



Consolidated Financial Statements

June 30, 2021 and 2020



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VIRGINIA HISTORICAL SOCIETY

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REPORT OF INDEPENDENT ACCOUNTANTS

To the Board of Trustees
Virginia Historical Society
Richmond, Virginia

Report on the Consolidated Financial Statements

We have audited the accompanying consolidated financial statements of the Virginia Historical Society and Subsidiary (collectively, the "Society"), which comprise the consolidated statements of financial position as of June 30, 2021 and 2020, and the related consolidated statements of activities, cash flows, and functional expenses for the years then ended, and the related notes to the consolidated financial statements.

Management's Responsibility for the Consolidated Financial Statements

Management is responsible for the preparation and fair presentation of these consolidated financial statements in accordance with accounting principles generally accepted in the United States; this includes the design, implementation, and maintenance of internal control relevant to the preparation and fair presentation of consolidated 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 consolidated financial statements based on our audits. We conducted our audits in accordance with auditing standards generally accepted in the United States. Those standards require that we plan and perform the audits to obtain reasonable assurance about whether the consolidated financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the consolidated financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the consolidated 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 consolidated 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 consolidated 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 consolidated financial statements referred to above present fairly, in all material respects, the financial position of the Virginia Historical Society and Subsidiary as of June 30, 2021 and 2020, and the changes in their net assets and their cash flows for the years then ended in accordance with accounting principles generally accepted in the United States.

Emphasis of Matter

As discussed in Note 1 to the consolidated financial statements, the Society adopted Accounting Standards Update ("ASU") 2014-09 "*Revenue from Contracts with Customers*" (Topic 606) and several other ASUs that were issued as amendments to ASU No. 2014-09, which apply to all contracts with customers to transfer goods or services or for the transfer of nonfinancial assets, unless those contracts are within the scope of other standards. ASU No. 2014-09's core principle is that an entity recognizes revenue when it transfers promised goods or services to customers in an amount that reflects the consideration to which the entity expects to be entitled in exchange for those goods or services. In adopting this standard, the Society is required to use more judgment and make more estimates than under the previous guidance, including identifying performance obligations in the contract, estimating the amount of variable consideration to include in the transaction price and allocating the transaction price to each separate performance obligation. The adoption of this ASU resulted in an increase in deferred revenue and a decrease in net assets of \$202,406 as of July 1, 2020. Our opinion is not modified with respect to this matter.



December 17, 2021
Glen Allen, Virginia

VIRGINIA HISTORICAL SOCIETY

Consolidated Statements of Financial Position June 30, 2021 and 2020

	<u>2021</u>	<u>2020</u>
<u>Assets</u>		
Current assets:		
Cash and cash equivalents	\$ 3,388,097	\$ 1,843,663
Accrued interest and dividends	30,471	21,831
Contributions receivable, current (Note 4)	4,847,916	1,241,414
Grants receivable, current (Note 4)	2,097,644	82,500
Other current assets	<u>1,096,994</u>	<u>557,293</u>
Total current assets	11,461,122	3,746,701
Investments (Note 3)	87,026,366	67,327,730
Contributions receivable (Note 4)	12,365,340	5,251,129
Grants receivable (Note 4)	244,857	63,249
Property and equipment, net (Note 6)	<u>41,748,717</u>	<u>31,342,632</u>
Total assets	<u>\$ 152,846,402</u>	<u>\$ 107,731,441</u>
<u>Liabilities and Net Assets</u>		
Current liabilities:		
Accounts payable	\$ 3,105,261	\$ 319,617
Accrued expenses and other liabilities	485,756	242,778
Deferred revenue (Note 1)	<u>932,382</u>	<u>635,066</u>
Total current liabilities	4,523,399	1,197,461
Bonds payable (Note 7)	4,230,178	1,229,582
Deferred revenue, less current portion (Note 1)	<u>-</u>	<u>7,001,000</u>
Total liabilities	<u>8,753,577</u>	<u>9,428,043</u>
Net assets:		
Without donor restrictions		
Controlling interest (Note 9)	61,594,359	47,838,001
Non-controlling interest (Note 11)	<u>1,206,353</u>	<u>1,489,536</u>
Total net assets without donor restrictions	<u>62,800,712</u>	<u>49,327,537</u>
With donor restrictions (Notes 9 and 16)	<u>81,292,113</u>	<u>48,975,861</u>
Total net assets with donor restrictions	<u>81,292,113</u>	<u>48,975,861</u>
Total net assets	<u>144,092,825</u>	<u>98,303,398</u>
Total liabilities and net assets	<u>\$ 152,846,402</u>	<u>\$ 107,731,441</u>

See accompanying notes to consolidated financial statements.

