



***LEHIGH VALLEY COMMUNITY FOUNDATION, INC.***

**FINANCIAL STATEMENTS AND  
SUPPLEMENTARY INFORMATION**

**Years Ended June 30, 2016 and 2015**

**TABLE OF CONTENTS**

	Pages
<b>INDEPENDENT AUDITOR'S REPORT .....</b>	1 - 2
<b>FINANCIAL STATEMENTS</b>	
Statements of Financial Position .....	3 - 4
Statements of Activities.....	5 - 6
Statements of Cash Flows.....	7
Notes to Financial Statements.....	8 - 21
<b>SUPPLEMENTARY INFORMATION</b>	
Schedule of Unrestricted Activity .....	22



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## **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, 2016 and 2015, 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 in the first paragraph present fairly, in all material respects, the financial position of Lehigh Valley Community Foundation, Inc. as of June 30, 2016 and 2015, 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  
November 3, 2016**

**LEHIGH VALLEY COMMUNITY FOUNDATION, INC.**

**STATEMENTS OF FINANCIAL POSITION**

**June 30, 2016 with Comparative Totals for June 30, 2015**

	Unrestricted	Temporarily Restricted	Total June 30	
			2016	2015
<b>ASSETS</b>				
Cash and cash equivalents	\$ 3,468,773	\$ 320	\$ 3,469,093	\$ 1,186,683
Prepaid expenses	31,982	-	31,982	17,410
Investments, at market	38,613,922	1,784,770	40,398,692	37,789,171
Investments-split interest agreements	-	485,053	485,053	507,428
Life insurance policy gifts	233,919	-	233,919	221,558
Equipment (net of accumulated depreciation)	1,079	-	1,079	1,838
<b>TOTAL ASSETS</b>	<b>\$ 42,349,675</b>	<b>\$ 2,270,143</b>	<b>\$ 44,619,818</b>	<b>\$ 39,724,088</b>
<b>LIABILITIES</b>				
Accounts payable	\$ 28,344	\$ -	\$ 28,344	\$ 13,258
Grants committed	210,500	-	210,500	169,170
Funds held for organizations	-	1,785,090	1,785,090	2,012,590
Liabilities under split interest agreements	-	475,619	475,619	490,444
<b>TOTAL LIABILITIES</b>	<b>238,844</b>	<b>2,260,709</b>	<b>2,499,553</b>	<b>2,685,462</b>
<b>NET ASSETS</b>				
Unrestricted net assets				
Endowment	35,489,704	-	35,489,704	32,698,394
Grantmaking	6,481,352	-	6,481,352	4,214,506
Operations and equipment	15,770	-	15,770	15,337
Reserve for future projects and grants	124,005	-	124,005	93,405
Total unrestricted net assets	42,110,831	-	42,110,831	37,021,642
Temporarily restricted net assets	-	9,434	9,434	16,984
<b>TOTAL NET ASSETS</b>	<b>42,110,831</b>	<b>9,434</b>	<b>42,120,265</b>	<b>37,038,626</b>
<b>TOTAL LIABILITIES AND NET ASSETS</b>	<b>\$ 42,349,675</b>	<b>\$ 2,270,143</b>	<b>\$ 44,619,818</b>	<b>\$ 39,724,088</b>

