



Lehigh County Historical Society
Lehigh Valley Heritage Museum
432 West Walnut Street
Allentown, PA 18102
610-435-1074

March 2023

Re: IRS 990 & Annual Audit

Dear Friends,

As **Treasurer** of the Lehigh County Historical Society, I would like to clarify a significant point concerning our recent audit for the year ended March 31, 2022 and associated IRS 990.

My point deals with page 4 of the audit and page 11 of the 990 (Part IX, column A, line 22) referencing a substantial deduction of \$187,138 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 some eighteen 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
Treasurer

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

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

March 31, 2022

**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

Opinion

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, 2022, and the related statements of activities, functional expenses, and cash flows for the year then ended, and the related notes to the financial statements.

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, 2022, 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.

Basis for Opinion

We conducted our audit in accordance with auditing standards generally accepted in the United States of America. Our responsibilities under those standards are further described in the Auditor's Responsibilities for the Audit of the Financial Statements section of our report. We are required to be independent of Lehigh County Historical Society and to meet our other ethical responsibilities in accordance with the relevant ethical requirements relating to our audit. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Responsibilities of Management for the Financial Statements

Management is responsible for the preparation and fair presentation of the financial statements in accordance with accounting principles generally accepted in the United States of America, and for 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.

In preparing the financial statements, management is required to evaluate whether there are conditions or events, considered in the aggregate, that raise substantial doubt about Lehigh County Historical Society's ability to continue as a going concern within one year after the date that the financial statements are available to be issued.

Auditor's Responsibilities for the Audit of the Financial Statements

Our objectives are to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion. Reasonable assurance is a high level of assurance but is not absolute assurance and therefore is not a guarantee that an audit conducted in accordance with generally accepted auditing standards will always detect a material misstatement when it exists. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control. Misstatements are considered material if there is a substantial likelihood that, individually or in the aggregate, they would influence the judgment made by a reasonable user based on the financial statements.

In performing an audit in accordance with generally accepted auditing standards, we:

- Exercise professional judgment and maintain professional skepticism throughout the audit.
- Identify and assess the risks of material misstatement of the financial statements, whether due to fraud or error, and design and perform audit procedures responsive to those risks. Such procedures include examining, on a test basis, evidence regarding the amounts and disclosures in the financial statements.
- Obtain an understanding of internal control relevant to the audit 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 Lehigh County Historical Society's internal control. Accordingly, no such opinion is expressed.
- Evaluate the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluate the overall presentation of the financial statements.
- Conclude whether, in our judgment, there are conditions or events, considered in the aggregate, that raise substantial doubt about Lehigh County Historical Society's ability to continue as a going concern for a reasonable period of time.

We are required to communicate with those charged with governance regarding, among other matters, the planned scope and timing of the audit, significant audit findings, and certain internal control related matters that we identified during the audit.

Report on Summarized Comparative Information

We have previously audited Lehigh County Historical Society's 2021 financial statements, and we expressed an unmodified audit opinion on those audited financial statements in our report dated February 7, 2022. In our opinion, the summarized comparative information presented herein as of and for the year ended March 31, 2021, is consistent, in all material respects, with the audited financial statements from which it has been derived.

