENT OF FUNCTIONAL EXPENSES
For the Year Ended March 31, 2018
With Comparative Totals for the Year Ended March 31, 2017

	Program Services			
	Collections and Exhibits		Library and Archives	
	Heritage Center	Other Properties	Archives	Education
Salaries	\$ 39,609	\$ 19,064	\$ 72,308	\$ 113,214
Payroll Taxes	2,930	1,410	5,349	8,374
Employee Benefits	5,948	484	10,531	9,347
Telephone	1,927	720	403	-
Utilities	12,227	6,803	5,380	5,869
Security	2,394	-	323	353
Insurance	12,193	3,252	5,365	5,853
Repairs and Renovations	18,571	4,600	-	-
Supplies	3,466	2	462	-
Marketing and Recruitment	11,402	-	436	-
Professional Fees	1,231	-	-	-
Subscriptions, Dues and Memberships	3,553	-	1,761	-
Travel	2,231	765	-	248
Printing, Postage, and Copier Expenses	1,142	2,720	964	250
Other Expenses	6,499	379	1,194	383
Event Expenses, Hospitality	10,044	1,347	82	-
Exhibit Expenses and Special Projects	8,716	4	415	-
Technology Expenses	-	-	-	-
Operating Expenses	<u>144,083</u>	<u>41,550</u>	<u>104,973</u>	<u>143,891</u>
Depreciation and Amortization	<u>76,345</u>	<u>-</u>	<u>33,592</u>	<u>36,646</u>
	<u>\$ 220,428</u>	<u>\$ 41,550</u>	<u>\$ 138,565</u>	<u>\$ 180,537</u>

See independent auditor's report and notes to financial statements.

**LEHIGH COUNTY HISTORICAL SOCIETY
(A Not-for-Profit Corporation)
STATEMENT OF FUNCTIONAL EXPENSES (Continued)
For the Year Ended March 31, 2018
With Comparative Totals for the Year Ended March 31, 2017**

Management and General	Development	Total 3/31/2018	Total 3/31/2017
\$ 42,308	\$ 22,933	\$ 309,436	\$ 324,517
3,130	1,696	22,889	24,560
5,661	2,626	34,597	31,847
1,012	-	4,062	4,012
5,381	489	36,149	29,172
324	29	3,423	4,157
5,364	488	32,515	32,908
3,104	-	26,275	22,997
5,131	11	9,072	11,681
1,257	4,247	17,342	13,115
25,665	-	26,896	20,363
802	-	6,116	2,016
2,296	-	5,540	7,156
13,313	306	18,695	20,798
5,449	-	13,904	11,781
710	-	12,183	13,520
35	892	10,062	11,299
2,633	-	2,633	2,676
<u>123,575</u>	<u>33,717</u>	<u>591,789</u>	<u>588,575</u>
<u>33,592</u>	<u>3,054</u>	<u>183,229</u>	<u>183,547</u>
<u>\$ 157,167</u>	<u>\$ 36,771</u>	<u>\$ 775,018</u>	<u>\$ 772,122</u>

LEHIGH COUNTY HISTORICAL SOCIETY
(A Not-for-Profit Corporation)
NOTES TO FINANCIAL STATEMENTS
March 31, 2018 and 2017

1. Nature of Activities

Lehigh County Historical Society (the "Society") is a not-for-profit corporation organized under the laws of the Commonwealth of Pennsylvania for the purpose of the collection, preservation, and publication of the history and historical data relative to Lehigh County for the education of the general public.

2. Summary of Significant Accounting Policies

Basis of Accounting

The accompanying financial statements have been prepared on the accrual basis of accounting in accordance with accounting principles generally accepted in the United States of America and, accordingly, reflect all significant receivables, payables, and other liabilities.

Basis of Presentation

The Society is required to report information regarding its financial position and activities according to three classes of net assets. A description of the three net asset categories follows:

Unrestricted Net Assets

Unrestricted net assets includes funds not subject to donor-imposed stipulations. In general, the revenues received and expenses incurred in conducting the Society's charitable mission are included in this category.

Temporarily Restricted Net Assets

Temporarily restricted net assets include gifts, grants and pledges whose use by the Society has been limited by donors to later periods of time or after specified dates, or to a specified purpose.