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

**LEHIGH VALLEY COMMUNITY FOUNDATION, INC.**

**STATEMENT OF FINANCIAL POSITION**

**June 30, 2015**

	<u>Unrestricted</u>	<u>Temporarily Restricted</u>	<u>Total</u>
<b>ASSETS</b>			
Cash and cash equivalents	\$ 1,186,683	\$ -	\$ 1,186,683
Prepaid expenses	17,410	-	17,410
Investments, at market	35,776,581	2,012,590	37,789,171
Investments-split interest agreements	-	507,428	507,428
Life insurance policy gifts	221,558	-	221,558
Equipment (net of accumulated depreciation)	1,838	-	1,838
	<u>1,838</u>	<u>-</u>	<u>1,838</u>
<b>TOTAL ASSETS</b>	<u><u>\$37,204,070</u></u>	<u><u>\$2,520,018</u></u>	<u><u>\$39,724,088</u></u>
<b>LIABILITIES</b>			
Accounts payable	\$ 13,258	\$ -	\$ 13,258
Grants committed	169,170	-	169,170
Funds held for organizations	-	2,012,590	2,012,590
Liabilities under split interest agreements	-	490,444	490,444
	<u>-</u>	<u>490,444</u>	<u>490,444</u>
<b>TOTAL LIABILITIES</b>	182,428	2,503,034	2,685,462
<b>NET ASSETS</b>			
Unrestricted net assets			
Endowment	32,698,394	-	32,698,394
Grantmaking	4,214,506	-	4,214,506
Operations and equipment	15,337	-	15,337
Reserve for future projects and grants	93,405	-	93,405
Total unrestricted net assets	<u>37,021,642</u>	<u>-</u>	<u>37,021,642</u>
Temporarily restricted net assets	<u>-</u>	<u>16,984</u>	<u>16,984</u>
<b>TOTAL NET ASSETS</b>	<u>37,021,642</u>	<u>16,984</u>	<u>37,038,626</u>
<b>TOTAL LIABILITIES AND NET ASSETS</b>	<u><u>\$37,204,070</u></u>	<u><u>\$2,520,018</u></u>	<u><u>\$39,724,088</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, 2016 with Comparative Totals for June 30, 2015

	Unrestricted	Temporarily Restricted	Total Year Ended June 30	
			2016	2015
<b>REVENUE</b>				
Gifts	\$ 4,403,560	\$ -	\$ 4,403,560	\$ 2,639,827
Gifts from bequests and trusts	5,100,300	-	5,100,300	255,600
In-kind gifts	36,375	-	36,375	50,857
Net investment activity	(497,725)	-	(497,725)	289,953
Net investment activity, split interest agreements	-	7,086	7,086	4,612
Change in value of split interest agreements	-	(14,260)	(14,260)	(12,401)
Change in cash surrender value of life insurance policy gifts	12,361	-	12,361	11,178
Administrative fees	14,707	-	14,707	17,328
Net assets released from restrictions	376	(376)	-	-
Total revenue	<u>9,069,954</u>	<u>(7,550)</u>	<u>9,062,404</u>	<u>3,256,954</u>
<b>EXPENSES</b>				
Grants	3,326,804	-	3,326,804	2,589,806
Operating expenses:				
Asset development and donor services	261,320	-	261,320	297,655
General and administrative	188,435	-	188,435	170,083
Grantmaking and community leadership	204,206	-	204,206	189,401
Total operating expenses	<u>653,961</u>	<u>-</u>	<u>653,961</u>	<u>657,139</u>
Total expenses	<u>3,980,765</u>	<u>-</u>	<u>3,980,765</u>	<u>3,246,945</u>
<b>CHANGES IN NET ASSETS</b>	<u>\$ 5,089,189</u>	<u>\$ (7,550)</u>	5,081,639	10,009
<b>NET ASSETS AT BEGINNING OF YEAR</b>			<u>37,038,626</u>	<u>37,028,617</u>
<b>NET ASSETS AT END OF YEAR</b>			<u>\$ 42,120,265</u>	<u>\$ 37,038,626</u>

