



LEHIGH VALLEY COMMUNITY FOUNDATION

**FINANCIAL STATEMENTS AND
SUPPLEMENTARY INFORMATION**

Years Ended June 30, 2013 and 2012

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INDEPENDENT AUDITOR'S REPORT

**To the Board of Governors
Lehigh Valley Community Foundation
Allentown, Pennsylvania**

We have audited the accompanying financial statements of Lehigh Valley Community Foundation (a nonprofit organization), which comprise the statement of financial position as of June 30, 2013 and 2012, and the related statements of activities and cash flows for the years then ended, and the related notes to the financial statements.

Management's Responsibility for the Financial Statements

Management is responsible for the preparation and fair presentation of these financial statements in accordance with accounting principles generally accepted in the United States of America; this includes the design, implementation, and maintenance of internal control relevant to the preparation and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error.

Auditor's Responsibility

Our responsibility is to express an opinion on these financial statements based on our audits. We conducted our audits in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatements 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 Valley Community Foundation as of June 30, 2013 and 2012, 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.

Other Matter

Our audit was conducted for the purpose of forming an opinion on the financial statements as a whole. The accompanying schedule of unrestricted activity is presented for purposes of additional analysis and is not a required part of the financial statements. Such information is the responsibility of management and was derived from and relates directly to the underlying accounting and other records used to prepare the financial statements. The information has been subjected to the auditing procedures applied in the audit of the financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the financial statements or to the financial statements themselves, and other additional procedures in accordance with auditing standards generally accepting in the United States of America. In our opinion, the information is fairly stated in all material respects in relation to the financial statements as a whole.

Herbein + Company, Inc.

**Reading, Pennsylvania
October 28, 2013**

LEHIGH VALLEY COMMUNITY FOUNDATION

STATEMENT OF FINANCIAL POSITION

June 30, 2013 with Comparative Totals for June 30, 2012

	<u>Unrestricted</u>	<u>Temporarily Restricted</u>	Total June 30	
			<u>2013</u>	<u>2012</u>
ASSETS				
Cash and cash equivalents	\$ 680,259	\$ 195	\$ 680,454	\$ 705,704
Prepaid expenses	13,346	-	13,346	12,971
Investments, at market	31,063,030	1,909,197	32,972,227	31,274,221
Investments-split interest agreements	-	1,508,523	1,508,523	1,475,007
Life insurance	201,429	-	201,429	1,326
Equipment (net of accumulated depreciation)	5,064	-	5,064	2,562
TOTAL ASSETS	<u>\$ 31,963,128</u>	<u>\$ 3,417,915</u>	<u>\$ 35,381,043</u>	<u>\$ 33,471,791</u>
LIABILITIES				
Accounts payable	\$ 5,945	\$ -	\$ 5,945	\$ 9,570
Grants committed	23,585	-	23,585	225,000
Funds held for organizations	-	1,909,392	1,909,392	3,730,210
Liabilities under split interest agreements	-	1,349,713	1,349,713	1,311,746
Annuity obligations	-	135,552	135,552	143,847
TOTAL LIABILITIES	29,530	3,394,657	3,424,187	5,420,373
NET ASSETS				
Unrestricted	31,791,528	-	31,791,528	27,972,893
Reserve for future projects and grants	137,006	-	137,006	56,549
Net investment in equipment	5,064	-	5,064	2,562
Total Unrestricted Net Assets	<u>31,933,598</u>	-	<u>31,933,598</u>	<u>28,032,004</u>
Temporarily restricted	-	<u>23,258</u>	<u>23,258</u>	<u>19,414</u>
TOTAL NET ASSETS	<u>31,933,598</u>	<u>23,258</u>	<u>31,956,856</u>	<u>28,051,418</u>
TOTAL LIABILITIES AND NET ASSETS	<u>\$ 31,963,128</u>	<u>\$ 3,417,915</u>	<u>\$ 35,381,043</u>	<u>\$ 33,471,791</u>