Permanently Restricted Net Assets

Permanently restricted net assets include gifts, trusts and pledges which are required by donor-imposed restrictions to be invested in perpetuity and only income be made available for operations in accordance with donor restrictions. Outside perpetual trusts are included in this category.

Concentration of Credit Risk

The Society maintains its cash accounts at commercial banks. Accounts at these banks are guaranteed by the Federal Deposit Insurance Corporation (FDIC) up to \$250,000. Amounts on deposit at various times through the year exceeded the federally insured limit. As of March 31, 2018, the Society had \$39,689 uninsured.

LEHIGH COUNTY HISTORICAL SOCIETY
(A Not-for-Profit Corporation)
NOTES TO FINANCIAL STATEMENTS
March 31, 2018 and 2017

2. Summary of Significant Accounting Policies (Continued)

Income Taxes

The Society is a not-for-profit corporation that is exempt from income taxes under Section 501(c)(3) of the Internal Revenue Code.

The accounting standard for uncertainty in income taxes addresses the determination of whether tax benefits claimed or expected to be claimed on a tax return should be recorded in the financial statements. Under that guidance, the Society may recognize the tax benefits from an uncertain tax position only if it is more likely than not that the tax position will be sustained on examination by taxing authorities based on the technical merits of the position. Examples of tax positions include the tax-exempt status of the Society and various positions related to the potential sources of unrelated business taxable income (UBIT). The tax benefits recognized in the financial statements from such a position are measured based on the largest benefit that has a greater than 50% likelihood of being realized upon ultimate settlement. There were no unrecognized tax benefits identified or liabilities recorded for the fiscal years 2018 and 2017.

The Society files its Form 990 with the United States Internal Revenue Service and Form BCO-10 with the Bureau of Charitable Organizations in Pennsylvania.

Use of Estimates

The preparation of financial statements in conformity with accounting principles generally accepted in the United States of America requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates.

Contributions

Contributions of cash and other assets, including unconditional promises to give, are considered to be available for unrestricted use unless specifically restricted by the donor and are recognized as revenues in the period the unconditional promise is given. Contributions to be given in future periods are discounted at an appropriate discount rate.

Gifts of cash and other noncapital assets are reported as temporarily restricted operating revenue if the gifts 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 met, temporarily restricted net assets are reclassified to unrestricted net assets and reported in the statement of activities and changes in net assets as net assets released from restrictions.

LEHIGH COUNTY HISTORICAL SOCIETY
(A Not-for-Profit Corporation)
NOTES TO FINANCIAL STATEMENTS
March 31, 2018 and 2017

2. Summary of Significant Accounting Policies (Continued)

Contributed Services

A substantial number of unpaid volunteers have made significant contributions of their time to develop and carry out the Society's programs and activities. Included in these activities are persons serving as tour guides, curatorial services, and clerical services. No amounts have been reflected in the statements for donated services since no objective basis is available to measure the value of such services, and the services do not meet the criterion for recognition.

Revenue Recognition

Revenues are reported as increases in unrestricted net assets unless use of the related assets is limited by donor-imposed restrictions. Expenses are reported as decreases in unrestricted net assets. Gains and losses on investments and other assets or liabilities are reported as increases or decreases in unrestricted net assets unless their use is restricted by explicit donor stipulation or law.

Functional Allocation of Expenses

As reported in the statement of functional expenses, expenses of the Society have been allocated to the following functional reporting classifications:

- Collections and Exhibits
- Library and Archives
- Education
- Management and General
- Development

The Society's method for allocating expenses among the functional reporting classifications which cannot be specifically identified are based on estimates made for time spent by key personnel between functions, consumption, and other objective bases.

Cash and Cash Equivalents

Cash and cash equivalents include cash on hand, cash in checking accounts, and other interest-bearing instruments with an original maturity of three months or less, unless held within investment accounts.

Accounts Receivable

Accounts receivable represents various amounts due to the Society. Management has determined that the receivables are fully collectible; therefore, no allowance for uncollectible accounts is considered necessary at March 31, 2018 and 2017.

