



LEHIGH VALLEY COMMUNITY FOUNDATION, INC.

**FINANCIAL STATEMENTS AND
SUPPLEMENTARY INFORMATION**

Years Ended June 30, 2017 and 2016

TABLE OF CONTENTS

	Pages
INDEPENDENT AUDITOR'S REPORT	1 - 2
FINANCIAL STATEMENTS	
Statements of Financial Position	3 - 4
Statements of Activities.....	5 - 6
Statements of Cash Flows.....	7
Notes to Financial Statements.....	8 - 22
SUPPLEMENTARY INFORMATION	
Schedule of Unrestricted Activity	23



Herbein + Company, Inc.
2763 Century Boulevard
Reading, PA 19610
P: 610.378.1175
F: 610.378.0999
www.herbein.com

INDEPENDENT AUDITOR'S REPORT

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

We have audited the accompanying financial statements of Lehigh Valley Community Foundation, Inc. (a nonprofit organization), which comprise the statements of financial position as of June 30, 2017 and 2016, and the related statements of activities and cash flows for the years then ended, and the related notes to the financial statements.

Management's Responsibility for the Financial Statements

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

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, Inc. as of June 30, 2017 and 2016, and the changes in its net assets and its cash flows for the years then ended in accordance with accounting principles generally accepted in the United States of America.

Report on Supplementary Information

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 24, 2017**

LEHIGH VALLEY COMMUNITY FOUNDATION, INC.

STATEMENTS OF FINANCIAL POSITION

June 30, 2017 with Comparative Totals for June 30, 2016

	Unrestricted	Temporarily Restricted	Total June 30	
			2017	2016
ASSETS				
Cash and cash equivalents	\$ 3,296,351	\$ 2,817	\$ 3,299,168	\$ 3,469,093
Bequest receivable	400,000	-	400,000	-
Prepaid expenses	23,436	-	23,436	31,982
Investments, at market	43,917,510	1,919,077	45,836,587	40,398,692
Investments - split interest agreements	-	479,660	479,660	485,053
Life insurance policy gifts	247,911	-	247,911	233,919
Equipment (net of accumulated depreciation)	5,761	-	5,761	1,079
TOTAL ASSETS	\$ 47,890,969	\$ 2,401,554	\$ 50,292,523	\$ 44,619,818
LIABILITIES				
Accounts payable	\$ 32,426	\$ 60	\$ 32,486	\$ 28,344
Grants committed	151,152	-	151,152	210,500
Funds held for organizations	-	1,921,677	1,921,677	1,785,090
Liabilities under split interest agreements	-	468,173	468,173	475,619
TOTAL LIABILITIES	183,578	2,389,910	2,573,488	2,499,553
NET ASSETS				
Unrestricted net assets:				
Endowment	40,565,154	-	40,565,154	35,489,704
Grantmaking	6,973,817	-	6,973,817	6,481,352
Operations and equipment	6,841	-	6,841	15,770
Reserve for future projects and grants	161,579	-	161,579	124,005
Total unrestricted net assets	47,707,391	-	47,707,391	42,110,831
Temporarily restricted net assets	-	11,644	11,644	9,434
TOTAL NET ASSETS	47,707,391	11,644	47,719,035	42,120,265
TOTAL LIABILITIES AND NET ASSETS	\$ 47,890,969	\$ 2,401,554	\$ 50,292,523	\$ 44,619,818

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

LEHIGH VALLEY COMMUNITY FOUNDATION, INC.

