



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

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

September 2018

**Re: IRS 990 & Annual Audit FY 2017**

**Dear Friends,**

**As President** of the Lehigh County Historical Society, I would like to clarify one point concerning our recent audit for the year ended March 31, 2017 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 \$183,547 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 new museum building erected nearly thirteen years ago now being amortized and depreciated over a prescribed period of forty years.

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, 2017**

**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, 2017 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, 2017 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 2016 financial statements, and our report dated February 8, 2017 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, 2016, is consistent, in all material respects, with the audited financial statements from which it has been derived.

*Cory Bell, Rappold & Yucasita LLP*

February 5, 2018

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

<b>– ASSETS –</b>	March 31,	
	2017	2016
Cash and Cash Equivalents	\$ 282,027	\$ 241,650
Accounts Receivable	14,950	8,200
Prepaid Expenses	3,616	4,581
Inventory (Note 2)	8,189	11,200
Pledges and Grants Receivable, Net (Note 8)	58,238	77,415
Investments (Note 3)	2,125,364	1,950,868
Outside Perpetual Trusts (Note 6)	1,127,214	1,096,391
Land, Building, and Equipment, Net (Note 5)	5,033,540	5,212,578
COLLECTIONS (Note 2 and 4)		
<b>TOTAL ASSETS</b>	<b><u>\$ 8,653,138</u></b>	<b><u>\$ 8,602,883</u></b>
<b>– LIABILITIES AND NET ASSETS –</b>		
Accounts Payable	\$ 4,988	\$ 18,506
Accrued Payroll and Related Expenses	48,587	52,986
COMMITMENTS (Note 11)		
<b>TOTAL LIABILITIES</b>	<b><u>53,575</u></b>	<b><u>71,492</u></b>
Net Assets: (Note 10)		
Unrestricted	6,830,571	6,848,447
Temporarily Restricted	221,350	166,125
Permanently Restricted	<u>1,547,642</u>	<u>1,516,819</u>
<b>TOTAL NET ASSETS</b>	<b><u>8,599,563</u></b>	<b><u>8,531,391</u></b>
<b>TOTAL LIABILITIES AND NET ASSETS</b>	<b><u>\$ 8,653,138</u></b>	<b><u>\$ 8,602,883</u></b>

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, 2017**  
**With Comparative Totals for the Year Ended March 31, 2016**

<b><u>OPERATING:</u></b>	<b>Unrestricted</b>	<b>Temporarily Restricted</b>	<b>Permanently Restricted</b>
<b><u>Support and Revenue:</u></b>			
Contributions	\$ 44,117	\$ 260,449	\$ -
Government Appropriations	96,000	-	-
Admissions and Tour Income	34,615	-	-
Memberships	89,485	-	-
Research Fees	12,716	-	-
Rental Income	5,944	-	-
Gift Shop Sales (Net of Cost of Goods of \$8,921)	5,247	-	-
Investment Income (Net of Fees of \$10,572)	78,642	10,530	-
	<u>366,766</u>	<u>270,979</u>	<u>-</u>
Net Assets Released from Restrictions	<u>261,202</u>	<u>(261,202)</u>	<u>-</u>
Total Support and Revenue	<u>627,968</u>	<u>9,777</u>	<u>-</u>
<b><u>Expenses:</u></b>			
Collections and Exhibits	179,575	-	-
Library and Archives	117,719	-	-
Education	140,811	-	-
Management and General	115,203	-	-
Development	35,267	-	-
	<u>588,575</u>	<u>-</u>	<u>-</u>
Total Expenses	<u>588,575</u>	<u>-</u>	<u>-</u>
Increase in Net Assets from Operating Activities	<u>39,393</u>	<u>9,777</u>	<u>-</u>
<b><u>NONOPERATING:</u></b>			
Sale of Donated Items	-	-	-
Depreciation Expense	(183,547)	-	-
Realized/Unrealized Gain (Loss) on Investments and Other Assets	126,278	45,448	-
Change in Value of Outside Perpetual Trusts	-	-	30,823
Increase (Decrease) in Net Assets from Nonoperating Activities	<u>(57,269)</u>	<u>45,448</u>	<u>30,823</u>
Change in Net Assets	(17,876)	55,225	30,823
Net Assets at Beginning of Year	<u>6,848,447</u>	<u>166,125</u>	<u>1,516,819</u>
Net Assets at End of Year	<u>\$ 6,830,571</u>	<u>\$ 221,350</u>	<u>\$ 1,547,642</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, 2017**  
**With Comparative Totals for the Year Ended March 31, 2016**