VIRGINIA HISTORICAL SOCIETY

Consolidated Statements of Activities Year Ended June 30, 2021 with Comparative Totals for 2020

	2021			2020
	Restrictions	Restrictions	Total	Total
Support and revenue:				
Membership dues	\$ 368,825	\$ -	\$ 368,825	\$ 418,755
Annual giving	1,713,802	-	1,713,802	1,253,533
Investment income, net (Note 3)	17,417,427	4,768,460	22,185,887	2,269,185
Contributions	172,668	26,214,067	26,386,735	6,262,110
Grants	40,718	2,783,995	2,824,713	2,189,968
Publications and merchandise sales	103,865	-	103,865	194,702
Royalties	5,573	-	5,573	16,528
Rental income (Note 12)	350,169	-	350,169	325,857
Fees and admissions	244,105	-	244,105	501,497
Other	7,802	-	7,802	33,680
Total support and revenue	<u>20,424,954</u>	<u>33,766,522</u>	<u>54,191,476</u>	<u>13,465,815</u>
Net assets released from restriction	<u>1,450,270</u>	<u>(1,450,270)</u>	<u>-</u>	<u>-</u>
Expenditures:				
Program services:				
Collections	2,676,286	-	2,676,286	2,661,391
Programs	4,047,697	-	4,047,697	3,938,595
Supporting services:				
Administration	891,616	-	891,616	1,155,818
Advancement	584,044	-	584,044	632,223
Total expenditures	<u>8,199,643</u>	<u>-</u>	<u>8,199,643</u>	<u>8,388,027</u>
Change in net assets	13,675,581	32,316,252	45,991,833	5,077,788
Net assets, beginning of year, as previously reported	49,327,537	48,975,861	98,303,398	93,225,610
Cumulative effect from adoption of new accounting standard for revenue recognition (see Note 1)	<u>(202,406)</u>	<u>-</u>	<u>(202,406)</u>	<u>-</u>
Net assets, beginning of year	<u>49,125,131</u>	<u>48,975,861</u>	<u>98,100,992</u>	<u>93,225,610</u>
Net assets, end of year	<u>\$ 62,800,712</u>	<u>\$ 81,292,113</u>	<u>\$ 144,092,825</u>	<u>\$ 98,303,398</u>

See accompanying notes to consolidated financial statements.

VIRGINIA HISTORICAL SOCIETY

Consolidated Statements of Activities, Continued Year Ended June 30, 2020

	Without Donor Restrictions	With Donor Restrictions	Total
Support and revenue:			
Membership dues	\$ 418,755	\$ -	\$ 418,755
Annual giving	1,253,533	-	1,253,533
Investment income, net, (Note 3)	1,789,288	479,897	2,269,185
Contributions	101,269	6,160,841	6,262,110
Grants	814,648	1,375,320	2,189,968
Publications and merchandise sales	194,702	-	194,702
Royalties	16,528	-	16,528
Rental income (Note 12)	325,857	-	325,857
Fees and admissions	501,497	-	501,497
Other	33,680	-	33,680
Total support and revenue	<u>5,449,757</u>	<u>8,016,058</u>	<u>13,465,815</u>
Net assets released from restriction	<u>2,684,254</u>	<u>(2,684,254)</u>	<u>-</u>
Expenditures:			
Program services:			
Collections	2,661,391	-	2,661,391
Programs	3,938,595	-	3,938,595
Supporting services:			
Administration	1,155,818	-	1,155,818
Advancement	632,223	-	632,223
Total expenditures	<u>8,388,027</u>	<u>-</u>	<u>8,388,027</u>
Change in net assets	(254,016)	5,331,804	5,077,788
Net assets, beginning of year,	<u>49,581,553</u>	<u>43,644,057</u>	<u>93,225,610</u>
Net assets, end of year	<u>\$ 49,327,537</u>	<u>\$ 48,975,861</u>	<u>\$ 98,303,398</u>

See accompanying notes to consolidated financial statements.