STATEMENT OF FINANCIAL POSITION

June 30, 2016

	<u>Unrestricted</u>	<u>Temporarily Restricted</u>	<u>Total</u>
ASSETS			
Cash and cash equivalents	\$ 3,468,773	\$ 320	\$ 3,469,093
Prepaid expenses	31,982	-	31,982
Investments, at market	38,613,922	1,784,770	40,398,692
Investments - split interest agreements	-	485,053	485,053
Life insurance policy gifts	233,919	-	233,919
Equipment (net of accumulated depreciation)	1,079	-	1,079
TOTAL ASSETS	<u><u>\$42,349,675</u></u>	<u><u>\$2,270,143</u></u>	<u><u>\$44,619,818</u></u>
LIABILITIES			
Accounts payable	\$ 28,344	\$ -	\$ 28,344
Grants committed	210,500	-	210,500
Funds held for organizations	-	1,785,090	1,785,090
Liabilities under split interest agreements	-	475,619	475,619
TOTAL LIABILITIES	238,844	2,260,709	2,499,553
NET ASSETS			
Unrestricted net assets:			
Endowment	35,489,704	-	35,489,704
Grantmaking	6,481,352	-	6,481,352
Operations and equipment	15,770	-	15,770
Reserve for future projects and grants	124,005	-	124,005
Total unrestricted net assets	<u>42,110,831</u>	<u>-</u>	<u>42,110,831</u>
Temporarily restricted net assets	<u>-</u>	<u>9,434</u>	<u>9,434</u>
TOTAL NET ASSETS	<u>42,110,831</u>	<u>9,434</u>	<u>42,120,265</u>
TOTAL LIABILITIES AND NET ASSETS	<u><u>\$42,349,675</u></u>	<u><u>\$2,270,143</u></u>	<u><u>\$44,619,818</u></u>

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

LEHIGH VALLEY COMMUNITY FOUNDATION, INC.

STATEMENTS OF ACTIVITIES

Year Ended June 30, 2017 with Comparative Totals for June 30, 2016

	Unrestricted	Temporarily Restricted	Total	
			Year Ended June 30	
			2017	2016
REVENUE				
Gifts	\$ 4,726,808	\$ -	\$ 4,726,808	\$ 4,403,560
Gifts from bequests and trusts	2,014,857	-	2,014,857	5,100,300
In-kind gifts	2,343	-	2,343	36,375
Net investment activity	5,018,956	-	5,018,956	(497,725)
Net investment activity, split interest agreements	-	15,319	15,319	7,086
Change in value of split interest agreements	-	(12,740)	(12,740)	(14,260)
Change in cash surrender value of life insurance policy gift	13,992	-	13,992	12,361
Administrative fees	15,316	-	15,316	14,707
Net assets released from restrictions	369	(369)	-	-
Total revenue	<u>11,792,641</u>	<u>2,210</u>	<u>11,794,851</u>	<u>9,062,404</u>
EXPENSES				
Grants	5,491,248	-	5,491,248	3,326,804
Operating expenses:				
Asset development and donor services	269,200	-	269,200	261,320
General and administrative	132,949	-	132,949	188,435
Grantmaking and community leadership	302,684	-	302,684	204,206
Total operating expenses	<u>704,833</u>	<u>-</u>	<u>704,833</u>	<u>653,961</u>
Total expenses	<u>6,196,081</u>	<u>-</u>	<u>6,196,081</u>	<u>3,980,765</u>
CHANGES IN NET ASSETS	<u>\$ 5,596,560</u>	<u>\$ 2,210</u>	5,598,770	5,081,639
NET ASSETS AT BEGINNING OF YEAR			42,120,265	37,038,626
NET ASSETS AT END OF YEAR			<u>\$ 47,719,035</u>	<u>\$ 42,120,265</u>

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

LEHIGH VALLEY COMMUNITY FOUNDATION, INC.

STATEMENT OF ACTIVITIES

Year Ended June 30, 2016

	Unrestricted	Temporarily Restricted	Total
REVENUE			
Gifts	\$ 4,403,560	\$ -	\$ 4,403,560
Gifts from bequests and trusts	5,100,300	-	5,100,300
In-kind gifts	36,375	-	36,375
Net investment activity	(497,725)	-	(497,725)
Net investment activity, split interest agreements	-	7,086	7,086
Change in value of split interest agreements	-	(14,260)	(14,260)
Change in cash surrender value of life insurance policy gift	12,361	-	12,361
Administrative fees	14,707	-	14,707
Net assets released from restrictions	376	(376)	-
Total revenue	<u>9,069,954</u>	<u>(7,550)</u>	<u>9,062,404</u>
EXPENSES			
Grants	3,326,804	-	3,326,804
Operating expenses:			
Asset development and donor services	261,320	-	261,320
General and administrative	188,435	-	188,435
Grantmaking and community leadership	204,206	-	204,206
Total operating expenses	<u>653,961</u>	<u>-</u>	<u>653,961</u>
Total expenses	<u>3,980,765</u>	<u>-</u>	<u>3,980,765</u>
CHANGES IN NET ASSETS	<u>\$ 5,089,189</u>	<u>\$ (7,550)</u>	5,081,639
NET ASSETS AT BEGINNING OF YEAR			<u>37,038,626</u>
NET ASSETS AT END OF YEAR			<u>\$ 42,120,265</u>

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

LEHIGH VALLEY COMMUNITY FOUNDATION, INC.