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

LEHIGH VALLEY COMMUNITY FOUNDATION

STATEMENT OF FINANCIAL POSITION

June 30, 2012

	<u>Unrestricted</u>	<u>Temporarily Restricted</u>	<u>Total</u>
ASSETS			
Cash and cash equivalents	\$ 705,704	\$ -	\$ 705,704
Prepaid expenses	12,971	-	12,971
Investments, at market	27,543,727	3,730,494	31,274,221
Investments-split interest agreements	-	1,475,007	1,475,007
Life insurance	1,326	-	1,326
Equipment (net of accumulated depreciation)	2,562	-	2,562
	<u>\$ 28,266,290</u>	<u>\$ 5,205,501</u>	<u>\$ 33,471,791</u>
TOTAL ASSETS			
LIABILITIES			
Accounts payable	\$ 9,286	\$ 284	\$ 9,570
Grants committed	225,000	-	225,000
Funds held for organizations	-	3,730,210	3,730,210
Liabilities under split interest agreements	-	1,311,746	1,311,746
Annuity obligations	-	143,847	143,847
	<u>234,286</u>	<u>5,186,087</u>	<u>5,420,373</u>
TOTAL LIABILITIES			
NET ASSETS			
Unrestricted	27,972,893	-	27,972,893
Reserve for future projects and grants	56,549	-	56,549
Net investment in equipment	2,562	-	2,562
Total Unrestricted Net Assets	<u>28,032,004</u>	<u>-</u>	<u>28,032,004</u>
Temporarily restricted	-	19,414	19,414
	<u>28,032,004</u>	<u>19,414</u>	<u>28,051,418</u>
TOTAL NET ASSETS			
TOTAL LIABILITIES AND NET ASSETS			
	<u>\$ 28,266,290</u>	<u>\$ 5,205,501</u>	<u>\$ 33,471,791</u>

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

LEHIGH VALLEY COMMUNITY FOUNDATION

STATEMENT OF ACTIVITIES

Year Ended June 30, 2013 with Comparative Totals for June 30, 2012

	<u>Unrestricted</u>	<u>Temporarily Restricted</u>	<u>Total Year Ended June 30</u>	
			<u>2013</u>	<u>2012</u>
REVENUE				
Gifts	\$ 2,416,559	\$ 665	\$ 2,417,224	\$ 787,967
Gifts from bequests and trusts	634,035	-	634,035	815,377
In-kind gifts	19,139	-	19,139	4,200
Net investment activity	2,942,556	16,282	2,958,838	49,735
Change in value of split interest agreements	-	(12,610)	(12,610)	(15,947)
Change in cash surrender value of life insurance policies	306	-	306	-
Administrative fees	39,054	-	39,054	36,832
Net assets released from restrictions	493	(493)	-	-
Total Revenue	6,052,142	3,844	6,055,986	1,678,164
EXPENSES				
Grantmaking:				
Grants	1,660,289	-	1,660,289	1,748,935
Grantmaking expenses	63,465	-	63,465	68,673
Supporting services:				
General and administrative expenses	162,741	-	162,741	202,835
Philanthropic services and marketing	264,053	-	264,053	174,330
Total Expenses	2,150,548	-	2,150,548	2,194,773
CHANGES IN NET ASSETS	\$ 3,901,594	\$ 3,844	3,905,438	(516,609)
NET ASSETS AT BEGINNING OF YEAR			28,051,418	28,568,027
NET ASSETS AT END OF YEAR			\$ 31,956,856	\$ 28,051,418

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

LEHIGH VALLEY COMMUNITY FOUNDATION

STATEMENT OF ACTIVITIES

Year Ended June 30, 2012

	<u>Unrestricted</u>	<u>Temporarily Restricted</u>	<u>Total</u>
REVENUE			
Gifts	\$ 786,827	\$ 1,140	\$ 787,967
Gifts from bequests and trusts	815,377	-	815,377
In-kind gifts	4,200		4,200
Net investment activity	45,607	4,128	49,735
Change in value of split interest agreements	-	(15,947)	(15,947)
Administrative fees	36,832	-	36,832
Net assets released from restrictions	3,506	(3,506)	-
	<u>1,692,349</u>	<u>(14,185)</u>	<u>1,678,164</u>
EXPENSES			
Grantmaking:			
Grants	1,748,935	-	1,748,935
Grantmaking expenses	68,673	-	68,673
Supporting services:			
General and administrative expenses	202,835	-	202,835
Philanthropic services and marketing	174,330	-	174,330
	<u>2,194,773</u>	<u>-</u>	<u>2,194,773</u>
CHANGES IN NET ASSETS	<u>\$ (502,424)</u>	<u>\$ (14,185)</u>	<u>(516,609)</u>
NET ASSETS AT BEGINNING OF YEAR			<u>28,568,027</u>
NET ASSETS AT END OF YEAR			<u>\$ 28,051,418</u>