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

**LEHIGH VALLEY COMMUNITY FOUNDATION, INC.**

**STATEMENT OF ACTIVITIES**

**Year Ended June 30, 2015**

	Unrestricted	Temporarily Restricted	Total
<b>REVENUE</b>			
Gifts	\$ 2,639,827	\$ -	\$ 2,639,827
Gifts from bequests and trusts	255,600	-	255,600
In-kind gifts	50,857	-	50,857
Net investment activity	289,953	-	289,953
Net investment activity, split interest agreements	-	4,612	4,612
Change in value of split interest agreements	-	(12,401)	(12,401)
Change in cash surrender value of life insurance policy gifts	11,178	-	11,178
Administrative fees	17,328	-	17,328
Net assets released from restrictions	675	(675)	-
Total revenue	<u>3,265,418</u>	<u>(8,464)</u>	<u>3,256,954</u>
<b>EXPENSES</b>			
Grants	2,589,806	-	2,589,806
Operating expenses:			
Asset development and donor services	297,655	-	297,655
General and administrative	170,083	-	170,083
Grantmaking and community leadership	189,401	-	189,401
Total operating expenses	<u>657,139</u>	<u>-</u>	<u>657,139</u>
Total expenses	<u>3,246,945</u>	<u>-</u>	<u>3,246,945</u>
<b>CHANGES IN NET ASSETS</b>	<u>\$ 18,473</u>	<u>\$ (8,464)</u>	10,009
<b>NET ASSETS AT BEGINNING OF YEAR</b>			<u>37,028,617</u>
<b>NET ASSETS AT END OF YEAR</b>			<u>\$ 37,038,626</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	
	2016	2015
<b>CASH FLOWS FROM OPERATING ACTIVITIES</b>		
Changes in net assets	\$ 5,081,639	\$ 10,009
Adjustments to reconcile changes in net assets to net cash provided by operating activities:		
Depreciation	759	1,613
Change in value of split interest agreements	14,260	12,401
Change in cash surrender value	(12,361)	(11,178)
Realized and unrealized losses	1,430,951	724,017
Restricted net investment income	(7,086)	(4,612)
Changes in assets and liabilities:		
Prepaid expenses	(14,572)	(4,680)
Accounts payable	15,086	5,061
Grants committed	41,330	(54,430)
Funds held for organizations	(148,470)	(52,824)
Net cash provided by operating activities	<u>6,401,536</u>	<u>625,377</u>
<b>CASH FLOWS FROM INVESTING ACTIVITIES</b>		
Proceeds from sale of investments	22,873,908	31,627,123
Purchase of investments	(26,982,925)	(31,844,947)
Net cash utilized by investing activities	<u>(4,109,017)</u>	<u>(217,824)</u>
<b>CASH FLOWS FROM FINANCING ACTIVITIES</b>		
Restricted net investment income	7,086	4,612
Payments on annuity obligations	(17,195)	(17,195)
Net cash utilized by financing activities	<u>(10,109)</u>	<u>(12,583)</u>
<b>INCREASE IN CASH</b>	2,282,410	394,970
<b>CASH AT BEGINNING OF YEAR</b>	<u>1,186,683</u>	<u>791,713</u>
<b>CASH AT END OF YEAR</b>	<u>\$ 3,469,093</u>	<u>\$ 1,186,683</u>

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

LEHIGH VALLEY COMMUNITY FOUNDATION, INC.

NOTES TO FINANCIAL STATEMENTS

June 30, 2016 and 2015

**Organization and Nature of Activities**

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**

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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, 2016 and 2015

**NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - CONTINUED**

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In addition to reporting by net asset class, the Foundation further classifies funds based on expressed donor intent. As a result, the Foundation has 203 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.

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, INC.

NOTES TO FINANCIAL STATEMENTS

June 30, 2016 and 2015

**NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - CONTINUED**

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**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, 2016 and 2015, donated goods and services of \$36,375 and \$50,857, respectively, is reflected in the accompanying financial statements. The donated goods and services for June 30, 2016 represent the value of supplies and facility use for the Organization. The donated goods and services for June 30, 2015 represent the value of advertising, printing, website/internet services, office equipment, and facility use for the Organization.

**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, INC.**

**NOTES TO FINANCIAL STATEMENTS**

**June 30, 2016 and 2015**

**NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - CONTINUED**

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**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 November 3, 2016, the date the financial statements were available to be issued.