STATEMENTS OF CASH FLOWS

	Years Ended June 30	
	2017	2016
CASH FLOWS FROM OPERATING ACTIVITIES		
Changes in net assets	\$ 5,598,770	\$ 5,081,639
Adjustments to reconcile changes in net assets to net cash provided by operating activities:		
Depreciation	1,148	759
Change in value of split interest agreements	12,740	14,260
Change in cash surrender value	(13,992)	(12,361)
Realized and unrealized (gains) losses	(4,197,922)	1,430,951
Restricted net investment income	(15,319)	(7,086)
Changes in assets and liabilities:		
Bequest receivable	(400,000)	-
Prepaid expenses	8,546	(14,572)
Accounts payable	4,142	15,086
Grants committed	(59,348)	41,330
Funds held for organizations	(35,109)	(148,470)
Net cash provided by operating activities	903,656	6,401,536
CASH FLOWS FROM INVESTING ACTIVITIES		
Purchase of equipment	(5,830)	-
Proceeds from sale of investments	13,597,492	22,873,908
Purchase of investments	(14,663,367)	(26,982,925)
Net cash used by investing activities	(1,071,705)	(4,109,017)
CASH FLOWS FROM FINANCING ACTIVITIES		
Restricted net investment income	15,319	7,086
Payments on annuity obligations	(17,195)	(17,195)
Net cash used by financing activities	(1,876)	(10,109)
INCREASE (DECREASE) IN CASH	(169,925)	2,282,410
CASH AT BEGINNING OF YEAR	3,469,093	1,186,683
CASH AT END OF YEAR	\$ 3,299,168	\$ 3,469,093

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

LEHIGH VALLEY COMMUNITY FOUNDATION, INC.

NOTES TO FINANCIAL STATEMENTS

June 30, 2017 and 2016

The Lehigh Valley Community Foundation (the "Foundation") was originally established in 1967 as the Bethlehem Area Foundation. In 1992, a nonprofit corporation, the Lehigh Valley Community Foundation, Inc., was created and 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.

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, INC.

NOTES TO FINANCIAL STATEMENTS

June 30, 2017 and 2016

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 218 different funds which are categorized as follows:

Discretionary Funds

- *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.
- *Community Partnership Funds* represent funds restricted for the Foundation's discretionary grant making.
- *Undesignated Funds* represent those over which the Foundation's Board of Governors has full discretion in making distributions for charitable purposes.

Donor-Defined Funds

- *Area of Interest Funds* award grants based on the recommendations of a community committee that oversees a specific initiative.
- *Donor-Advised Funds* represent funds for which the donor has reserved the right to make nonbinding suggestions for charitable giving to the board.
- *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.
- *Agency Funds* represent endowment and special purpose funds established upon the transfer of assets from other nonprofit organizations that designate themselves as beneficiaries.

All contributions, including those with donor-imposed restrictions, are subject to the unilateral variance power in accordance with the Foundation's governing documents and the United States Treasury regulations. The variance power gives the Board of Governors the ability to modify donor restrictions that are incapable of fulfillment.

LEHIGH VALLEY COMMUNITY FOUNDATION, INC.

NOTES TO FINANCIAL STATEMENTS

June 30, 2017 and 2016

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - CONTINUED

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.

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 Foundation's 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, 2017 and 2016, donated goods and services of \$2,343 and \$36,375, respectively, is reflected in the accompanying financial statements. The donated goods and services for June 30, 2017 represent the value of supplies for the Foundation. The donated goods and services for June 30, 2016, represent the value of supplies and facility use 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.

LEHIGH VALLEY COMMUNITY FOUNDATION, INC.