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Total Year Ended 3/31/2017	Total Year Ended 3/31/2016
\$ 304,566	\$ 280,887
96,000	96,000
34,615	36,187
89,485	81,970
12,716	17,520
5,944	1,719
5,247	4,636
89,172	100,248
<u>637,745</u>	<u>619,167</u>
-	-
<u>637,745</u>	<u>619,167</u>
179,575	173,165
117,719	132,476
140,811	123,820
115,203	108,237
35,267	76,517
<u>588,575</u>	<u>614,215</u>
49,170	4,952
-	32,185
(183,547)	(191,319)
171,726	(73,325)
30,823	(108,187)
<u>19,002</u>	<u>(340,646)</u>
68,172	(335,694)
<u>8,531,391</u>	<u>8,867,085</u>
<u>\$ 8,599,563</u>	<u>\$ 8,531,391</u>



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

	Year Ended 3/31/2017	Year Ended 3/31/2016
<u><i>Cash Flows from Operating Activities:</i></u>		
Change in Net Assets	\$ 68,172	\$ (335,694)
Adjustment to Reconcile Change in Net Assets to		
Net Cash Provided by Operating Activities:		
Depreciation and Amortization Expense	183,547	191,319
Net Realized and Unrealized (Gain) Loss on Investments	(171,726)	73,325
Change in Value of Outside Perpetual Trusts	(30,823)	108,187
Donated Stock	-	(1,171)
(Increase) Decrease in:		
Accounts Receivable	(6,750)	8,000
Prepaid Expenses	965	(2,618)
Inventory	3,011	(549)
Pledges and Grants Receivable	19,177	(15,177)
Increase (Decrease) in:		
Accounts Payable and Accrued Expenses	(17,917)	475
Net Cash Provided by Operating Activities	<u>47,656</u>	<u>26,097</u>
<u><i>Cash Flows from Investing Activities:</i></u>		
Purchase of Equipment	(4,509)	-
Purchase of Investments	(61,912)	(56,065)
Proceeds from Sale of Investments	<u>59,142</u>	<u>70,611</u>
Net Cash Provided (Used) by Investing Activities	<u>(7,279)</u>	<u>14,546</u>
Net Increase in Cash and Cash Equivalents	40,377	40,643
Cash and Cash Equivalents at Beginning of Year	<u>241,650</u>	<u>201,007</u>
Cash and Cash Equivalents at End of Year	<u><u>\$ 282,027</u></u>	<u><u>\$ 241,650</u></u>
<u><i>Non-Cash Financing Activities:</i></u>		
Donated Stock	<u><u>\$ -</u></u>	<u><u>\$ 1,171</u></u>

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, 2017**  
**With Comparative Totals for the Year Ended March 31, 2016**

	Program Services			
	Collections and Exhibits		Library and Archives	Education
	Heritage Center	Other Properties		
Salaries	\$ 37,978	\$ 18,819	\$ 88,331	\$ 112,661
Payroll Taxes	2,875	1,424	6,685	8,526
Employee Benefits	4,695	430	10,184	8,149
Telephone	2,075	765	203	-
Utilities	10,020	5,125	4,409	4,809
Security	1,824	529	567	618
Insurance	12,340	3,291	5,430	5,923
Repairs and Renovations	17,808	2,084	-	-
Supplies	5,539	253	115	-
Marketing and Recruitment	8,225	1,627	44	-
Professional Fees	450	-	-	-
Subscriptions, Dues and Memberships	111	-	1,041	-
Travel	3,421	1,544	-	-
Printing, Postage, and Copier Expenses	3,507	4,056	470	-
Other Expenses	3,320	1,125	240	125
Event Expenses, Hospitality	11,288	1,486	-	-
Exhibit Expenses and Special Projects	8,697	2,602	-	-
Technology Expenses	242	-	-	-
Operating Expenses	134,415	45,160	117,719	140,811
Depreciation and Amortization	76,478	-	33,650	36,709
	<u>\$ 210,893</u>	<u>\$ 45,160</u>	<u>\$ 151,369</u>	<u>\$ 177,520</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, 2017**  
**With Comparative Totals for the Year Ended March 31, 2016**