Craig Bell, Rappold & Yuravitz LLP

February 9, 2023

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

| - ASSETS - | March 31, | |
|---|---------------------|---------------------|
| | 2022 | 2021 |
| Cash and Cash Equivalents | \$ 278,547 | \$ 286,178 |
| Accounts Receivable | 8,000 | 8,250 |
| Prepaid Expenses | 3,747 | 1,268 |
| Inventory (Note 2) | 1,950 | 2,185 |
| Grants Receivable (Note 9) | 9,719 | 16,942 |
| Investments (Note 4) | 3,314,276 | 3,186,711 |
| Outside Perpetual Trusts (Note 7) | 1,224,651 | 1,263,389 |
| Land, Building and Equipment, Net (Note 6) | 4,149,769 | 4,334,371 |
| COLLECTIONS (Note 2 and 5) | | |
| TOTAL ASSETS | \$ 8,990,659 | \$ 9,099,294 |
| - LIABILITIES AND NET ASSETS - | | |
| Accounts Payable | \$ 3,225 | \$ 8,429 |
| Accrued Payroll and Related Expenses | 53,105 | 47,098 |
| Note Payable - Paycheck Protection Program (Note 2) | - | 73,301 |
| COMMITMENTS (Note 11) | | |
| TOTAL LIABILITIES | 56,330 | 128,828 |
| Net Assets: (Note 10) | | |
| Without Donor Restrictions | 6,793,932 | 6,815,629 |
| With Donor Restrictions | 2,140,397 | 2,154,837 |
| TOTAL NET ASSETS | 8,934,329 | 8,970,466 |
| TOTAL LIABILITIES AND NET ASSETS | \$ 8,990,659 | \$ 9,099,294 |

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, 2022
With Comparative Totals for the Year Ended March 31, 2021

| <u>OPERATING:</u> | Without Donor Restrictions | With Donor Restrictions | Total Year Ended 03/31/2022 | Total Year Ended 03/31/2021 |
|---|-------------------------------|----------------------------|-----------------------------------|-----------------------------------|
| <u>Support and Revenue:</u> | | | | |
| Contributions | \$ 305,429 | \$ 54,719 | \$ 360,148 | \$ 339,340 |
| Government Appropriations | 96,000 | - | 96,000 | 96,000 |
| Admissions and Tours Income | 8,225 | - | 8,225 | 105 |
| Memberships | 69,040 | - | 69,040 | 69,366 |
| Research Fees | 4,282 | - | 4,282 | 9,696 |
| Rental Income | 3,790 | - | 3,790 | 2,850 |
| Extinguishment of Debt - PPP | 73,301 | - | 73,301 | - |
| Miscellaneous Income | 1,001 | - | 1,001 | 3,303 |
| Gift Shop Sales (Net of Cost of Goods of \$1,001 and \$76) | 695 | - | 695 | 53 |
| Investment Income (Net of Fees of \$12,826 and \$11,600) | 93,657 | 15,898 | 109,555 | 79,544 |
| | <u>655,420</u> | <u>70,617</u> | <u>726,037</u> | <u>600,257</u> |
| Net Assets Released from Restrictions | <u>53,238</u> | <u>(53,238)</u> | <u>-</u> | <u>-</u> |
| Total Support and Revenue | <u>708,658</u> | <u>17,379</u> | <u>726,037</u> | <u>600,257</u> |
| <u>Expenses:</u> | | | | |
| Collections and Exhibits | 219,009 | - | 219,009 | 180,203 |
| Library and Archives | 122,050 | - | 122,050 | 101,023 |
| Education | 120,462 | - | 120,462 | 125,552 |
| Management and General | 112,019 | - | 112,019 | 118,408 |
| Development | 29,299 | - | 29,299 | 28,494 |
| | <u>602,839</u> | <u>-</u> | <u>602,839</u> | <u>553,680</u> |
| Total Expenses | <u>602,839</u> | <u>-</u> | <u>602,839</u> | <u>553,680</u> |
| Increase in Net Assets from Operating Activities | <u>105,819</u> | <u>17,379</u> | <u>123,198</u> | <u>46,577</u> |
| <u>NONOPERATING:</u> | | | | |
| Sale of Donated Items | - | - | - | 19,290 |
| Depreciation Expense | (187,138) | - | (187,138) | (185,810) |
| Realized/Unrealized Gain on Investments and Other Assets | 59,622 | 6,919 | 66,541 | 761,231 |
| Change in Value of Outside Perpetual Trusts | - | (38,738) | (38,738) | 260,774 |
| | <u>(127,516)</u> | <u>(31,819)</u> | <u>(159,335)</u> | <u>855,485</u> |
| Increase (Decrease) in Net Assets from Nonoperating Activities | <u>(127,516)</u> | <u>(31,819)</u> | <u>(159,335)</u> | <u>855,485</u> |
| Change in Net Assets | <u>(21,697)</u> | <u>(14,440)</u> | <u>(36,137)</u> | <u>902,062</u> |
| Net Assets at Beginning of Year | <u>6,815,629</u> | <u>2,154,837</u> | <u>8,970,466</u> | <u>8,068,404</u> |
| Net Assets at End of Year | <u>\$ 6,793,932</u> | <u>\$ 2,140,397</u> | <u>\$ 8,934,329</u> | <u>\$ 8,970,466</u> |