VIRGINIA HISTORICAL SOCIETY

Consolidated Statements of Cash Flows Years Ended June 30, 2021 and 2020

	<u>2021</u>	<u>2020</u>
Cash flows from operating activities:		
Change in net assets	\$ 45,991,833	\$ 5,077,788
Adjustments to reconcile change in net assets to net cash from operating activities:		
Depreciation	1,303,801	1,300,785
Amortization of bond issuance costs	87,575	9,498
Contributions in perpetuity, including changes in present value of contributions receivable	(438,496)	(77,617)
Investment income, net of fees	(22,185,887)	(2,269,185)
Change in assets and liabilities:		
Accrued interest and dividends	(8,640)	(601)
Contributions and grants receivable	(12,917,465)	(4,518,079)
Other current assets	(539,701)	(206,494)
Accounts payable	2,785,644	(101,720)
Deferred revenue	(6,906,090)	(95,461)
Accrued expenses and other liabilities	<u>182,602</u>	<u>(74,506)</u>
Net cash provided by (used in) operating activities	<u>7,355,176</u>	<u>(955,592)</u>
Cash flows from investing activities:		
Purchases of property and equipment	(11,638,986)	(757,142)
Purchases of investments	(738,227)	(494,148)
Proceeds from sale of investments	<u>3,225,478</u>	<u>3,347,303</u>
Net cash (used in) provided by investing activities	<u>(9,151,735)</u>	<u>2,096,013</u>
Cash flow from financing activities:		
Proceeds from bonds payable	2,913,021	-
Payments on bonds payable	-	(666,666)
Payments on capital lease obligations	(10,524)	(10,524)
Contributions in perpetuity, including changes in present value of contributions receivable	<u>438,496</u>	<u>77,617</u>
Net cash provided by (used in) financing activities	<u>3,340,993</u>	<u>(599,573)</u>
Net change in cash and cash equivalents	1,544,434	540,848
Cash and cash equivalents, beginning of year	<u>1,843,663</u>	<u>1,302,815</u>
Cash and cash equivalents, end of year	<u>\$ 3,388,097</u>	<u>\$ 1,843,663</u>

See accompanying notes to consolidated financial statements.

VIRGINIA HISTORICAL SOCIETY

Consolidated Statements of Cash Flows, Continued Years Ended June 30, 2021 and 2020

	<u>2021</u>	<u>2020</u>
Supplemental disclosure of cash flow information:		
Cash paid during the year for interest	<u>\$ 51,484</u>	<u>\$ 54,375</u>
Noncash transactions		
Acquisition of property and equipment through capital lease	<u>\$ 70,900</u>	<u>\$ -</u>
Accounts payable for purchase of property and equipment	<u>\$ -</u>	<u>\$ 160,916</u>
Payment of 2013 A and 2013B series bonds through advance from 2020 series bonds	<u>\$ 1,313,074</u>	<u>\$ -</u>
Bond issuance cost related to 2020 series bonds	<u>\$ 115,500</u>	<u>\$ -</u>

See accompanying notes to consolidated financial statements.

VIRGINIA HISTORICAL SOCIETY

Consolidated Statements of Functional Expenses Year Ended June 30, 2021 with Comparative Totals for 2020

	Program Services		Supporting Services		2021 Total	2020 Total
	Collections	Programs	Administration	Advancement		
Salaries	\$ 1,172,844	\$ 2,004,452	\$ 268,063	\$ 236,878	\$ 3,682,237	\$ 3,686,663
Pension contributions	65,248	91,103	14,054	19,647	190,052	186,565
Employee benefits	109,130	120,165	59,359	33,356	322,010	227,610
Payroll taxes	74,913	103,794	59,336	26,005	264,048	262,984
Professional fees	39,527	193,345	55,940	18,794	307,606	361,504
Supplies	40,591	54,974	9,794	2,269	107,628	232,045
Software subscriptions	81,777	70,255	31,523	9,057	192,612	149,409
Telephone	28,406	19,127	13,377	1,543	62,453	83,945
Postage	1,513	13,768	636	33,195	49,112	45,648
Occupancy	242,291	146,912	177,674	13,162	580,039	654,554
Printing & publications	21,335	36,559	451	50,164	108,509	112,848
Travel	2,432	4,676	12,995	57	20,160	55,783
Interest	27,668	16,776	5,537	1,503	51,484	54,375
Depreciation	696,082	422,067	147,840	37,812	1,303,801	1,300,785
Other	72,529	749,724	35,037	100,602	957,892	973,309
Total expenses	<u>\$ 2,676,286</u>	<u>\$ 4,047,697</u>	<u>\$ 891,616</u>	<u>\$ 584,044</u>	<u>\$ 8,199,643</u>	<u>\$ 8,388,027</u>

See accompanying notes to consolidated financial statements.