**LEHIGH COUNTY HISTORICAL SOCIETY
(A Not-for-Profit Corporation)
NOTES TO FINANCIAL STATEMENTS
March 31, 2018 and 2017**

2. Summary of Significant Accounting Policies (Continued)

Inventory

The Society has a gift shop located in the Heritage Center. Inventory is stated at the lower of cost or market value on a first-in, first-out basis.

Investments

Investments in marketable securities with readily determinable fair values are reported at their fair value in the statement of financial position. Investment income or loss (including gains and losses on investments, interest and dividends) is included in the statement of activities and changes in net assets as an increase or decrease in unrestricted net assets unless the income or loss is restricted by donor or law.

Fair value of investments in securities is based on the last reported sales price at March 31. The value initially assigned to investments received by gift is the market value at the date of donation.

Land, Building and Equipment

Land, building and equipment is stated at cost or donated value. Depreciation is computed by use of the straight-line method based on estimated useful lives. Acquisitions in excess of \$1,000 are capitalized. Interest costs connected with the construction of the building are capitalized during the period of construction activity. The cost of maintenance and repairs is charged to operations as incurred; significant renewals and betterments are capitalized.

	<u>Years</u>
Building	40
Equipment and Furniture	5 - 7
Vehicles	5 - 7
Permanent Exhibit	10

Collections

The collections, which were acquired through purchases and contributions since the Society's inception, are not recognized as assets on the statement of financial position. Purchases of collection items are recorded as decreases in unrestricted net assets in the year in which the items are acquired or as temporarily or permanently restricted net assets if the assets used to purchase the items are restricted by donors. Contributed collection items are not reflected in the financial statements. Proceeds from deaccessions or insurance recoveries are reflected as increases in the appropriate net asset classes.

**LEHIGH COUNTY HISTORICAL SOCIETY
(A Not-for-Profit Corporation)
NOTES TO FINANCIAL STATEMENTS
March 31, 2018 and 2017**

3. Investments

Investments are comprised of the following:

	March 31, 2018		March 31, 2017	
	Cost	Market	Cost	Market
Cash Management Funds	\$ 152	\$ 152	\$ 49	\$ 49
Equities	2,091	3,226	2,091	2,115
Equity Funds	1,257,863	1,607,888	1,345,690	1,535,206
Fixed Income Funds	714,025	707,285	588,483	587,994
	<u>\$ 1,974,131</u>	<u>\$ 2,318,551</u>	<u>\$ 1,936,313</u>	<u>\$ 2,125,364</u>

A summary of earnings on investments for the years ended March 31, 2018 and 2017 are as follows:

	Year Ended March 31,	
	2018	2017
Interest and Dividends	\$ 104,299	\$ 99,744
Realized Gains	38,859	1,693
Unrealized Gains	154,250	170,033
Investment Fees	(11,080)	(10,572)
Total	<u>\$ 286,328</u>	<u>\$ 260,898</u>

4. Collections

The Society's collections are made up of artifacts of historical significance, scientific specimens, and art objects that are held for educational, research, scientific, and curatorial purposes. Each of the items is cataloged, preserved, and cared for, and activities verifying their existence and assessing their condition are performed continuously. The collections are subject to a policy that requires proceeds from their sales to be used to acquire other items for collections or for the preservation of existing collections.

As part of its collections, the Society holds title to the following properties: Claussville School House, Troxell-Steckel House, Gruber House, Reninger House, Trout Hall, and Allen Park.

LEHIGH COUNTY HISTORICAL SOCIETY
(A Not-for-Profit Corporation)
NOTES TO FINANCIAL STATEMENTS
March 31, 2018 and 2017

5. Land, Building and Equipment

Land, building, and equipment consists of the following:

	3/31/2018	3/31/2017
Land and Land Improvements	\$ 41,033	\$ 41,033
Building	7,239,815	7,239,815
Permanent Exhibit	493,103	493,103
Equipment and Furniture	337,666	335,707
Vehicles	22,028	22,028
	8,133,645	8,131,686
Less: Accumulated Depreciation	(3,281,375)	(3,098,146)
	\$ 4,852,270	\$ 5,033,540

Depreciation charged to expense was \$183,229 and \$183,547 for the years ending March 31, 2018 and 2017, respectively.

6. Outside Perpetual Trusts

The Society is an income beneficiary of two outside perpetual trusts.