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

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

| | Year Ended March 31, | |
|---|----------------------|------------|
| | 2022 | 2021 |
| <i><u>Cash Flows from Operating Activities:</u></i> | | |
| Change in Net Assets | \$ (36,137) | \$ 902,062 |
| Adjustment to Reconcile Change in Net Assets to Net Cash Provided by Operating Activities: | | |
| Depreciation Expense | 187,138 | 185,810 |
| Net Realized and Unrealized Gain on Investments | (66,541) | (761,231) |
| Change in Value of Outside Perpetual Trusts | 38,738 | (260,774) |
| Extinguishment of Debt - PPP | (73,301) | - |
| (Increase) Decrease in: | | |
| Accounts Receivable | 250 | 2,300 |
| Prepaid Expenses | (2,479) | (479) |
| Inventory | 235 | 76 |
| Grants Receivable | 7,223 | 58,009 |
| Increase (Decrease) in: | | |
| Accounts Payable and Accrued Expenses | 803 | (5,078) |
| Net Cash Provided by Operating Activities | 55,929 | 120,695 |
| <i><u>Cash Flows from Investing Activities:</u></i> | | |
| Purchase of Equipment | (2,536) | (23,821) |
| Purchase of Investments | (73,850) | (299,241) |
| Proceeds from Sale of Investments | 12,826 | 34,800 |
| Net Cash Used by Investing Activities | (63,560) | (288,262) |
| <i><u>Cash Flows from Financing Activities:</u></i> | | |
| Proceeds from Note Payable | - | 73,301 |
| Net Cash Provided by Financing Activities | - | 73,301 |
| Net Decrease in Cash and Cash Equivalents | (7,631) | (94,266) |
| Cash and Cash Equivalents at Beginning of Year | 286,178 | 380,444 |
| Cash and Cash Equivalents at End of Year | \$ 278,547 | \$ 286,178 |

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

LEHIGH COUNTY HISTORICAL SOCIETY
(A Not-for-Profit Corporation)
STATEMENT OF FUNCTIONAL EXPENSES
For the Year Ended March 31, 2022
With Comparative Totals for the Year Ended March 31, 2021

| | Program Services | | | |
|--|--------------------------|---------------------|----------------------------|-------------------|
| | Collections and Exhibits | | Library and Archives | Education |
| | Heritage Center | Other Properties | | |
| Salaries | 47,477 | 42,460 | 88,995 | 94,340 |
| Payroll Taxes | 3,428 | 3,066 | 6,425 | 6,812 |
| Employee Benefits | 1,229 | 4,540 | 6,819 | 4,649 |
| Telephone | 1,879 | 225 | 826 | 901 |
| Utilities | 12,331 | 1,480 | 5,425 | 5,918 |
| Security | 1,624 | 195 | 714 | 779 |
| Insurance | 14,639 | 3,903 | 6,440 | 7,026 |
| Repairs and Renovations | 26,278 | 13,635 | 48 | - |
| Supplies | 1,588 | 1,098 | 1,466 | - |
| Cost of Goods Sold | 1,001 | - | - | - |
| Marketing and Recruitment | 10,223 | 311 | - | - |
| Professional Fees | - | - | - | - |
| Subscriptions, Dues and Memberships | 100 | 1,149 | 2,057 | - |
| Travel | 1,292 | 2,884 | 130 | - |
| Printing, Postage, and Copier Expenses | 5,382 | 26 | 2,190 | - |
| Other Expenses | 5,172 | 760 | 477 | 37 |
| Event Expenses, Hospitality | 3,194 | 1,225 | - | - |
| Exhibit Expenses and Special Projects | 5,918 | 130 | 38 | - |
| Bad Debt Expense | - | - | - | - |
| Technology Expenses | 168 | - | - | - |
| Total Operating Expenses | <u>142,923</u> | <u>77,087</u> | <u>122,050</u> | <u>120,462</u> |
| Depreciation and Amortization | 74,262 | 8,911 | 32,675 | 35,645 |
| Less: Expenses included with Support and Revenues on the Statement of Activities and Changes in Net Assets Cost of Goods Sold | <u>(1,001)</u> | <u>-</u> | <u>-</u> | <u>-</u> |
| | <u>\$ 216,184</u> | <u>\$ 85,998</u> | <u>\$ 154,725</u> | <u>\$ 156,107</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, 2022
With Comparative Totals for the Year Ended March 31, 2021