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

LEHIGH VALLEY COMMUNITY FOUNDATION

STATEMENTS OF CASH FLOWS

	Years Ended June 30	
	2013	2012
CASH FLOWS FROM OPERATING ACTIVITIES		
Changes in net assets	\$ 3,905,438	\$ (516,609)
Adjustments to reconcile changes in net assets to net cash provided by operating activities:		
Depreciation	1,293	854
Change in value of split interest agreements	12,610	15,947
Change in cash surrender value	(306)	-
Realized and unrealized (gains) losses	(2,304,796)	504,168
Restricted net investment income	(16,282)	(4,128)
Restricted gifts	(665)	(1,140)
Changes in assets and liabilities:		
Prepaid expenses	(375)	3,262
Life insurance	(199,797)	(1,326)
Accounts and grants payable	(205,040)	204,860
Funds held for organizations	(1,921,364)	77,487
NET CASH PROVIDED (USED) BY OPERATING ACTIVITIES	(729,284)	283,375
CASH FLOWS FROM INVESTING ACTIVITIES		
Purchase of equipment	(3,795)	-
Proceeds from sale of investments	13,806,121	12,911,912
Purchase of investments	(13,094,333)	(13,186,319)
NET CASH PROVIDED (USED) BY INVESTING ACTIVITIES	707,993	(274,407)
CASH FLOWS FROM FINANCING ACTIVITIES		
Restricted gifts	665	1,140
Restricted net investment income	16,282	4,128
Payments on annuities payable	(20,906)	(21,381)
NET CASH PROVIDED (USED) BY FINANCING ACTIVITIES	(3,959)	(16,113)
NET DECREASE IN CASH	(25,250)	(7,145)
CASH AT BEGINNING OF YEAR	705,704	712,849
CASH AT END OF YEAR	\$ 680,454	\$ 705,704

The accompanying notes are an integral part of the financial statements

LEHIGH VALLEY COMMUNITY FOUNDATION

NOTES TO FINANCIAL STATEMENTS

June 30, 2013 and 2012

Organization and Nature of Activities

The Lehigh Valley Community Foundation (Foundation) was originally established in 1967 as the Bethlehem Area Foundation (Trust) by a Declaration of Trust with three local banks. In 1992, a nonprofit corporation, the Lehigh Valley Community Foundation, Inc. (Corporation), was created and became a component part of the Foundation. The Bethlehem Area Foundation was renamed to reflect the regionalization of activities.

The Foundation is a publicly supported community foundation and is exempt from federal income taxes under Section 501(c)(3) of the Internal Revenue Code. The purpose of the Foundation is to develop, manage and distribute the philanthropy of a variety of donors in order to improve the quality of life for residents of the Lehigh Valley. The Foundation's major sources of revenue are derived from contributions and investment activities. It is always considered reasonable that grantors and contributors may be lost in the near-term.

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The accompanying financial statements have been prepared on the accrual basis of accounting and include the accounts of the trust and the corporation. The statements reflect the combined assets and financial activity of the various trusts and funds administered by the Foundation. Since the Corporation is considered a component part of the Trust, there are no inter-organizational activities.

The Foundation is required to report information regarding its financial position and activities according to net asset class. Accordingly, the net assets of the Foundation and changes therein are classified and reported as follows:

Unrestricted Net Assets - Net assets over which the Board has full discretion in making distributions for charitable purposes to meet community needs. Unrestricted net assets may also include certain amounts designated by the Board for grants, contingencies and other purposes. Substantially all contributions are subject to the unilateral variance power established by the Foundation's governing documents and contained in all fund agreements. The variance power gives the Foundation's Board of Governors the ability to modify donor intent for use of funds that are incapable of fulfillment. Therefore, most of the Foundation's net assets are classified as unrestricted.

Temporarily Restricted Net Assets - Net assets that are subject to restrictions which will expire by the passage of time or when the specified purpose is met. Temporarily restricted net assets are comprised of the gift annuities, net of obligations due to the beneficiaries.

Permanently Restricted Net Assets - Net assets that are restricted in perpetuity by the donor. The Foundation has no permanently restricted net assets.

LEHIGH VALLEY COMMUNITY FOUNDATION

NOTES TO FINANCIAL STATEMENTS

June 30, 2013 and 2012

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - CONTINUED

In addition to reporting by net asset class, the Foundation further classifies funds based on expressed donor intent. As a result, the Foundation has 167 different funds which are categorized as follows:

Discretionary Funds

- *Undesignated Funds* represent those over which the Foundation's Board of Governors has full discretion in making distributions for charitable purposes.
- *Area of Interest Funds* represent funds to be used at the Board's discretion to meet a general area of charitable need (geography, program or purpose) as defined by the donor.