NOTES TO FINANCIAL STATEMENTS

June 30, 2017 and 2016

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - CONTINUED

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.

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. The Foundation annually files federal and state information returns as required.

In accordance with generally accepted accounting principles, the Foundation accounts for uncertain tax positions relative to unrelated business income, if any, as required.

Subsequent Events

In preparing these financial statements, the Foundation has evaluated events and transactions for potential recognition or disclosure through October 24, 2017, 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, INC.

NOTES TO FINANCIAL STATEMENTS

June 30, 2017 and 2016

NOTE 3 - INVESTMENTS

Investments as of June 30 consist of the following:

	2017	2016
Cash	\$ 1,886,350	\$ 842,232
Equity securities and funds	33,536,080	30,075,255
Bonds and fixed income funds	10,414,157	9,481,205
	\$ 45,836,587	\$ 40,398,692

The duration of the bonds in the various portfolios of the Foundation ranges from 3.53 to 8 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.

	2017	2016
Due in less than 1 year	\$ 361,461	\$ 641,396
Due after 1 through 5 years	1,383,644	1,695,182
Due after 5 through 10 years	915,507	824,702
Due after 10 through 20 years	46,211	56,599
Due after 20 years	920,692	704,228
	\$ 3,627,515	\$ 3,922,107

Net investment activity is as follows at June 30:

	2017	2016
Investment income	\$ 1,104,831	\$ 1,192,389
Realized and unrealized gain (loss) on investments	4,197,922	(1,430,951)
Custodial and investment management fees	(283,797)	(259,163)
	\$ 5,018,956	\$ (497,725)

LEHIGH VALLEY COMMUNITY FOUNDATION, INC.

NOTES TO FINANCIAL STATEMENTS

June 30, 2017 and 2016

NOTE 4 - INVESTMENTS-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>2017</u>	<u>2016</u>
Gift annuities	\$ 120,380	\$ 122,566
Charitable remainder trusts	<u>359,497</u>	<u>362,487</u>
	<u>\$ 479,877</u>	<u>\$ 485,053</u>

Split interest assets are as follows at June 30:

	<u>2017</u>	<u>2016</u>
Cash	\$ 10,687	\$ 7,443
Equity securities and funds	289,020	285,184
Bonds and fixed income funds	<u>180,170</u>	<u>192,426</u>
	<u>\$ 479,877</u>	<u>\$ 485,053</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 were \$17,195 for both the years ended June 30, 2017 and 2016. Net investment income totaled \$15,319 and \$7,086 for the years ended June 30, 2017 and 2016, 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 investments held.

Charitable Remainder Trusts

The Foundation is currently serving as the trustee of a charitable remainder annuity trust. As specified in the trust agreement, distributions from the annuity trust are \$25,000 annually.

LEHIGH VALLEY COMMUNITY FOUNDATION, INC.

NOTES TO FINANCIAL STATEMENTS

June 30, 2017 and 2016

NOTE 5 - EQUIPMENT

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

	<u>2017</u>	<u>2016</u>
Equipment	\$ 41,781	\$ 35,951
Accumulated depreciation	<u>(36,020)</u>	<u>(34,872)</u>
	<u>\$ 5,761</u>	<u>\$ 1,079</u>

Depreciation expense for the years ended June 30, 2017 and 2016 was \$1,148 and \$759, 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 nonprofit organization 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.

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 nonprofit organizations.

At June 30, 2017 and 2016, the Foundation was the owner of 19 agency funds with a combined value of \$1,921,677 and \$1,785,090, respectively. The following table summarizes activity in such funds:

	<u>2017</u>	<u>2016</u>
Funds held for organizations' balances at July 1	\$ 1,785,090	\$ 2,012,590
New contributions	21,100	41,412
Net investment income	227,708	(19,839)
Fees	(14,416)	(13,810)
Grants made	<u>(97,805)</u>	<u>(235,263)</u>
Funds held for organizations' balances at June 30	<u>\$ 1,921,677</u>	<u>\$ 1,785,090</u>

LEHIGH VALLEY COMMUNITY FOUNDATION, INC.

NOTES TO FINANCIAL STATEMENTS

June 30, 2017 and 2016

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.

One-time community grants and multi-year impact 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.