The amounts recorded represent the prorata share of net assets that provides for distribution of income to the Society as beneficiary. Income is disbursed as a reimbursement for expenses paid to maintain the respective properties. The trusts are as follows:

		3/31/2018	3/31/2017
Trust	% Trust	Share of Net Assets	Share of Net Assets
Gruber House	100%	\$ 761,932	\$ 753,800
Reninger House	20%	403,373	373,414
		\$ 1,165,305	\$ 1,127,214

LEHIGH COUNTY HISTORICAL SOCIETY
(A Not-for-Profit Corporation)
NOTES TO FINANCIAL STATEMENTS
March 31, 2018 and 2017

7. Fair Value Measurements

Financial Accounting Standards Board ASC 820-10 establishes a framework for measuring fair value. That framework provides a fair value hierarchy that prioritizes the inputs to valuation techniques used to measure fair value. The hierarchy gives the highest priority to unadjusted quoted prices in active markets for identical assets or liabilities (Level 1 measurements) and the lowest priority to unobservable inputs (Level 3 measurements). The three levels of the fair value hierarchy under FASB ASC 820-10 are described below:

Level 1 Inputs to the valuation methodology are unadjusted quoted prices for identical assets or liabilities in active markets that the Society has the ability to access.

Level 2 Inputs to the valuation methodology include:

- Quoted prices for similar assets or liabilities in active markets;
- Quoted prices for identical or similar assets or liabilities in inactive markets;
- Inputs other than quoted prices that are observable for the asset or liability;
- Inputs that are derived principally from or corroborated by observable market data by correlation or other means.

If the asset or liability has a specified (contractual) term, the Level 2 input must be observable for substantially the full term of the asset or liability.

Level 3 Inputs to the valuation methodology are unobservable, are significant to the fair value measurement and include management's judgments about the assumptions market participants would use in pricing the asset or liability.

The asset's or liability's fair value measurement level within the fair value hierarchy is based on the lowest level of any input that is significant to the fair value measurement. Investments classified within Level 3 whose fair value measurements consider several inputs may include Level 1 and/or Level 2 inputs as components of the overall fair value measurement. Valuation techniques used need to maximize the use of observable inputs and minimize the use of unobservable inputs.

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 March 31, 2018 and 2017.

Equities: Valued at the closing price reported on the active market on which the individual securities are traded.

Equity funds, and fixed income funds: Valued at the net asset value (%NAV) of shares held by the Society at year end.

**LEHIGH COUNTY HISTORICAL SOCIETY
(A Not-for-Profit Corporation)
NOTES TO FINANCIAL STATEMENTS
March 31, 2018 and 2017**

7. Fair Value Measurements (Continued)

Outside perpetual trusts: Measurement based on the Society's pro-rata share of the Trust assets, which approximates the expected future cash flows from the Trust.

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

The following table sets forth by level, within the fair value hierarchy, the Society's assets at fair value as of March 31, 2018 and 2017:

	Assets at Fair Value as of March 31, 2018			
	Level 1	Level 2	Level 3	Total
Cash Management Funds	\$ 152	\$ -	\$ -	\$ 152
Equities				
Financial	3,226	-	-	3,226
Equity Mutual Funds				
Large Blend	965,070	-	-	965,070
Foreign Large Blend	642,818	-	-	642,818
Fixed Income Mutual Funds				
Corporate Bond	147,650	-	-	147,650
Intermediate-Term Bond	246,877	-	-	246,877
International Bond	216,034	-	-	216,034
Short-Term Bond	96,724	-	-	96,724
Outside Perpetual Trusts	-	-	1,165,305	1,165,305
Total Assets at Fair Value	<u>\$ 2,318,551</u>	<u>\$ -</u>	<u>\$ 1,165,305</u>	<u>\$ 3,483,856</u>

	Assets at Fair Value as of March 31, 2017			
	Level 1	Level 2	Level 3	Total
Cash Management Funds	\$ 49	\$ -	\$ -	\$ 49
Equities				
Financial	2,115	-	-	2,115
Equity Mutual Funds				
Large Blend	930,936	-	-	930,936
Foreign Large Blend	604,270	-	-	604,270
Fixed Income Mutual Funds				
Corporate Bond	125,456	-	-	125,456
Intermediate-Term Bond	208,351	-	-	208,351
International Bond	174,330	-	-	174,330
Short-Term Bond	79,857	-	-	79,857
Outside Perpetual Trusts	-	-	1,127,214	1,127,214
Total Assets at Fair Value	<u>\$ 2,125,364</u>	<u>\$ -</u>	<u>\$ 1,127,214</u>	<u>\$ 3,252,578</u>

There were no transfers between Level 1, Level 2, or Level 3 investments during the years ended March 31, 2018 and 2017. All transfers are recognized at the end of the reporting period.