Donor Defined Funds

- *Donor Advised Funds* represent funds for which the donor has reserved the right to make nonbinding suggestions for charitable giving to the Board.
- *Donor Designated Funds* represent funds for which the donors have designated specific organizations for ongoing support.
- *Scholarship and Award Funds* represent funds intended to provide support for education and to provide grants to recognize achievement in areas such as teaching, the arts, or scientific research.
- *Organizational Funds* represent endowment and special purpose funds established upon the transfer of assets from other non profit organizations that designate themselves as beneficiaries.

Substantially all contributions, including those with donor-imposed restrictions are subject to the unilateral variance power, established by the Foundation's governing documents. The variance power gives the Board of Governors the ability to modify donor restrictions that are incapable of fulfillment.

In addition, absent contrary directions given in the fund agreement regarding the use of principal, the Foundation's governing documents further provide all or part of the principal of any fund may be used subject to certain conditions, at the approval of the Board of Governors. Therefore, such contributions are reported as unrestricted net assets. However, this classification does not imply that such funds are available for claims of general creditors of the Foundation.

LEHIGH VALLEY COMMUNITY FOUNDATION

NOTES TO FINANCIAL STATEMENTS

June 30, 2013 and 2012

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - CONTINUED

Estimates

The preparation of financial statements in conformity with U.S. generally accepted accounting principles requires management to make estimates and assumptions that affect the reported amounts of 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, including unconditional promises to give, are reported as increases in the appropriate category of net assets depending on the existence and/or nature of any donor restrictions. When a donor restriction expires (that is, when a stipulated time restriction ends or purpose restriction is accomplished), net assets are reclassified to unrestricted net assets and reported in the statements of activities as net assets released from restrictions.

Donated securities are recorded at fair market value as of the date of donation. Contributions received from a not-for-profit organization for the purpose of establishing an endowment or other fund for the benefit of that organization are not considered contributions for financial statement purposes. Such amounts are reflected in the financial statements as funds held for organizations.

Contributed Services

The Organizations' Board of Governors and volunteers donate significant amounts of time to its various operations. The value of these contributed services does not meet the criteria for recognition in the financial statements.

For the year ended June 30, 2013 and 2012, donated services of \$19,139 and \$4,200, respectively, is reflected in the accompanying financial statements. The donated services for June 30, 2013 represent the value of printing costs and television airtime for a commercial for the Organization. The donated services for June 30, 2012 represent the value of website services performed for the Foundation.

Equipment

Net assets for equipment represent funds expended to acquire equipment at historical cost less accumulated depreciation. The Foundation follows the practice of capitalizing all expenses for equipment in excess of \$2,500; the fair value of donated assets is similarly capitalized. Depreciation is provided over the estimated useful lives of the assets on a straight-line basis over five to seven years.

Cash and Cash Equivalents

For purposes of reporting cash flows, the Foundation considers all short-term investments with a maturity of three months or less as cash equivalents. Certain cash funds are considered investments as they represent unrestricted and restricted funds held for future investment purposes. At times, cash balances in the bank have been in excess of federally insured limits.

LEHIGH VALLEY COMMUNITY FOUNDATION

NOTES TO FINANCIAL STATEMENTS

June 30, 2013 and 2012

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - CONTINUED

Investments/Financial Instruments

The charitable funds of the Foundation are managed by diverse financial managers, in accordance with the Foundation's investment policy and under the oversight of its Finance Committee and investment consultant. The Foundation's investment policy provides for strategic asset allocation based on a long-term perspective. The objectives of the Foundation's investment policy include maintaining the purchasing power of assets and maximizing long-term return within reasonable and prudent levels of risk.

Investments are reported at fair market value. The amounts the Foundation will ultimately realize could differ materially from the reported amounts, and significant fluctuations in fair values could occur from year to year.

Tax Exempt Status

The Foundation is exempt from federal income taxes under Section 501(c)(3) of the Internal Revenue Code.

In accordance with generally accepted accounting principles, the Foundation accounts for uncertain tax positions relative to unrelated business income, if any, as required. Using that guidance, management has determined that there are no uncertain tax positions that qualify for either recognition or disclosure in the financial statements. Tax years 2008 and forward remain open for examination by the applicable taxing authorities.

Subsequent Events

In preparing these financial statements, the Foundation has evaluated events and transactions for potential recognition or disclosure through October 28, 2013, the date the financial statements were available to be issued.

NOTE 2 - CONCENTRATIONS OF CREDIT RISK

Financial instruments that potentially subject the Foundation to concentrations of credit risk consist principally of debt and equity investments. Though the market value of these investments is subject to fluctuations on a year-to-year basis, the Foundation believes that the investment policy is prudent for the long-term welfare of the Foundation.