| Management and General | Development | Total 03/31/2022 | Total 03/31/2021 |
|---------------------------|------------------|---------------------|---------------------|
| 31,029 | 25,308 | \$ 329,609 | \$ 298,060 |
| 2,240 | 1,827 | 23,798 | 22,949 |
| 6,263 | 946 | 24,446 | 27,006 |
| 826 | 75 | 4,732 | 4,474 |
| 5,425 | 493 | 31,072 | 28,222 |
| 714 | 65 | 4,091 | 3,128 |
| 6,440 | 585 | 39,033 | 40,178 |
| 829 | - | 40,790 | 32,129 |
| 4,453 | - | 8,605 | 8,014 |
| - | - | 1,001 | 76 |
| 1,162 | - | 11,696 | 12,859 |
| 32,802 | - | 32,802 | 35,928 |
| 251 | - | 3,557 | 2,409 |
| 1,239 | - | 5,545 | 2,772 |
| 8,412 | - | 16,010 | 14,651 |
| 3,915 | - | 10,361 | 7,321 |
| 537 | - | 4,956 | 945 |
| - | - | 6,086 | 321 |
| 250 | - | 250 | - |
| 5,232 | - | 5,400 | 12,314 |
| 112,019 | 29,299 | 603,840 | 553,756 |
| 32,675 | 2,970 | 187,138 | 185,810 |
| - | - | (1,001) | (76) |
| <u>\$ 144,694</u> | <u>\$ 32,269</u> | <u>\$ 789,977</u> | <u>\$ 739,490</u> |

LEHIGH COUNTY HISTORICAL SOCIETY
(A Not-for-Profit Corporation)
NOTES TO FINANCIAL STATEMENTS
March 31, 2022 and 2021

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

Net assets and revenues, expenses, gains and losses are classified based on the existence or absence of donor-imposed restrictions. Accordingly, net assets of Lehigh County Historical Society are classified and reported as follows:

Net Assets Without Donor Restrictions

Net assets available for use in general operations and not subject to donor-imposed stipulations. Net assets without donor restrictions may be designated for specific purposes by the action of the Board of Directors.

Net Assets With Donor Restrictions

Net assets subject to donor-imposed restrictions. Some donor restrictions are temporary in nature, such as those that will be met by the passage of time or other events specified by the donor. Other donor-imposed restrictions are perpetual in nature, where the donor stipulated that resources be maintained in perpetuity. Donor-restricted contributions are reported as increases in net assets with donor restrictions, depending on the nature of the restrictions. When a restriction expires, net assets with donor restrictions are reclassified to net assets without donor restrictions and reported in the Statement of Activities and Changes in Net Assets as net assets released from restrictions.

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, 2022, the Society had \$21,017 uninsured.

LEHIGH COUNTY HISTORICAL SOCIETY
(A Not-for-Profit Corporation)
NOTES TO FINANCIAL STATEMENTS
March 31, 2022 and 2021

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 2022 and 2021.