VIRGINIA HISTORICAL SOCIETY

Consolidated Statements of Functional Expenses, Continued Year Ended June 30, 2020

	Program services		Supporting services		
	Collections	Programs	Administration	Advancement	2020
Salaries	\$ 1,246,231	\$ 1,645,061	\$ 457,822	\$ 337,549	\$ 3,686,663
Pension contributions	55,866	77,606	36,199	16,894	186,565
Employee benefits	83,479	87,029	33,788	23,314	227,610
Payroll taxes	80,756	104,477	54,667	23,084	262,984
Professional fees	70,194	225,320	28,316	37,674	361,504
Supplies	54,079	154,959	19,792	3,215	232,045
Software subscriptions	9,007	123,770	15,944	688	149,409
Telephone	25,342	34,845	15,839	7,919	83,945
Postage	2,405	17,237	1,141	24,865	45,648
Occupancy	253,645	163,389	221,032	16,488	654,554
Printing & publications	563	86,865	869	24,551	112,848
Travel	1,475	8,483	23,066	22,759	55,783
Interest	29,290	17,760	5,734	1,591	54,375
Depreciation	700,691	424,862	137,169	38,063	1,300,785
Other	48,368	766,932	104,440	53,569	973,309
Total expenses	<u>\$ 2,661,391</u>	<u>\$ 3,938,595</u>	<u>\$ 1,155,818</u>	<u>\$ 632,223</u>	<u>\$ 8,388,027</u>

See accompanying notes to consolidated financial statements.

VIRGINIA HISTORICAL SOCIETY

Notes to Consolidated Financial Statements

1. Summary of Significant Accounting Policies:

Organization: The Virginia Historical Society (“VHS”) was founded in 1831 and chartered in 1834. The purpose of the Society is to collect, preserve, and interpret Virginia’s past for the education and enjoyment of present and future generations. The Society serves the entire Commonwealth of Virginia through its museum and library, as well as through a variety of educational programs. During 2020, the Society commenced the History Matters Campaign to solicit contributions for a capital campaign to renovate the Society’s museum and other facilities.

During 2015, Story of Virginia, LLC (“SOV”) was established to own and manage real estate. During fiscal year 2016 and 2017, SOV raised capital from investors who in turn received historic rehabilitation tax credits. The capital raised from investors was used to assist in the payment of renovations to the VHS facility. VHS owns 0.05% and is the general partner of SOV, and is required to consolidate SOV’s financial statements as a result of its control over SOV, even though it does not own majority interest (see Note 11).

Basis of Accounting: The accompanying consolidated financial statements have been prepared on the accrual basis of accounting in accordance with accounting principles generally accepted in the United States (“GAAP”).

Principles of Consolidation: The consolidated financial statements include the accounts of Virginia Historical Society and Story of Virginia, LLC (collectively, the “Society”). All significant intercompany transactions and balances have been eliminated in the consolidation.

Newly Adopted Accounting Standard: In August 2018, the Financial Accounting Standards Board (“FASB”) issued Accounting Standards Update (“ASU”) No. 2018-13, Fair Value Measurement (Topic 820), Disclosure Framework – Changes to the Disclosure Requirements for Fair Value Measurement (“ASU 2018-13”), which modifies the disclosure requirements for fair value measurements and is effective for years beginning after December 15, 2019, with early adoption permitted. The major change is that a rollforward for Level 3 fair value measurements is not required for nonpublic entities, instead required disclosure is limited to transfers into and out of Level 3 of the fair value hierarchy and purchase and issues of Level 3 assets and liabilities. The Society has adopted this ASU as of and for the year ended June 30, 2021, with the presentation shown retrospectively.

VIRGINIA HISTORICAL SOCIETY

Notes to Consolidated Financial Statements, Continued

1. Summary of Significant Accounting Policies, Continued:

Non-Controlling Interest: In connection with the investors admitted to SOV, the capital contributed plus the applicable allocation of income or loss to the investors is presented as non-controlling interest in the accompanying consolidated financial statements.