**NOTE 2 - CONCENTRATIONS OF CREDIT RISK**

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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, 2016 and 2015**

**NOTE 3 - INVESTMENTS**

Investments as of June 30 consist of the following:

	2016	2015
Cash	\$ 842,232	\$ 654,630
Equity securities and funds	30,075,255	24,942,394
Bonds and fixed income funds	9,481,205	12,192,147
	\$ 40,398,692	\$ 37,789,171

The duration of the bonds in the various portfolios of the Foundation ranges from 2.1 to 5.5 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.

	2016	2015
Due in less than 1 year	\$ 641,396	\$ 681,321
Due after 1 through 5 years	1,695,182	1,511,598
Due after 5 through 10 years	824,702	656,554
Due after 10 through 20 years	56,599	95,841
Due after 20 years	704,228	647,698
	\$ 3,922,107	\$ 3,593,012

Net investment activity is as follows at June 30:

	2016	2015
Investment income	\$ 1,192,389	\$ 1,266,532
Realized and unrealized gain (loss) on investments	(1,430,951)	(724,017)
Custodial and investment management fees	(259,163)	(252,562)
	\$ (497,725)	\$ 289,953

LEHIGH VALLEY COMMUNITY FOUNDATION, INC.

NOTES TO FINANCIAL STATEMENTS

June 30, 2016 and 2015

**NOTE 4 - INVESTMENTS-SPLIT INTEREST AGREEMENTS**

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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>2016</u>	<u>2015</u>
Gift annuities	\$ 122,566	\$ 133,051
Charitable remainder trusts	<u>362,487</u>	<u>374,377</u>
	<u>\$ 485,053</u>	<u>\$ 507,428</u>

Split interest assets are as follows at June 30:

	<u>2016</u>	<u>2015</u>
Cash	\$ 7,443	\$ 2,282
Equity securities and funds	285,184	298,399
Bonds and fixed income funds	<u>192,426</u>	<u>206,747</u>
	<u>\$ 485,053</u>	<u>\$ 507,428</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, 2016 and 2015. Net investment income totaled \$7,086 and \$4,612 for the years ended June 30, 2016 and 2015, 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, 2016 and 2015

NOTE 5 - EQUIPMENT

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

	<u>2016</u>	<u>2015</u>
Equipment	\$ 35,951	\$ 35,951
Accumulated depreciation	<u>(34,872)</u>	<u>(34,113)</u>
	<u>\$ 1,079</u>	<u>\$ 1,838</u>

Depreciation expense for the years ended June 30, 2016 and 2015 was \$759 and \$1,613, respectively.

NOTE 6 - FUNDS HELD FOR ORGANIZATIONS

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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, 2016 and 2015, the Foundation was the owner of 18 agency funds with a combined value of \$1,785,090 and \$2,012,590, respectively. The following table summarizes activity in such funds:

	<u>2016</u>	<u>2015</u>
Funds held for organizations' balances at July 1	\$ 2,012,590	\$ 2,148,440
New contributions	41,412	26,300
Net investment income	(19,839)	(17,790)
Fees	(13,810)	(16,349)
Grants made	<u>(235,263)</u>	<u>(128,011)</u>
Funds held for organizations' balances at June 30	<u>\$ 1,785,090</u>	<u>\$ 2,012,590</u>

LEHIGH VALLEY COMMUNITY FOUNDATION, INC.

NOTES TO FINANCIAL STATEMENTS

June 30, 2016 and 2015

**NOTE 7 - GRANTS**

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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>2016</u>	<u>2015</u>
Discretionary grants:		
Community partnership grants	\$ 363,250	\$ 289,430
Area of interest fund grants	159,310	78,980
Donor-defined grants	<u>2,804,244</u>	<u>2,221,396</u>
Total grants	<u>\$ 3,326,804</u>	<u>\$ 2,589,806</u>

In addition, the Foundation distributed grants from the agency funds in the amount of \$235,263 and \$128,011 for the years ended June 30, 2016 and 2015, respectively.