LEHIGH VALLEY COMMUNITY FOUNDATION

NOTES TO FINANCIAL STATEMENTS

June 30, 2013 and 2012

NOTE 3 - INVESTMENTS

Investments as of June 30 consist of the following:

	2013	2012
Cash	\$ 1,202,733	\$ 1,343,525
Equity Securities and Funds	20,796,619	18,586,634
Bonds and Fixed Income Funds	10,972,875	11,344,062
	\$ 32,972,227	\$ 31,274,221

The duration of the bonds in the various portfolios of the Foundation ranges from 2.9 to 5.1 years. The market value of bonds by contracted maturity rates at June 30 is as shown below. Expected maturities will differ from contracted maturities because borrowers have the right to call on the prepay obligations with or without call or prepayment penalties.

	2013	2012
Due in less than 1 year	\$ 662,331	\$ 1,932,032
Due after 1 through 5 years	2,316,594	2,337,467
Due after 5 through 10 years	1,636,807	1,642,990
Due after 10 through 20 years	207,564	247,968
Due after 20 years	1,704,237	2,107,162
	\$ 6,527,533	\$ 8,267,619

Net investment activity is as follows at June 30:

	2013	2012
Investment income	\$ 867,324	\$ 750,739
Realized and unrealized gain (loss) on investments	2,304,796	(504,168)
Custodial and investment management fees	(213,282)	(196,836)
	\$ 2,958,838	\$ 49,735

LEHIGH VALLEY COMMUNITY FOUNDATION

NOTES TO FINANCIAL STATEMENTS

June 30, 2013 and 2012

NOTE 4 - SPLIT INTEREST AGREEMENTS

Investments-split interest agreements represent the fair market value of assets held under charitable remainder trusts and gift annuity agreements. The Foundation has segregated the assets under these agreements as separate and distinct funds, independent from other funds and not to be applied to payment of the obligations of the Foundation or any other purpose other than benefits specified in the agreements.

Total assets by type of split interest agreement are as follows at June 30:

	<u>2013</u>	<u>2012</u>
Gift annuities	\$ 158,810	\$ 163,261
Charitable remainder trusts	<u>1,349,713</u>	<u>1,311,746</u>
	<u>\$ 1,508,523</u>	<u>\$ 1,475,007</u>

Split interest assets are as follows at June 30:

	<u>2013</u>	<u>2012</u>
Cash	\$ 24,452	\$ 35,692
Equity Securities and Funds	847,969	776,340
Bonds and Fixed Income Funds	<u>636,102</u>	<u>662,975</u>
	<u>\$ 1,508,523</u>	<u>\$ 1,475,007</u>

Gift Annuities

The Foundation administers several charitable gift annuities. Gift annuity assets received are recorded at fair value on the date received by the Foundation. The gift annuity agreements provide for the payment of distributions at a stated return to the beneficiaries as long as they live, at which time the remaining assets are to be used for the establishment of or addition to charitable funds of the Foundation based on donor intent.

Distributions to beneficiaries are calculated based on rates varying from six percent to twelve percent. Total annual distributions during the years ended June 30, 2013 and 2012 were \$20,906 and 21,381, respectively. Annuity obligations represent the present value of expected future cash flows to be paid to the beneficiaries based on life expectancies. Annuity obligations are fully funded by the related investments held.

LEHIGH VALLEY COMMUNITY FOUNDATION

NOTES TO FINANCIAL STATEMENTS

June 30, 2013 and 2012

NOTE 4 - SPLIT INTEREST AGREEMENTS - CONTINUED

Charitable Remainder Trusts

The Foundation is currently serving as the trustee of one charitable remainder unitrust and one charitable remainder annuity trust. As specified in the trust agreement, annual distributions to third party beneficiaries from the unitrust are calculated based on eight percent of the net fair market value of the trust assets as of the first day of the calendar year. Distributions from the annuity trust are based on a five percent payout.

In April 2013, the Foundation submitted a written notice of resignation as trustee of the charitable remainder unitrust to the donor who created the trust. The value of the trust at June 30, 2013 was \$967,438. The transfer of the trust was approved by the Office of the Pennsylvania Attorney General with no objection. The resignation was subject to the appointment and acceptance of a successor trustee and the Foundation's receipt of signed releases for the various parties with interest in the trust. The Foundation is waiting on the final documents necessary to proceed with the transfer.

NOTE 5 - EQUIPMENT

Equipment and related accumulated depreciation are as follows at June 30:

	<u>2013</u>	<u>2012</u>
Equipment	\$ 40,376	\$ 36,581
Accumulated depreciation	<u>(35,312)</u>	<u>(34,019)</u>
	<u>\$ 5,064</u>	<u>\$ 2,562</u>

Depreciation expense for the years ended June 30, 2013 and 2012 was \$1,293 and \$854, respectively.