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

Net assets without donor restrictions include funds that impose no restrictions on the Society as to their use or purpose. Such funds are expended for charitable purposes as deemed appropriate by the Board of Trustees and for operating purposes. If the Board of Trustees specifies a purpose where none has been stated by the original donor, such assets are classified as Board designated within net assets without donor restrictions. Board designated assets totaled \$2,028,027 and \$1,518,612 as of June 30, 2021 and 2020 (see Note 9).

Net assets with donor restrictions consist of net assets whose use is limited by donor-imposed, time and/or purpose restrictions. These net assets represent contributions and other income, which must be spent for the purpose designated by the donors. When a donor restriction expires (i.e., donor-stipulated purpose has been fulfilled and/or stipulated time period has elapsed), net assets with donor restrictions are reclassified to net assets without donor restrictions. Restrictions on contributions to acquire long-lived assets are considered met in the period in which the assets are placed into service.

Other donor-imposed restrictions are perpetual in nature that require the principal be invested and the income be used either for a designated purpose or for general operations of the Society. Generally, the donors of these assets permit the Society to use all of, or part of, the income earned on related investments for general or specific purposes.

Contribution revenues are reported as increases in net assets without donor restrictions unless use of the related assets is limited by donor-imposed restrictions. Expenses are reported as decreases in net assets without donor restrictions. Gains and losses on investments are reported as increases or decreases in net assets without donor restrictions unless their use is restricted by explicit donor stipulation or by law. Gains and losses in the present value of contributions receivable are included as contributions revenue or loss. Expirations of donor restrictions on net assets (i.e., the donor-stipulated purpose has been fulfilled and/or the stipulated time period has elapsed) are reported as net assets released from restrictions.

VIRGINIA HISTORICAL SOCIETY

Notes to Consolidated Financial Statements, Continued

1. Summary of Significant Accounting Policies, Continued:

Cash and Cash Equivalents: For purposes of the consolidated statements of cash flows, the Society considers all highly liquid securities not included in the investment portfolio that were purchased with a maturity of three months or less to be cash equivalents.

Credit Risk and Concentrations: Financial instruments that potentially subject the Society to concentrations of credit risk consist principally of cash and cash equivalents and contributions and grants receivable. The Society maintains its cash and cash equivalents in a financial institution with balances that periodically exceed federally insured limits. As of June 30, 2021, two donors accounted for 30% of total contributions and grants receivable. As of June 30, 2020, three donors accounted for 48% of total contributions and grants receivable.

Contributions and Grants Receivable: Contributions and grants are recorded as receivables and contributions and grants revenue in the year made. Contributions and grants are received for support of future operations and museum acquisitions are recorded as increases to net assets with donor restrictions. Contributions and grants receivable are solicited from entities and individuals primarily throughout Virginia. The Society considers whether an allowance for contributions and grants receivable is necessary based on management's estimate of the amount that will actually be collected. As of June 30, 2021 and 2020, management determined that contributions and grants receivable were fully collectible and that no allowance was necessary.

Revenue Recognition: During 2014, the FASB issued a new standard for revenue recognition, ASU 2014-09, which has been incorporated into FASB guidance as ASC 606. The standard defines a process for evaluating revenue recognition including 1) identify the contract, 2) identify separate performance obligations, 3) determine the transaction price, 4) allocate the transaction price to the performance obligations, and 5) recognize revenue when (or as) the Society satisfies a performance obligation. One of the key concepts in the standard is that revenue should be recognized when a customer has control over a good or service. The standard also requires an entity to enhance revenue recognition disclosures in the accounting policy note including both quantitative and qualitative information, significant judgments involved in the process, and the amount and timing of remaining performance obligations. The Society has adopted the standard as of July 1, 2020 under the modified retrospective method. The adoption of this ASU resulted in an increase in deferred revenue and a decrease in net assets of \$202,406 as of July 1, 2020. Economic factors may impact the nature, amount, and timing of revenue recognition.

The Society recognizes publications and merchandise sales as well as fees and admissions revenue at a point in time upon the transfer of control of products or services to its customers. Economic factors may impact the nature, amount, and timing of revenue recognition. Any unearned amounts for these revenue streams are included in deferred revenue.