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

	<u>2017</u>	<u>2016</u>
Discretionary grants:		
Community partnership grants	\$ 391,850	\$ 363,250
Area of interest fund grants	115,955	159,310
Donor-defined grants	<u>4,983,443</u>	<u>2,804,244</u>
Total grants	<u>\$ 5,491,248</u>	<u>\$ 3,326,804</u>

In addition, the Foundation distributed grants from the agency funds in the amount of \$97,805 and \$235,263 for the years ended June 30, 2017 and 2016, respectively.

NOTE 8 - PENSION PLAN

Effective January 1, 2012, the Foundation adopted a 401(k) 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 \$17,006 and \$18,919 were made by the Foundation during the years ended June 30, 2017 and June 30, 2016, respectively.

LEHIGH VALLEY COMMUNITY FOUNDATION, INC.

NOTES TO FINANCIAL STATEMENTS

June 30, 2017 and 2016

NOTE 9 - FUNCTIONAL EXPENSES

The operating expenses of the Foundation are funded through unrestricted contributions and a proportionate fee assessment 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 or, in certain cases, on gifts made to 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>2017</u>	<u>2016</u>
Operating expenses:		
Information technology	\$ 18,785	\$ 14,861
In-kind	2,343	36,375
Marketing	19,946	12,980
Occupancy	66,834	29,467
Personnel	529,029	485,520
50th Anniversary	18,578	-
Other	49,318	74,758
Total operating expenses	<u>704,833</u>	<u>653,961</u>
Other expenses:		
Grants	5,491,248	3,326,804
Total other expenses	<u>5,491,248</u>	<u>3,326,804</u>
Total expenses	<u>\$ 6,196,081</u>	<u>\$ 3,980,765</u>

NOTE 10 - COMMITMENTS AND CONTINGENCIES

The Foundation has an operating lease for office space. Minimum annual rental commitments under the lease as of June 30, 2017, are as follows:

<u>Year Ending June 30</u>	<u>Amount</u>
2018	\$ 58,364
2019	60,064
2020	61,814
2021	<u>63,617</u>
	<u>\$ 243,859</u>

LEHIGH VALLEY COMMUNITY FOUNDATION, INC.

NOTES TO FINANCIAL STATEMENTS

June 30, 2017 and 2016

NOTE 10 - COMMITMENTS AND CONTINGENCIES - CONTINUED

Total office and equipment rent paid for the years ended June 30, 2017 and 2016 was \$56,550 and \$20,000, respectively.

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, INC.

NOTES TO FINANCIAL STATEMENTS

June 30, 2017 and 2016

NOTE 11 - FAIR VALUE MEASUREMENTS - CONTINUED

Fair value of assets measured on a recurring basis as of June 30, 2017, is as follows:

	<u>Fair Value</u>	<u>Valuation (Level 1)</u>	<u>Valuation (Level 2)</u>
Investments			
Equity Securities - U.S.	\$ 10,321,366	\$ 10,321,366	\$ -
Equity Securities - International	4,768,967	4,768,967	-
Equity Mutual Funds - U.S.	13,759,028	13,759,028	-
Equity Mutual Funds - International	4,686,719	4,686,719	-
Corporate Bonds	1,450,199	-	1,450,199
U.S. Treasury Bonds	1,352,893	-	1,352,893
Government Agency Bonds	1,246,628	-	1,246,628
Bond Mutual Funds - U.S.	5,190,418	-	5,190,418
Bond Mutual Funds - International	1,174,019	-	1,174,019
	<u>43,950,237</u>	<u>33,536,080</u>	<u>10,414,157</u>
Investments-Split Interest Agreements			
Equity Mutual Funds	289,020	289,020	-
Bond Mutual Funds	180,170	-	180,170
	<u>469,190</u>	<u>289,020</u>	<u>180,170</u>
Total investments, at market	<u>\$ 44,419,427</u>	<u>\$ 33,825,100</u>	<u>\$ 10,594,327</u>

LEHIGH VALLEY COMMUNITY FOUNDATION, INC.