NOTE 6 - FUNDS HELD FOR ORGANIZATIONS

The Foundation follows ASC 958-605, transfers of Assets to a Not-for-Profit organization or Charitable Trust that raises or holds contributions for others, Revenue Recognition, which provides standards for transactions in which a community foundation accepts a contribution from a donor and agrees to transfer those assets, the return on investment of those assets, or both, to another entity that is specified by the donor. ASC 958-605 specifically requires that if a Not-for-Profit Organization (NPO) establishes a fund at a community foundation with its own funds and specifies itself as the beneficiary of that fund, the community foundation must account for the transfer of such assets as a liability. The Foundation refers to such funds as funds held for organizations.

LEHIGH VALLEY COMMUNITY FOUNDATION

NOTES TO FINANCIAL STATEMENTS

June 30, 2013 and 2012

NOTE 6 - FUNDS HELD FOR ORGANIZATIONS - CONTINUED

The Foundation maintains variance power and legal ownership of funds held for organizations, and as such, continues to report the funds as assets of the Foundation. However, in accordance with ASC 958-605, a liability has been established for the fair value of the funds, which is generally equivalent to the present value of future payments expected to be made to the NPOs.

At June 30, 2013 and 2012, the Foundation was the owner of fifteen and fourteen funds, respectively, held for organizations with a combined value of \$1,909,392 and \$3,730,210, respectively. The following table summarizes activity in such funds:

	<u>2013</u>	<u>2012</u>
Funds held for organizations' balances at July 1	\$ 3,730,210	\$ 3,733,934
New contributions	44,336	54,261
Net investment income	223,174	30,131
Fees	(32,261)	(29,016)
Grants made	<u>(2,056,067)</u>	<u>(59,100)</u>
Funds held for organizations' balances at June 30	<u>\$ 1,909,392</u>	<u>\$ 3,730,210</u>

NOTE 7 - GRANTS

The total amount available for grant making from discretionary and donor defined funds varies annually based on the application of the Board-approved spending policy.

Grants from discretionary funds are made annually and are directed toward needs or opportunities in the community in the areas of arts, culture and heritage, education, environment, healthcare, human services, and community development. The Foundation's Board of Governors has sole discretion regarding grant making from these funds and selects grantees through an annual application process.

Grants made from donor defined funds must also be approved by the Foundation's Board of Governors. However, grants from these funds are made based on donor recommendations or designations. The total amount granted from such funds may vary greatly each year depending on the amount of grants made from temporary funds, which are not subject to the Foundation's spending policy.

LEHIGH VALLEY COMMUNITY FOUNDATION

NOTES TO FINANCIAL STATEMENTS

June 30, 2013 and 2012

NOTE 7 - GRANTS - CONTINUED

Grants paid from discretionary and donor defined funds are as follows at June 30:

	<u>2013</u>	<u>2012</u>
Discretionary grants:		
Annual grants process	\$ 112,340	\$ 100,000
Area of Interest Funds	57,664	65,582
Donor defined grants	<u>1,490,285</u>	<u>1,583,353</u>
 Total Grants	 <u>\$ 1,660,289</u>	 <u>\$ 1,748,935</u>

In addition, the Foundation distributed grants from the funds held for organizations in the amount of \$2,056,067 and \$59,100 for the years ended June 30, 2013 and 2012, respectively.

NOTE 8 - PENSION PLAN

The Foundation has a defined contribution simplified employee pension plan for its employees. The Foundation contributed five percent of employees' annual compensation and pension costs were \$10,874 for the year ended June 30, 2012. All costs have been funded.

Effective January 1, 2012, the Foundation adopted a 401k Plan. Employees meeting hours and length of service requirements are eligible to participate. The Foundation will determine the amount of any matching or profit sharing contributions on an annual basis. Contributions totaling \$12,439 were made by the Foundation during the year ended June 30, 2013.

LEHIGH VALLEY COMMUNITY FOUNDATION

NOTES TO FINANCIAL STATEMENTS

June 30, 2013 and 2012

NOTE 9 - FUNCTIONAL EXPENSES

The operating expenses of the Foundation are funded through unrestricted contributions and a proportionate fee assessment on the market value of all funds of the Foundation. Fees are assessed quarterly and are calculated based on a fixed percentage of the market value of assets of the funds. Operating expenses have been allocated among the program and supporting services benefited and have been summarized on a functional basis on the statement of activities.