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 use without donor restrictions 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 net assets with donor restrictions 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, net assets with donor restrictions are reclassified to net assets without donor restrictions 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, 2022 and 2021

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 from Contracts with Customers

Revenues are reported as increases in net assets without donor restrictions unless use of the related assets is limited by donor-imposed restrictions. Expenses are reported as decreases in net assets without donor restrictions. Expirations of restrictions on net assets which are temporary in nature by fulfillment of the donor-stipulated purpose or by the passage of the stipulated time period are reported as reclassifications between the applicable classes of net assets. The Society's revenue from contracts with customers in the scope of ASC 606 is recognized within Admissions and Tours, Memberships, Research Fees, Rental Income, and Gift Shop Sales. The Society's revenue streams are accounted for in the following segments:

- **Admissions and Tours:** The Society earns income from providing guided educational tours of the Society's locations. The Society's policy is to recognize revenue when each specific educational tour takes place.
- **Memberships:** The Society earns income from selling annual memberships to the general public for admission to the museum and access to certain member benefits. The Society's policy is to recognize revenue each month as member benefits are provided.
- **Research Fees:** The Society earns income from performing special research projects for customers. The Society's policy is to recognize revenue upon completion of each specific project.
- **Rental Income:** The Society leases out space to unrelated third parties for storage of documents. The Society's policy is to recognize revenue on a monthly basis.
- **Gift Shop Sales:** The Society earns income from the sale of goods held for sale at the museum gift shop. The Society's policy is to recognize the revenue from the sale of goods at the time each sales transaction takes place.

**LEHIGH COUNTY HISTORICAL SOCIETY
(A Not-for-Profit Corporation)
NOTES TO FINANCIAL STATEMENTS
March 31, 2022 and 2021**

2. Summary of Significant Accounting Policies (Continued)

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, 2022 and 2021.

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 Statements 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 net assets without donor restrictions unless the income or loss is restricted by donor stipulation 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.

LEHIGH COUNTY HISTORICAL SOCIETY
(A Not-for-Profit Corporation)
NOTES TO FINANCIAL STATEMENTS
March 31, 2022 and 2021

2. Summary of Significant Accounting Policies (Continued)

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 Statements of Financial Position. Purchases of collection items are recorded as decreases in net assets without donor restrictions in the year in which the items are acquired or as net assets with donor restrictions 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.

Accounting for Paycheck Protection Program (PPP)

The Society may account for a Paycheck Protection Program (PPP) loan as a financial liability in accordance with FASB ASC Topic 470, *Debt*, or under other models, if certain conditions are met. If the Society expects to meet the PPP's eligibility criteria and conclude that the PPP loan represents, in substance, a grant that is expected to be forgiven, the Society may account for the PPP loan in accordance with ASC Subtopic 958-605 as a conditional contribution. On May 7, 2020, the Society received \$73,301 under the Paycheck Protection Program. During July 2021, the Society was notified by the United States Small Business Administration and its lender that it had received full forgiveness of this loan. As such, the Society recognized extinguishment of debt in the amount of \$73,301 during the year ended March 31, 2022.

Subsequent Events

Management has evaluated subsequent events through February 9, 2023, the date on which the financial statements were available to be issued, and has determined that no material subsequent events exist that require disclosure.

LEHIGH COUNTY HISTORICAL SOCIETY
(A Not-for-Profit Corporation)
NOTES TO FINANCIAL STATEMENTS
March 31, 2022 and 2021

3. Liquidity and Availability

Financial assets available for general expenditure, that is, without donor or other restrictions limiting their use, within one year of the date of the Statements of Financial Position, consist of the following:

| | March 31, | |
|------------------------------------|--------------|--------------|
| | 2022 | 2021 |
| Cash and Cash Equivalents | \$ 278,547 | \$ 286,178 |
| Accounts Receivable | 8,000 | 8,250 |
| Grants Receivable | 9,719 | 16,942 |
| Investments | 3,314,276 | 3,186,711 |
| Net Assets With Donor Restrictions | (915,746) | (891,448) |
| | \$ 2,694,796 | \$ 2,606,633 |

The Society is supported mainly by contributions, memberships, and government grants. The Society believes that contributions, memberships, and government grants along with the assets held at March 31, 2022, are sufficient to enable the Society to continue to operate for the upcoming year.