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Management and General	Development	Total 3/31/2017	Total 3/31/2016
\$ 43,592	\$ 23,136	\$ 324,517	\$ 361,504
3,299	1,751	24,560	26,285
4,245	4,144	31,847	34,494
969	-	4,012	3,870
4,409	400	29,172	32,331
567	52	4,157	2,819
5,430	494	32,908	30,171
3,105	-	22,997	16,571
5,314	460	11,681	9,182
947	2,272	13,115	15,269
19,913	-	20,363	14,182
864	-	2,016	413
2,149	42	7,156	6,899
10,343	2,422	20,798	20,459
6,971	-	11,781	12,138
652	94	13,520	15,854
-	-	11,299	7,116
2,434	-	2,676	4,658
115,203	35,267	588,575	614,215
33,650	3,060	183,547	191,319
<u>\$ 148,853</u>	<u>\$ 38,327</u>	<u>\$ 772,122</u>	<u>\$ 805,534</u>

**LEHIGH COUNTY HISTORICAL SOCIETY**  
**(A Not-for-Profit Corporation)**  
**NOTES TO FINANCIAL STATEMENTS**  
**March 31, 2017 and 2016**

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**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 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, 2017, the Society had \$20,457 uninsured.

**LEHIGH COUNTY HISTORICAL SOCIETY**  
**(A Not-for-Profit Corporation)**  
**NOTES TO FINANCIAL STATEMENTS**  
**March 31, 2017 and 2016**

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**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 2017 and 2016.

The Society files its 990 with the United States Internal Revenue Service and 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, 2017 and 2016**

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**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, 2017 and 2016.

**LEHIGH COUNTY HISTORICAL SOCIETY**  
**(A Not-for-Profit Corporation)**  
**NOTES TO FINANCIAL STATEMENTS**  
**March 31, 2017 and 2016**

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**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, 2017 and 2016**

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**3. Investments**

Investments are comprised of the following:

	March 31, 2017		March 31, 2016	
	Cost	Market	Cost	Market
Cash Management Funds	\$ 49	\$ 49	\$ 10	\$ 10
Equities	2,091	2,115	1,171	1,246
Equity Funds	1,345,690	1,535,206	1,337,887	1,346,424
Fixed Income Funds	588,483	587,994	592,788	603,188
	<u>\$ 1,936,313</u>	<u>\$ 2,125,364</u>	<u>\$ 1,931,856</u>	<u>\$ 1,950,868</u>

A summary of earnings on investments for the years ended March 31, 2017 and 2016 are as follows:

	Year Ended March 31,	
	2017	2016
Interest and Dividends	\$ 99,744	\$ 113,136
Realized Gains	1,693	14,707
Unrealized Gain/(Loss)	170,033	(88,032)
Investment Fees	<u>(10,572)</u>	<u>(12,888)</u>
Total	<u>\$ 260,898</u>	<u>\$ 26,923</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, 2017 and 2016**

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**5. Land, Building, and Equipment**

Land, building, and equipment consists of the following:

	<u>3/31/2017</u>	<u>3/31/2016</u>
Land and Land Improvements	\$ 41,033	\$ 41,033
Building	7,239,815	7,239,815
Permanent Exhibit	493,103	493,103
Equipment and Furniture	335,707	331,198
Vehicles	<u>22,028</u>	<u>22,028</u>
	8,131,686	8,127,177
Less: Accumulated Depreciation	<u>(3,098,146)</u>	<u>(2,914,599)</u>
	<u><u>\$ 5,033,540</u></u>	<u><u>\$ 5,212,578</u></u>

Depreciation charged to expense was \$183,547 and \$191,319 for the years ending March 31, 2017 and 2016, 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:

<u>Trust</u>	<u>% Trust</u>	<u>3/31/2017</u>	<u>3/31/2016</u>
		Share of Net Assets	Share of Net Assets
Gruber House	100%	\$ 753,800	\$ 735,944
Reninger House	20%	<u>373,414</u>	<u>360,447</u>
		<u><u>\$ 1,127,214</u></u>	<u><u>\$ 1,096,391</u></u>

The financial statements previously reported funds referred to as "Buchman House" as an outside perpetual trust. However, these funds are permanently restricted investments held and managed by the Society. Accordingly, these investment assets have been reclassified to be reported as investments on the statements of financial position.