Operating expenses are summarized as follows at June 30:

	<u>2013</u>	<u>2012</u>
Operating Expenses:		
Salaries	\$ 272,878	\$ 240,075
Benefits	54,351	49,441
Taxes and fees	29,796	28,883
Office and equipment rent	32,140	32,605
Marketing	26,929	5,763
Information technology	16,613	42,357
Other	57,552	46,714
Total Operating Expenses	<u>490,259</u>	<u>445,838</u>
Other Expenses:		
Grants	<u>1,660,289</u>	<u>1,748,935</u>
Total Expenses	<u>\$ 2,150,548</u>	<u>\$ 2,194,773</u>

NOTE 10 - COMMITMENTS AND CONTINGENCIES

The Foundation has operating leases for office space and equipment. Minimum annual rental commitments under the leases as of June 30, 2013 are as follows:

<u>Year Ending June 30</u>	<u>Amount</u>
2014	\$ 35,041
2015	35,895
2016	<u>36,113</u>
	<u>\$ 107,049</u>

Total office and equipment rent paid for the years ended June 30, 2013 and 2012 was \$32,140 and \$32,605, respectively.

LEHIGH VALLEY COMMUNITY FOUNDATION

NOTES TO FINANCIAL STATEMENTS

June 30, 2013 and 2012

NOTE 11 - FAIR VALUE MEASUREMENTS

The Foundation estimates the fair value of investments in marketable equity and debt securities based on quoted market prices.

Financial accounting standards establish 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 are described below:

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

Level 2: Inputs to the valuation methodology include:

- Quoted prices for similar assets and liabilities in active markets;
- Quoted prices for identical or similar assets and 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.

Level 3: Inputs to the valuation methodology are unobservable and significant to the fair value measurement.

An asset's or liability's level within the fair value hierarchy is based on the lowest level of input that is significant to the fair value measurement.

LEHIGH VALLEY COMMUNITY FOUNDATION

NOTES TO FINANCIAL STATEMENTS

June 30, 2013 and 2012

NOTE 11 - FAIR VALUE MEASUREMENTS - CONTINUED

Fair value of assets measured on a recurring basis as of June 30, 2013 is as follows:

	<u>Fair Value</u>	<u>Valuation (Level 1)</u>
Investments:		
Equity Securities - U.S.	\$ 9,251,682	\$ 9,251,682
Equity Securities - International	1,974,287	1,974,287
Equity Funds - U.S.	6,549,002	6,549,002
Equity Funds - International	2,752,570	2,752,570
Other Equities	269,077	269,077
Corporate Bonds	2,947,681	2,947,681
U.S. Treasury Bonds	1,322,825	1,322,825
Government Agency Bonds	2,048,339	2,048,339
Bond Funds	4,445,341	4,445,341
Other Bonds	208,690	208,690
	<u>31,769,494</u>	<u>31,769,494</u>
Investments-split interest agreements:		
Equity Securities	362,308	362,308
Equity Funds	485,661	485,661
Bond Funds	636,102	636,102
	<u>1,484,071</u>	<u>1,484,071</u>
Total investments, at market	<u><u>\$ 33,253,565</u></u>	<u><u>\$ 33,253,565</u></u>

LEHIGH VALLEY COMMUNITY FOUNDATION

NOTES TO FINANCIAL STATEMENTS

June 30, 2013 and 2012

NOTE 11 - FAIR VALUE MEASUREMENTS - CONTINUED

The estimated fair values of the Foundation's financial instruments as of June 30, 2012 are as follows:

	Fair Value	Valuation (Level 1)
Investments:		
Equity Securities	\$ 2,828,992	\$ 2,828,992
Equity Securities - U.S.	6,817,366	6,817,366
Equity Securities - International	1,582,004	1,582,004
Equity Funds - U.S.	5,078,456	5,078,456
Equity Funds - International	1,964,360	1,964,360
Other Equities	315,456	315,456
Corporate Bonds	3,777,707	3,777,707
U.S. Treasury Bonds	1,691,498	1,691,498
Government Agency Bonds	2,550,035	2,550,035
Bond Funds	3,076,443	3,076,443
Other Bonds	248,379	248,379
	29,930,696	29,930,696
Investments-split interest agreements:		
Equity Securities	304,569	304,569
Equity Funds	471,771	471,771
Bond Funds	662,975	662,975
	1,439,315	1,439,315
Total investments, at market	\$ 31,370,011	\$ 31,370,011

Level 1 valuation for both periods is based on quoted prices in active markets for identical assets.

All investments of the Foundation for the years ended June 30, 2013 and 2012 are Level 1 investments.