4. Investments

Investments are comprised of the following:

| | March 31, 2022 | | March 31, 2021 | |
|-----------------------|----------------|--------------|----------------|--------------|
| | Cost | Market | Cost | Market |
| Cash Management Funds | \$ 5,841 | \$ 5,841 | \$ 2,069 | \$ 2,069 |
| Equities | 225,316 | 205,397 | 225,419 | 162,574 |
| Equity Funds | 1,347,950 | 2,249,723 | 1,304,061 | 2,116,776 |
| Fixed Income Funds | 892,409 | 853,315 | 879,793 | 905,292 |
| | \$ 2,471,516 | \$ 3,314,276 | \$ 2,411,342 | \$ 3,186,711 |

A summary of earnings on investments for the years ended March 31, 2022 and 2021 are as follows:

| | Year Ended March 31, | |
|------------------------|----------------------|------------|
| | 2022 | 2021 |
| Interest and Dividends | \$ 122,381 | \$ 91,144 |
| Realized Gains | 87 | 128,971 |
| Unrealized Gains | 66,454 | 632,260 |
| Investment Fees | (12,826) | (11,600) |
| Total | \$ 176,096 | \$ 840,775 |

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5. 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 and direct care of existing collection items. The Society defines direct care as actions that preserve and protect collections by enhancing their life, usefulness, or quality. Such costs include archival supplies, hardware and supplies for storage or exhibition, and other costs that management deems necessary for the preservation or restoration of its collection.

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.

6. Land, Building and Equipment

Land, building, and equipment consists of the following:

| | March 31, | |
|------------------------------------|------------------|------------------|
| | 2022 | 2021 |
| Land and Land Improvements | \$ 41,033 | \$ 41,033 |
| Building | 7,257,665 | 7,257,665 |
| Permanent Exhibit | 493,103 | 493,103 |
| Equipment and Furniture | 357,605 | 356,168 |
| Vehicles | 22,026 | 22,026 |
| | 8,171,432 | 8,169,995 |
| Less: Accumulated Depreciation | (4,021,663) | (3,835,624) |
| | \$ 4,149,769 | \$ 4,334,371 |

Depreciation charged to expense was \$187,138 and \$185,810 for the years ending March 31, 2022 and 2021, respectively.

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7. Outside Perpetual Trusts

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

The amounts recorded represent the pro rata 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:

| Trust | % Trust | March 31, | |
|----------------|---------|------------------------|------------------------|
| | | 2022 | 2021 |
| | | Share of Net Assets | Share of Net Assets |
| Gruber House | 100% | \$ 786,008 | \$ 819,214 |
| Reninger House | 20% | 438,643 | 444,175 |
| | | \$ 1,224,651 | \$ 1,263,389 |

8. 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: <ul style="list-style-type: none"> • 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.

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8. Fair Value Measurements (Continued)

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, 2022 and 2021.

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.

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, 2022:

| | Assets at Fair Value as of March 31, 2022 | | | |
|----------------------------|---|---------|--------------|--------------|
| | Level 1 | Level 2 | Level 3 | Total |
| Cash Management Funds | \$ 5,841 | \$ - | \$ - | \$ 5,841 |
| Equities | 205,397 | - | - | 205,397 |
| Equity Mutual Funds | 2,249,723 | - | - | 2,249,723 |
| Fixed Income Mutual Funds | 853,315 | - | - | 853,315 |
| Outside Perpetual Trusts | - | - | 1,224,651 | 1,224,651 |
| | | | | |
| Total Assets at Fair Value | \$ 3,314,276 | \$ - | \$ 1,224,651 | \$ 4,538,927 |