**NOTE 8 - PENSION PLAN**

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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 \$18,919 and \$13,269 were made by the Foundation during the years ended June 30, 2016 and June 30, 2015, respectively.

LEHIGH VALLEY COMMUNITY FOUNDATION, INC.

NOTES TO FINANCIAL STATEMENTS

June 30, 2016 and 2015

NOTE 9 - FUNCTIONAL EXPENSES

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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>2016</u>	<u>2015</u>
Operating expenses:		
Information technology	\$ 14,861	\$ 25,456
In-kind	36,375	50,857
Marketing	12,980	11,988
Occupancy	29,467	22,413
Personnel	485,520	456,595
Relocation	-	29,837
Other	74,758	59,993
Total operating expenses	<u>653,961</u>	<u>657,139</u>
Other expenses:		
Grants	<u>3,326,804</u>	<u>2,589,806</u>
Total other expenses	<u>3,326,804</u>	<u>2,589,806</u>
Total expenses	<u>\$ 3,980,765</u>	<u>\$ 3,246,945</u>

NOTE 10 - COMMITMENTS AND CONTINGENCIES

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The Foundation has an operating lease for office space. Minimum annual rental commitments under the lease as of June 30, 2016, are as follows:

<u>Year Ending June 30</u>	<u>Amount</u>
2017	\$ 55,000
2018	56,650
2019	58,350
2020	<u>24,312</u>
	<u>\$ 194,312</u>

LEHIGH VALLEY COMMUNITY FOUNDATION, INC.

NOTES TO FINANCIAL STATEMENTS

June 30, 2016 and 2015

**NOTE 10 - COMMITMENTS AND CONTINGENCIES - CONTINUED**

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Total office and equipment rent paid for the years ended June 30, 2016 and 2015 was \$20,000 and \$18,386, respectively.

Subsequent to year end, the office lease was extended until June 30, 2021.

**NOTE 11 - FAIR VALUE MEASUREMENTS**

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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, 2016 and 2015**

**NOTE 11 - FAIR VALUE MEASUREMENTS - CONTINUED**

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Fair value of assets measured on a recurring basis as of June 30, 2016 is as follows:

	Fair Value	Valuation (Level 1)
<b>Investments:</b>		
Cash	\$ 842,232	\$ 842,232
Equity Securities - U.S.	5,298,499	5,298,499
Equity Securities - International	3,312,502	3,312,502
Equity Mutual Funds - U.S.	16,510,522	16,510,522
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	5,559,099	5,559,099
	40,398,692	40,398,692
<b>Investments-split interest agreements:</b>		
Cash	7,443	7,443
Equity Mutual Funds	285,184	285,184
Bond Mutual Funds	192,426	192,426
	485,053	485,053
Total investments, at market	\$ 40,883,745	\$ 40,883,745

**LEHIGH VALLEY COMMUNITY FOUNDATION, INC.**

**NOTES TO FINANCIAL STATEMENTS**

**June 30, 2016 and 2015**

**NOTE 11 - FAIR VALUE MEASUREMENTS - CONTINUED**

The estimated fair values of the Foundation's financial instruments as of June 30, 2015 are as follows:

	Fair Value	Valuation (Level 1)
<b>Investments:</b>		
Cash	\$ 654,630	\$ 654,630
Equity Securities - U.S.	3,805,785	3,805,785
Equity Securities - International	2,494,361	2,494,361
Equity Mutual Funds - U.S.	12,569,098	12,569,098
Equity Mutual Funds - International	6,073,150	6,073,150
Corporate Bonds	1,368,423	1,368,423
U.S. Treasury Bonds	1,960,437	1,960,437
Government Agency Bonds	264,151	264,151
Bond Mutual Funds	8,482,446	8,482,446
Alternative Mutual Fund Investments	116,690	116,690
	37,789,171	37,789,171
 <b>Investments-split interest agreements:</b>		
Cash	2,282	2,282
Equity Mutual Funds	298,399	298,399
Bond Mutual Funds	206,747	206,747
	507,428	507,428
 Total investments, at market	 \$ 38,296,599	 \$ 38,296,599

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, 2016 and 2015 are Level 1 investments.