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7. Fair Value Measurements (Continued)

The table below sets forth a summary of changes in fair value of the Society's Level 3 assets for the year ended March 31, 2018:

	Outside Perpetual Trusts
Balance, Beginning of Year	\$ 1,127,214
Change in Value of Outside Perpetual Trusts	38,091
Balance, End of Year	\$ 1,165,305

The change in value of beneficial interest in the outside perpetual trusts is included in the non-operating section of the statement of activities and is related to assets held at the statement of financial position date.

8. Pledges and Grants Receivable

Pledges and grants receivable consist of:

	3/31/2018	3/31/2017
Pledges Receivable	\$ 3,238	\$ 3,238
Grants Receivable	55,250	55,000
	58,488	58,238
Less: Allowance for Uncollectible Pledges	-	-
	\$ 58,488	\$ 58,238
Less Than 1 Year	\$ 58,488	
One to Five Years	-	
	\$ 58,488	

9. Line of Credit

The Society had a revolving line of credit for \$300,000 with a bank secured by real property in Lehigh County, Pennsylvania. Interest is payable monthly at the prime rate of interest (3.50% at March 31, 2018). Payment is due on demand. The Society did not draw on this line of credit during the years ended March 31, 2018 and 2017. The line of credit expired subsequent to March 31, 2018 and is no longer available as of the date of the financial statements.

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10. Net Assets

The Society has the following net assets:

	3/31/2018	3/31/2017
Unrestricted:		
Undesignated	\$ 1,974,436	\$ 1,797,031
Invested in Property and Equipment	4,852,270	5,033,540
	\$ 6,826,706	\$ 6,830,571
	3/31/2018	3/31/2017
Temporarily Restricted:		
American Presidency	\$ -	\$ 2,010
Education	12,000	8,000
General Operating	9,986	14,142
Heroes of History	7,000	7,000
Jewish History Project	12,061	12,061
Lehigh County Quality of Life	3,592	3,544
Lehigh County Tourism	10,000	10,000
Tours and Outreach	1,775	2,000
Trexler Catalogue Project	-	16,274
Trial Judge Books	2,162	-
Income from Endowment Funds	209,540	146,319
	\$ 268,116	\$ 221,350
	3/31/2018	3/31/2017
Permanently Restricted:		
Gruber House	\$ 761,932	\$ 753,800
Reninger House	403,373	373,414
Endowment, income is expendable for program purposes	420,428	420,428
	\$ 1,585,733	\$ 1,547,642

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10. Net Assets (Continued)

Net Assets were released from restriction upon satisfaction of the following restricted purposes:

	3/31/2018	3/31/2017
American Presidency	\$ 2,010	\$ 36,990
Collections Inventory	-	20,823
Diversity Upgrades	-	8,491
Education	8,000	7,518
Exhibits and Programs	17,000	43,334
General Operating	163,635	119,485
Geology	-	3,000
Lehigh County Quality of Life	5,202	5,310
Lehigh County Tourism	10,000	-
Tours and Outreach	2,225	2,525
Trexler Catalogue Project	16,274	13,726
Trial Judge Books	7,838	-
	\$ 232,184	\$ 261,202

11. Operating Leases

The Society leases equipment under several long-term operating lease agreements. The leases have expirations through March 2022. Equipment rental expense was \$5,531 and \$5,813 for the years ended March 31, 2018 and 2017, respectively.