**LEHIGH COUNTY HISTORICAL SOCIETY**  
**(A Not-for-Profit Corporation)**  
**NOTES TO FINANCIAL STATEMENTS**  
**March 31, 2017 and 2016**

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**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, 2017 and 2016.

*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.

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**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, 2017 and 2016:

Assets at Fair Value as of March 31, 2017				
	Level 1	Level 2	Level 3	Total
<b>Cash Management Funds</b>	\$ 49	\$ -	\$ -	\$ 49
<b>Equities</b>				
Financial	2,115	-	-	2,115
<b>Equity Mutual Funds</b>				
Large Blend	930,936	-	-	930,936
Foreign Large Blend	604,270	-	-	604,270
<b>Fixed Income Mutual Funds</b>				
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
<b>Outside Perpetual Trusts</b>	-	-	1,127,214	1,127,214
<b>Total Assets at Fair Value</b>	<u>\$ 2,125,364</u>	<u>\$ -</u>	<u>\$ 1,127,214</u>	<u>\$ 3,252,578</u>

  

Assets at Fair Value as of March 31, 2016				
	Level 1	Level 2	Level 3	Total
<b>Cash Management Funds</b>	\$ 10	\$ -	\$ -	\$ 10
<b>Equities</b>				
Financial	1,246	-	-	1,246
<b>Equity Mutual Funds</b>				
Large Blend	810,971	-	-	810,971
Foreign Large Blend	535,453	-	-	535,453
<b>Fixed Income Mutual Funds</b>				
Corporate Bond	182,738	-	-	182,738
Intermediate-Term Bond	303,382	-	-	303,382
Short-Term Bond	117,068	-	-	117,068
<b>Outside Perpetual Trusts</b>	-	-	1,096,391	1,096,391
<b>Total Assets at Fair Value</b>	<u>\$ 1,950,868</u>	<u>\$ -</u>	<u>\$ 1,096,391</u>	<u>\$ 3,047,259</u>

There were no transfers between Level 1, Level 2, or Level 3 investments during the years ended March 31, 2017 and 2016. 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, 2017:

	Outside Perpetual Trusts
Balance, Beginning of Year	\$ 1,096,391
Change in Value of Outside Perpetual Trusts	<u>30,823</u>
Balance, End of Year	<u><u>\$ 1,127,214</u></u>

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:

	<u>3/31/2017</u>	<u>3/31/2016</u>
Pledges Receivable	\$ 3,238	\$ 3,238
Grants Receivable	<u>55,000</u>	<u>74,177</u>
	58,238	77,415
Less: Allowance for Uncollectible Pledges	<u>-</u>	<u>-</u>
	<u><u>\$ 58,238</u></u>	<u><u>\$ 77,415</u></u>
Less Than 1 Year	\$ 58,238	
One to Five Years	<u>-</u>	
	<u><u>\$ 58,238</u></u>	

**9. Line of Credit**

The Society has a revolving line of credit for \$300,000 with a bank secured by real property in Lehigh County, Pennsylvania expiring March 31, 2018. Interest is payable monthly at the prime rate of interest (3.50% at March 31, 2017). Payment is due on demand. The Society did not draw on this line of credit during the years ended March 31, 2017 and 2016. There is no balance outstanding at March 31, 2017.