NOTES TO FINANCIAL STATEMENTS

June 30, 2017 and 2016

NOTE 11 - FAIR VALUE MEASUREMENTS - CONTINUED

The estimated fair values of the Foundation's financial instruments as of June 30, 2016, are as follows:

	Fair Value	Valuation (Level 1)	Valuation (Level 2)
Investments			
Equity Securities - U.S.	\$ 5,298,499	\$ 5,298,499	\$ -
Equity Securities - International	3,312,502	3,312,502	-
Equity Mutual Funds - U.S.	16,510,524	16,510,524	-
Equity Mutual Funds - International	4,953,732	4,953,732	-
Corporate Bonds	1,348,682	-	1,348,682
U.S. Treasury Bonds	2,340,636	-	2,340,636
Government Agency Bonds	232,788	-	232,788
Bond Mutual Funds - U.S.	4,360,845	-	4,360,845
Bond Mutual Funds - International	1,198,252	-	1,198,252
	39,556,460	30,075,257	9,481,203
Investments-Split Interest Agreements			
Equity Mutual Funds	285,184	285,184	-
Bond Mutual Funds	192,426	-	192,426
	477,610	285,184	192,426
Total investments, at market	\$ 40,034,070	\$ 30,360,441	\$ 9,673,629

Equity Securities and Equity Mutual Funds:

The custodians of the investments use quoted prices in active markets for identical assets to determine the fair value of Level 1 investments.

Bonds and Bond Mutual Funds:

The custodians of the investments use various market inputs to determine fair value of Level 2 investments. These inputs include outside pricing services and computerized pricing models.

LEHIGH VALLEY COMMUNITY FOUNDATION, INC.

NOTES TO FINANCIAL STATEMENTS

June 30, 2017 and 2016

NOTE 12 - ENDOWMENT FUNDS

The Foundation has elected to be governed by the Pennsylvania Act 141 which relates to nonprofit 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 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, 2017 and 2016. The amount available for spending is calculated based on the average asset value of an endowment fund over twelve rolling quarters.

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

	<u>2017</u>	<u>2016</u>
Endowment net assets - beginning of year	\$ 35,489,704	\$ 32,698,394
Gifts	2,428,844	5,164,646
Investment income (net of fees)	715,616	847,579
Appreciation (depreciation)	3,916,110	(1,340,262)
Amounts appropriated for expenditure	<u>(1,985,120)</u>	<u>(1,880,653)</u>
Endowment net assets - end of year	<u>\$ 40,565,154</u>	<u>\$ 35,489,704</u>

LEHIGH VALLEY COMMUNITY FOUNDATION, INC.

NOTES TO FINANCIAL STATEMENTS

June 30, 2017 and 2016

NOTE 12 - ENDOWMENT FUNDS - CONTINUED

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

	<u>2017</u>	<u>2016</u>
Area of interest	\$ 1,851,794	\$ 1,504,669
Community partnership	7,731,171	7,356,775
Donor-advised	4,514,026	4,317,402
Designated	20,400,778	17,256,979
Scholarship/award	1,452,978	1,115,059
Agency	20,430	18,517
Undesignated	<u>4,593,977</u>	<u>3,920,303</u>
Total endowment funds	<u>\$ 40,565,154</u>	<u>\$ 35,489,704</u>

NOTE 13 - NEW ACCOUNTING PRONOUNCEMENTS

In May 2014, the Financial Accounting Standards Board ("FASB") issued Accounting Standards Update ("ASU") No. 2014-09, *Revenue from Contracts with Customers (Topic 606) and Other Assets and Deferred Costs - Contracts with Customers (Subtopic 340-40)*. This standard implements a single framework for recognition of all revenue earned from customers. This framework ensures that entities appropriately reflect the consideration to which they expect to be entitled in exchange for goods and services by allocating transaction price to identified performance obligations and recognizing revenue as performance obligations are satisfied. Qualitative and quantitative disclosures are required to enable users of financial statements to understand the nature, amount, timing, and uncertainty of revenue and cash flows arising from contracts with customers. In August 2015, the FASB issued ASU No. 2015-14 which defers the effective date of ASU No. 2014-09 one year, making it effective for fiscal years beginning after December 15, 2018. The Foundation is evaluating the impact of this standard on the financial statements.

LEHIGH VALLEY COMMUNITY FOUNDATION, INC.