LEHIGH VALLEY COMMUNITY FOUNDATION, INC.

NOTES TO FINANCIAL STATEMENTS

June 30, 2016 and 2015

NOTE 12 - ENDOWMENT FUNDS

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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, 2016 and 2015. 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>2016</u>	<u>2015</u>
Endowment net assets - beginning of year	\$ 32,698,394	\$ 33,133,216
Gifts	5,164,646	772,943
Investment income (net of fees)	847,579	904,611
Appreciation (depreciation)	(1,340,262)	(646,455)
Amounts appropriated for expenditure	<u>(1,880,653)</u>	<u>(1,465,921)</u>
Endowment net assets - end of year	<u>\$ 35,489,704</u>	<u>\$ 32,698,394</u>

LEHIGH VALLEY COMMUNITY FOUNDATION, INC.

NOTES TO FINANCIAL STATEMENTS

June 30, 2016 and 2015

NOTE 12 - ENDOWMENT FUNDS - CONTINUED

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

	<u>2016</u>	<u>2015</u>
Area of interest	\$ 1,504,669	\$ 1,616,650
Community partnership	7,348,813	7,251,522
Donor-advised	4,325,364	5,349,707
Designated	17,256,979	13,289,173
Scholarship/award	1,115,059	1,147,920
Agency	18,517	19,203
Undesignated	<u>3,920,303</u>	<u>4,024,219</u>
Total endowment funds	<u>\$ 35,489,704</u>	<u>\$ 32,698,394</u>

**SUPPLEMENTARY INFORMATION**

**LEHIGH VALLEY COMMUNITY FOUNDATION, INC.**

**SCHEDULE OF UNRESTRICTED ACTIVITY**

**Year Ended June 30, 2016**

	Operating & Reserve Funds	Discretionary Funds	Donor- Defined Funds	Total
<b>REVENUE</b>				
Gifts	\$ 41,129	\$ 44,183	\$ 9,418,548	\$ 9,503,860
In-kind gifts	36,375	-	-	36,375
Net investment activity	(2,875)	(259,767)	(235,083)	(497,725)
Change in cash surrender value	-	-	12,361	12,361
Administrative fees	14,707	-	-	14,707
Release from temporarily restricted	376	-	-	376
Total before releases	<u>89,712</u>	<u>(215,584)</u>	<u>9,195,826</u>	<u>9,069,954</u>
Interfund activity:				
Support from unrestricted funds	178,790	(178,790)	-	-
Foundation fees	412,253	(126,749)	(285,504)	-
Gifts (grants)	4,960	10,440	(15,400)	-
Total revenue	<u>685,715</u>	<u>(510,683)</u>	<u>8,894,922</u>	<u>9,069,954</u>
<b>EXPENSES</b>				
Grants	1,710	528,870	2,796,224	3,326,804
Operating expenses:				
Asset development and donor services	260,534	-	786	261,320
General and administrative	188,435	-	-	188,435
Grant making and community leadership	204,003	145	58	204,206
Total expenses	<u>654,682</u>	<u>529,015</u>	<u>2,797,068</u>	<u>3,980,765</u>
<b>CHANGES IN NET ASSETS</b>	<u>\$ 31,033</u>	<u>\$ (1,039,698)</u>	<u>\$ 6,097,854</u>	<u>\$ 5,089,189</u>
<b>NET ASSETS AT BEGINNING OF YEAR</b>				<u>37,021,642</u>
<b>NET ASSETS AT END OF YEAR</b>				<u>\$ 42,110,831</u>