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8. Fair Value Measurements (Continued)

The following table sets forth by level, within the fair value hierarchy, the Society's assets at fair value as of March 31, 2021:

| | Assets at Fair Values as of March 31, 2021 | | | |
|----------------------------|--|---------|--------------|--------------|
| | Level 1 | Level 2 | Level 3 | Total |
| Cash Management Funds | \$ 2,069 | \$ - | \$ - | \$ 2,069 |
| Equities | 162,574 | - | - | 162,574 |
| Equity Mutual Funds | 2,116,776 | - | - | 2,116,776 |
| Fixed Income Mutual Funds | 905,292 | - | - | 905,292 |
| Outside Perpetual Trusts | - | - | 1,263,389 | 1,263,389 |
| | \$ 3,186,711 | \$ - | \$ 1,263,389 | \$ 4,450,100 |
| Total Assets at Fair Value | \$ 3,186,711 | \$ - | \$ 1,263,389 | \$ 4,450,100 |

Changes in Fair Value of Level 3 Assets:

The availability of observable market data is monitored to assess the appropriate classification of financial instruments within the fair value hierarchy. Changes in economic conditions or model-based valuation techniques may require the transfer of financial instruments from one fair value level to another.

We evaluate the significance of transfers between levels based upon the nature of the financial instrument and size of the transfer relative to total net assets.

The following table sets forth a summary of certain changes in the fair value of the Society's level 3 assets for the years ended March 31, 2022 and 2021:

| | Outside Perpetual Trusts | |
|---------------|--------------------------|--------|
| | 2022 | 2021 |
| Purchases | \$ - | \$ - |
| Issuances | 47,800 | 38,200 |
| Transfers In | - | - |
| Transfers Out | - | - |

9. Grants Receivable

Grants receivable consist of:

| | March 31, | |
|-----------------------------------|-----------|-----------|
| | 2022 | 2021 |
| Grants Receivable | \$ 9,719 | \$ 16,942 |
| Less: Allowance for Uncollectible | - | - |
| | \$ 9,719 | \$ 16,942 |
| Less Than 1 Year | \$ 9,719 | |
| One to Five Years | - | |
| | \$ 9,719 | |

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10. Net Assets with Donor Restrictions

Net assets with donor restrictions are available for the following purposes:

| | March 31, | |
|---|-------------------------|-------------------------|
| | 2022 | 2021 |
| Temporary in Nature: | | |
| Archives | \$ 4,158 | \$ 5,000 |
| COVID Funds | 6,819 | - |
| General Operating | 7,119 | 6,942 |
| Heroes of History | 7,000 | 7,000 |
| Jewish History Project | 12,061 | 12,061 |
| Lehigh County Quality of Life | 2,600 | 2,500 |
| Lehigh County Tourism | - | 5,020 |
| Tours and Outreach | 1,560 | 1,313 |
| Income from Endowment Funds | 450,651 | 427,834 |
| | <u>\$ 491,968</u> | <u>\$ 467,670</u> |
| Perpetual in Nature: | | |
| Gruber House | \$ 786,008 | \$ 819,214 |
| Reninger House | 438,643 | 444,175 |
| Endowment, income is expendable for program purposes | 423,778 | 423,778 |
| | <u>\$ 1,648,429</u> | <u>\$ 1,687,167</u> |
| Total Net Assets With Donor Restrictions | <u>\$ 2,140,397</u> | <u>\$ 2,154,837</u> |

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

| | Year Ended March 31, | |
|-------------------------------|----------------------|------------------|
| | 2022 | 2021 |
| Archives | \$ 842 | \$ - |
| COVID-19 | 23,181 | 32,910 |
| Education | - | 6,980 |
| Exhibits and Programs | 11,000 | 21,000 |
| General Operating 2021 FY | 6,942 | 7,451 |
| Lehigh County Quality of Life | 2,500 | - |
| Lehigh County Tourism | 5,020 | 2,480 |
| Tours and Outreach | 3,753 | 1,567 |
| | <u>\$ 53,238</u> | <u>\$ 72,388</u> |

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11. Operating Leases

The Society leases equipment under several long-term operating lease agreements. The leases have expirations through April 2027. Equipment rental expense was \$4,807 and \$5,813 during the years ended March 31, 2022 and 2021, respectively.