LEHIGH VALLEY COMMUNITY FOUNDATION

NOTES TO FINANCIAL STATEMENTS

June 30, 2013 and 2012

NOTE 12 - ENDOWMENT FUNDS

The Foundation has elected to be governed by the Pennsylvania Act 141 which relates to non-profit endowments and requires organizations to adopt and follow a total return investment policy and a spending policy. The Foundation has adopted investment and spending policies for endowment assets. These policies work together in an attempt to provide a predictable stream of funding for grants and programs while seeking to maintain the purchasing power of the endowment assets.

The Foundation's investment objective is to maximize return within reasonable and prudent levels of risk while maintaining an appropriate portfolio asset allocation. Investment guidelines are based on an investment horizon of greater than five years. To satisfy its long-term rate of return objective, the Foundation's investment policy pursues a total return approach to the management of assets in which investment returns are achieved through both capital appreciation (realized and unrealized) and current yield (interest and dividends).

The Foundation's spending policy determines the amount available for grant making and administrative expenditure from endowment funds. The spending rate is established annually by the Board of Governors, and the approved rate was 4.5 percent for the years ended June 30, 2013 and 2012. The amount available for spending is calculated based on the average asset value of an endowment fund over twelve rolling quarters.

Changes in unrestricted endowment net assets for the fiscal years ended June 30 are as follows:

	<u>2013</u>	<u>2012</u>
Endowment net assets - beginning of year	\$ 25,182,556	\$ 25,332,908
Gifts	1,988,343	952,693
Investment income (net of fees)	592,926	496,500
Appreciation (depreciation)	2,061,597	(475,977)
Amounts appropriated for expenditure	<u>(1,314,151)</u>	<u>(1,123,568)</u>
Endowment net assets - end of year	<u>\$ 28,511,271</u>	<u>\$ 25,182,556</u>

LEHIGH VALLEY COMMUNITY FOUNDATION

NOTES TO FINANCIAL STATEMENTS

June 30, 2013 and 2012

NOTE 12 - ENDOWMENT FUNDS - CONTINUED

Unrestricted endowment net assets by type of fund as of June 30 are as follows:

	<u>2013</u>	<u>2012</u>
Donor Designated Endowment Funds:		
Area of Interest Discretionary	\$ 2,632,217	\$ 2,504,320
Donor Advised	8,597,197	6,650,726
Donor Designated	11,705,761	10,876,345
Organizational	7,088	6,654
Scholarship/Award	934,888	833,093
Undesignated Discretionary	4,520,859	4,207,366
Subtotal	<u>28,398,010</u>	<u>25,078,504</u>
Board Designated Endowment Funds	<u>113,261</u>	<u>104,052</u>
Total Endowment Funds	<u><u>\$ 28,511,271</u></u>	<u><u>\$ 25,182,556</u></u>

LEHIGH VALLEY COMMUNITY FOUNDATION

SCHEDULE OF UNRESTRICTED ACTIVITY

Year Ended June 30, 2013

	<u>Operating</u>	<u>Discretionary Funds</u>	<u>Donor Defined Funds</u>	<u>Total</u>
REVENUE				
Gifts	\$ 81,773	\$ 31,189	\$ 2,937,632	\$ 3,050,594
In-kind gifts	19,139	-	-	19,139
Net investment activity	(2,229)	768,312	2,176,473	2,942,556
Change in cash surrender value	-	-	306	306
Administrative fees	39,054	-	-	39,054
Released from temporarily restricted	493	-	-	493
Total before releases	<u>138,230</u>	<u>799,501</u>	<u>5,114,411</u>	<u>6,052,142</u>
Interfund Activity:				
Spending policy withdrawals	151,990	(151,990)	-	-
Foundation fees	304,896	(72,607)	(232,289)	-
Gifts (grants)	56,788	(35,197)	(21,591)	-
Total Revenue	<u>651,904</u>	<u>539,707</u>	<u>4,860,531</u>	<u>6,052,142</u>
EXPENSES				
Grantmaking:				
Grants	79,062	93,554	1,487,673	1,660,289
Grantmaking expenses	63,465	-	-	63,465
Supporting services:				
Administrative expenses	162,741	-	-	162,741
Philanthropic services and marketing	263,201	-	852	264,053
Total Expenses	<u>568,469</u>	<u>93,554</u>	<u>1,488,525</u>	<u>2,150,548</u>
CHANGES IN NET ASSETS	<u>\$ 83,435</u>	<u>\$ 446,153</u>	<u>\$ 3,372,006</u>	3,901,594
NET ASSETS AT BEGINNING OF YEAR				<u>28,032,004</u>
NET ASSETS AT END OF YEAR				<u>\$ 31,933,598</u>