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**10. Net Assets**

The Society has the following net assets:

	<u>3/31/2017</u>	<u>3/31/2016</u>
Unrestricted:		
Undesignated	\$ 1,797,031	\$ 1,635,869
Invested in Property and Equipment	<u>5,033,540</u>	<u>5,212,578</u>
	<u>\$ 6,830,571</u>	<u>\$ 6,848,447</u>
	<u>3/31/2017</u>	<u>3/31/2016</u>
Temporarily Restricted:		
American Presidency	\$ 2,010	\$ 20,000
Diversity Upgrades	-	8,491
Education	8,000	7,518
Exhibits and Programs	-	1,334
General Operating	14,142	13,251
Heroes of History	7,000	7,000
Jewish History Project	12,061	12,061
Lehigh County Quality of Life	3,544	3,604
Lehigh County Tourism	10,000	-
Tours and Outreach	2,000	2,525
Trexler Catalogue Project	16,274	-
Income from Endowment Funds	<u>146,319</u>	<u>90,341</u>
	<u>\$ 221,350</u>	<u>\$ 166,125</u>
	<u>3/31/2017</u>	<u>3/31/2016</u>
Permanently Restricted:		
Gruber House	\$ 753,800	\$ 735,944
Reninger House	373,414	360,447
Endowment, income is expendable for program purposes	<u>420,428</u>	<u>420,428</u>
	<u>\$ 1,547,642</u>	<u>\$ 1,516,819</u>

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**10. Net Assets (Continued)**

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

	<u>3/31/2017</u>	<u>3/31/2016</u>
American Presidency	\$ 36,990	\$ -
Collections Inventory	20,823	4,177
Diversity Upgrades	8,491	2,509
Education	7,518	1,593
Exhibits and Programs	43,334	49,666
General Operating	119,485	147,844
Geology	3,000	-
John F. Kennedy	-	4,000
Kunstler	-	1,048
Lehigh County Quality of Life	5,310	4,486
Library Technology	-	1,065
Pennsylvania Dutch	-	14,000
Tours and Outreach	2,525	475
Trexler Catalogue Project	<u>13,726</u>	<u>-</u>
	<u><u>\$ 261,202</u></u>	<u><u>\$ 230,863</u></u>

**11. Operating Leases**

The Society leases equipment under several long-term operating lease agreements. The leases have expirations through June 2020. Equipment rental expense was \$5,813 and \$5,524 for the years ended March 31, 2017 and 2016, respectively.

Minimum lease payments as of March 31, 2017 are as follows:

Year ending March 31,

2018	\$ 5,813
2019	1,056
2020	623
2021	<u>156</u>
	<u><u>\$ 7,648</u></u>

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**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 \$3,869 and \$4,259 for the years ended March 31, 2017 and 2016, respectively.

**13. Endowment Funds**

The Society's endowment consists solely of donor-restricted funds. As required by generally accepted accounting principles, 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.



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**13. Endowment Funds (Continued)**

Endowment net asset composition by type of funds as of March 31, 2017 and 2016 are as follows:

	March 31, 2017			Total Endowment Net Assets
	Unrestricted	Temporarily Restricted	Permanently Restricted	
Donor-Restricted Endowment	<u>\$ -</u>	<u>\$ 146,319</u>	<u>\$ 420,428</u>	<u>\$ 566,747</u>

  

	March 31, 2016			Total Endowment Net Assets
	Unrestricted	Temporarily Restricted	Permanently Restricted	
Donor-Restricted Endowment	<u>\$ -</u>	<u>\$ 90,341</u>	<u>\$ 420,428</u>	<u>\$ 510,769</u>

Changes in endowment net assets as of March 31, 2017 and 2016 are as follows:

	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>

  

	For the Year Ended March 31, 2016			Total Endowment Net Assets
	Unrestricted	Temporarily Restricted	Permanently Restricted	
Beginning Endowment Net Assets	\$ -	\$ 100,159	\$ 420,428	\$ 520,587
Deposits	-	-	-	-
Investment Income	-	9,168	-	9,168
Withdrawals	-	-	-	-
Net Appreciation	-	(18,986)	-	(18,986)
Ending Endowment Net Assets	<u>\$ -</u>	<u>\$ 90,341</u>	<u>\$ 420,428</u>	<u>\$ 510,769</u>

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**14. Summarized Totals for Year Ended March 31, 2016**

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, 2016, from which summarized information was derived.

**15. Subsequent Events**

Management has evaluated subsequent events through February 5, 2018, the date on which the financial statements were available to be issued, and has determined that no material subsequent events exist that require disclosure.