Minimum lease payments as of March 31, 2022 are as follows:

| Year ending March 31, | | | |
|-----------------------|------------|----|-------|
| | 2023 | \$ | 4,454 |
| | 2024 | | 4,454 |
| | 2025 | | 4,454 |
| | 2026 | | 4,454 |
| | 2027 | | 4,454 |
| | Thereafter | | 371 |

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 3.0% of base compensation. Employer contributions to the Plan were \$8,492 and \$6,893 for the years ended March 31, 2022 and 2021, respectively.

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 donor restricted net assets the original value of gifts donated to the permanent endowment and the original value of subsequent gifts to the permanent endowment. The remaining portion of the donor-restricted endowment fund is classified in net assets with donor restrictions until those amounts are appropriated for expenditure by the Society in a manner consistent with the laws of the Commonwealth of Pennsylvania.

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13. Endowment Funds (Continued)

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 endowment funds held in perpetuity as net assets restricted for a specific purpose to be used for operations and reported as investment income with donor restrictions. When earnings are appropriated for expenditure, the funds are released from restriction.

Endowment net asset composition by type of funds as of March 31, 2022 and 2021 are as follows:

| | March 31, 2022 | | | |
|----------------------------|-------------------------------|-------------------------|------------|------------|
| | Without Donor Restrictions | With Donor Restrictions | | Total |
| | | Purpose | Perpetuity | |
| Donor-Restricted Endowment | \$ - | \$ 450,651 | \$ 423,778 | \$ 874,429 |
| | March 31, 2021 | | | |
| | Without Donor Restrictions | With Donor Restrictions | | Total |
| | | Purpose | Perpetuity | |
| Donor-Restricted Endowment | \$ - | \$ 427,834 | \$ 423,778 | \$ 851,612 |

Changes in endowment net assets as of March 31, 2022:

| | For the Year Ended March 31, 2022 | | | |
|--|-----------------------------------|-------------------------|------------|------------|
| | Without Donor Restrictions | With Donor Restrictions | | Total |
| | | Purpose | Perpetuity | |
| Beginning Endowment Net Assets | \$ - | \$ 427,834 | \$ 423,778 | \$ 851,612 |
| Contributions | - | - | - | - |
| Investment Return | - | 15,898 | - | 15,898 |
| Net Appreciation | - | 6,919 | - | 6,919 |
| Appropriation of Net Assets for Expenditure | - | - | - | - |
| Ending Endowment Net Assets | \$ - | \$ 450,651 | \$ 423,778 | \$ 874,429 |

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13. Endowment Funds (Continued)

Changes in endowment net assets as of March 31, 2021:

| | For the Year Ended March 31, 2021 | | | |
|--|-----------------------------------|-------------------------|-------------------|-------------------|
| | Without Donor Restrictions | With Donor Restrictions | | Total |
| | | Purpose | Perpetuity | |
| Beginning Endowment Net Assets | \$ - | \$ 184,930 | \$ 423,778 | \$ 608,708 |
| Contributions | - | - | - | - |
| Investment Return | - | 11,064 | - | 11,064 |
| Net Appreciation | - | 231,840 | - | 231,840 |
| Appropriation of Net Assets for Expenditure | - | - | - | - |
| Ending Endowment Net Assets | <u>\$ -</u> | <u>\$ 427,834</u> | <u>\$ 423,778</u> | <u>\$ 851,612</u> |

14. Summarized Totals for Year Ended March 31, 2021

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, 2021, from which summarized information was derived.