Minimum lease payments as of March 31, 2018 are as follows:

Year ending March 31,		
2019	\$	5,501
2020		5,501
2021		5,034
2022		4,878
	\$	20,914

12. Retirement Plan

The Society operates a defined contribution retirement plan (the "Plan") in accordance with section 403(b) of the Internal Revenue Code. Employees may defer a portion of their base compensation on a pre-tax basis up to the maximum allowed by law. They are eligible to make these deferrals immediately upon hire. After the employee has reached age 21 and has completed 12 consecutive months of service with the Society, the Society will match the employee's contributions up to a maximum of 1.5% of base compensation. Employer contributions to the Plan were \$3,366 and \$3,869 for the years ended March 31, 2018 and 2017, respectively.

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13. Endowment Funds

The Society's endowment consists solely of donor-restricted funds. As required by accounting principles generally accepted in the United States of America, net assets associated with endowment funds are classified and reported based on the existence or absence of donor-imposed restrictions.

Interpretation of Relevant Law

The Society follows Commonwealth of Pennsylvania law and its own governing documents with respect to the management of endowment funds. In the absence of donor restrictions, the net appreciation on a donor-restricted endowment fund is spendable. As a result of this interpretation, the Society classifies as permanently restricted net assets (a) the original value of gifts donated to the permanent endowment, (b) the original value of subsequent gifts donated to the permanent endowment, and (c) accumulations to the permanent endowment made in accordance with the direction of the applicable donor gift instrument at the time the accumulation is added to the fund.

Endowment Return Objectives, Risk Parameters, and Strategies

The Society has adopted an investment policy which has been approved by the Board of Directors. The investment objective is long-term capital growth generating comparable returns to current market indices. The Society's portfolio should be balanced with asset allocation consisting of a diverse group of equity mutual funds and fixed income mutual funds.

Spending Policy

The Society is permitted to spend the earnings of the fund at its discretion. This is defined as the interest earned in the fiscal period. By practice, the Society recognizes the portion of earnings on the permanently restricted endowment as temporarily restricted net assets to be used for operations and reported as investment income in the temporarily restricted net asset class. When earnings are appropriated for expenditure, the funds are released from restriction.

Endowment net asset composition by type of funds as of March 31, 2018 and 2017 are as follows:

	March 31, 2018			
	Unrestricted	Temporarily Restricted	Permanently Restricted	Total Endowment Net Assets
Donor-Restricted Endowment	\$ -	\$ 209,540	\$ 420,428	\$ 629,968
	March 31, 2017			
	Unrestricted	Temporarily Restricted	Permanently Restricted	Total Endowment Net Assets
Donor-Restricted Endowment	\$ -	\$ 146,319	\$ 420,428	\$ 566,747

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March 31, 2018 and 2017**

13. Endowment Funds (Continued)

Changes in endowment net assets as of March 31, 2018 and 2017 are as follows:

	For the Year Ended March 31, 2018			Total Endowment Net Assets
	Unrestricted	Temporarily Restricted	Permanently Restricted	
Beginning Endowment Net Assets	\$ -	\$ 146,319	\$ 420,428	\$ 566,747
Deposits	-	-	-	-
Investment Income	-	11,151	-	11,151
Withdrawals	-	-	-	-
Net Appreciation	-	52,070	-	52,070
Ending Endowment Net Assets	<u>\$ -</u>	<u>\$ 209,540</u>	<u>\$ 420,428</u>	<u>\$ 629,968</u>

	For the Year Ended March 31, 2017			Total Endowment Net Assets
	Unrestricted	Temporarily Restricted	Permanently Restricted	
Beginning Endowment Net Assets	\$ -	\$ 90,341	\$ 420,428	\$ 510,769
Deposits	-	-	-	-
Investment Income	-	10,530	-	10,530
Withdrawals	-	-	-	-
Net Appreciation	-	45,448	-	45,448
Ending Endowment Net Assets	<u>\$ -</u>	<u>\$ 146,319</u>	<u>\$ 420,428</u>	<u>\$ 566,747</u>

14. Summarized Totals for Year Ended March 31, 2017

The financial statements include certain prior-year summarized comparative information in total, but not by net assets or functional class. Such information does not include sufficient detail to constitute a presentation in conformity with GAAP. Accordingly, such information should be read in conjunction with the financial statements for the year ended March 31, 2017, from which summarized information was derived.

15. Subsequent Events

Management has evaluated subsequent events through February 8, 2019, the date on which the financial statements were available to be issued, and has determined that no material subsequent events exist that require disclosure.