NOTES TO FINANCIAL STATEMENTS

June 30, 2017 and 2016

NOTE 13 - NEW ACCOUNTING PRONOUNCEMENTS - CONTINUED

In February 2016, the FASB issued ASU No. 2016-02, *Leases (Topic 842)*. Under this guidance, lessees will need to recognize the following for all leases (with the exception of leases with a term of twelve months or less) at the commencement date: (a) a lease liability, which is a lessee's obligation to make lease payments arising from a lease, measured on a discounted basis; and (b) a right-of-use asset, which is an asset that represents the lessee's right to use, or control the use of, a specified asset for the lease term. Under the new guidance, lessor accounting is largely unchanged. The guidance requires a modified retrospective transition approach for leases existing at, or entered into after, the beginning of the earliest comparative period presented in the financial statements. The modified retrospective approach would not require any transition accounting for leases that expire before the earliest comparative period presented. A full retrospective transition approach is not permitted. This standard is effective for fiscal years beginning after December 15, 2019, with early application permitted. The Foundation is evaluating the impact this standard will have on the financial statements

In August 2016, the FASB issued ASU No. 2016-14, *Presentation of Financial Statements of Not-for-Profit Entities*, which makes targeted changes to the not-for-profit financial reporting model. Under the new ASU, the existing three-category classification of net assets (i.e., unrestricted, temporarily restricted, and permanently restricted) will be replaced with a model that combines temporarily restricted and permanently restricted into a single category called "net assets with donor restrictions." Differences in the nature of donor restrictions will be disclosed in the notes, with an emphasis on how and when the resources can be used. The guidance for classifying deficiencies in endowment funds ("underwater endowments") and on accounting for the lapsing of restrictions on gifts to acquire property, plant, and equipment have also been clarified. New disclosures will highlight restrictions on the use of resources that make otherwise liquid assets unavailable for meeting near-term financial requirements. Entities will be required to disclose (on the face of the statement or in notes) the extent to which the balance sheet comprises financial assets, the extent to which those assets can be converted to cash within one year, and any limitations that would preclude their current use. This standard is effective for fiscal years beginning after December 15, 2017, with early application permitted. This standard should be applied on a retrospective basis in the year that the standard is first applied. The Foundation is evaluating the impact of this standard on the financial statements.

SUPPLEMENTARY INFORMATION

LEHIGH VALLEY COMMUNITY FOUNDATION, INC.

SCHEDULE OF UNRESTRICTED ACTIVITY

Year Ended June 30, 2017

	Operating and Reserve Funds	Discretionary Funds	Donor- Defined Funds	Total
REVENUE				
Gifts	\$ 34,332	\$ 427,695	\$ 6,279,638	\$ 6,741,665
In-kind gifts	2,343	-	-	2,343
Net investment activity	(3,722)	1,476,725	3,545,953	5,018,956
Change in cash surrender value		13,653	339	13,992
Administrative fees	15,316	-	-	15,316
Release from temporarily restricted	369	-	-	369
Total before releases	<u>48,638</u>	<u>1,918,073</u>	<u>9,825,930</u>	<u>11,792,641</u>
Interfund activity:				
Support from unrestricted funds	188,650	(188,650)	-	-
Foundation fees	503,687	(128,483)	(375,204)	-
Gifts (grants)	(7,429)	25,428	(17,999)	-
Total revenue	<u>733,546</u>	<u>1,626,368</u>	<u>9,432,727</u>	<u>11,792,641</u>
EXPENSES				
Grants	1,670	506,455	4,983,123	5,491,248
Operating expenses:				
Asset development and donor services	269,200	-	-	269,200
General and administrative	132,949	-	-	132,949
Grant making and community leadership	301,080	72	1,532	302,684
Total expenses	<u>704,899</u>	<u>506,527</u>	<u>4,984,655</u>	<u>6,196,081</u>
CHANGES IN NET ASSETS	<u>\$ 28,647</u>	<u>\$ 1,119,841</u>	<u>\$ 4,448,072</u>	5,596,560
NET ASSETS AT BEGINNING OF YEAR				<u>42,110,831</u>
NET ASSETS AT END OF YEAR				<u>\$ 47,707,391</u>