VIRGINIA HISTORICAL SOCIETY

Notes to Consolidated Financial Statements, Continued

1. Summary of Significant Accounting Policies, Continued:

Revenue Recognition, Continued: Revenue from contracts with members for annual membership fees is reported at the amount that reflects the consideration to which the Society expects to be entitled in exchange for providing membership privileges to the Society. Membership revenue is recognized as the performance obligations are satisfied, which is ratably over the annual membership term. Any unearned amounts for membership payments received are included in deferred revenue.

A contract asset is the Society's right to consideration in exchange for goods or services the Society has transferred to a visitor or member. Contract liabilities represent consideration received from a visitor or member before the Society has transferred a good or service to the visitor or member. There were no contract assets as of June 30, 2021 and June 30, 2020. Contract liabilities were \$932,382 as of June 30, 2021 and \$837,472 as of June 30, 2020.

Investments and Investment Income: The Society accounts for its investments at fair value (see Note 10). Certain less marketable securities are generally carried at values determined by the respective investment managers. Investments are exposed to various risks, such as interest rate, market, and credit. Due to the level of risk associated with certain investment securities and the level of uncertainty related to changes in the value of investment securities, it is at least reasonably possible that changes in risks in the near term could materially affect amounts reported on the consolidated financial statements.

Bond Issuance Costs: Bond issuance costs are amortized over the period the obligation is outstanding using the straight-line method, which approximates the interest method. During 2021, the Society paid off the 2013A and 2013B Series Bonds through the issuance of the 2020 Series Bonds and incurred bond issuance costs of \$115,500. As a result, the Society wrote off the remaining bond issuance costs associated with the 2013A and 2013B Series Bonds in the amount of \$83,492. Amortization expense was \$4,083 and \$9,498 for 2021 and 2020, respectively. Amortization expense is expected to be \$5,500 for 2022 through 2041 and \$917 for 2042.

Property and Equipment: Property and equipment are stated at cost, less accumulated depreciation. Major repairs and betterments are capitalized and normal maintenance and repairs are charged to expense as incurred. Depreciation is computed by the straight-line method over the estimated useful lives of the related assets, ranging from 3 to 40 years. Upon retirement or sale of an asset, the cost and accumulated depreciation are removed from the accounts and any gain or loss is reflected in operations.

Collection Objects: In conformity with the practice followed by most museums, the Society's consolidated financial statements exclude the value of the collection objects and library holdings, and no determination has been made as to the aggregate value of such items.

VIRGINIA HISTORICAL SOCIETY

Notes to Consolidated Financial Statements, Continued

1. Summary of Significant Accounting Policies, Continued:

Collection Objects, Continued: Purchases of collection items are recorded as decreases in net assets without donor restrictions or net assets with donor restrictions if the assets used to purchase collection items are restricted by the donor. See Note 5 for a description of the collection objects and library holdings.

Deferred Revenue: Deferred revenue consists of advance payments related to rental income, multiple year memberships, grants and other agreements. Pursuant to an agreement between the Commonwealth of Virginia and the Mountain Valley Pipeline, during 2018 the Society received \$1 million, 1% of which was included in deferred revenue on the consolidated statements of financial position as of June 30, 2020. During 2021, the Mountain Valley Pipeline was completed and the remaining 1% was recorded as revenue. In addition, during 2019 the Society received \$7 million under an agreement with the Atlantic Coast Pipeline, related to another project. The full amount was included in deferred revenue on the consolidated statements of financial position as of June 30, 2020. During 2021, the resource provider of the Atlantic Coast Pipeline project notified the Society that the original agreement was amended and the funds will now be treated as a contribution to the Society with donor restrictions. As a result, the full amount of \$7 million was recorded as contribution revenue with donor restrictions on 2021 the consolidated statement of activities.

Paycheck Protection Program Loan: The Society's policy is to account for the Paycheck Protection Program ("PPP loan") in accordance with FASB ASC 958-605. Under this guidance, the PPP loan is treated as a conditional contribution under which (1) proceeds from the loan are initially recorded as a refundable advance, and (2) the refundable advance is reduced and the contribution is recognized when the conditions of release have been substantially met or explicitly waived.

Impairment or Disposal of Long-Lived Assets: Long-lived assets are reviewed for impairment whenever events or changes in circumstances indicate that the carrying amount of an asset may not be recoverable. Recoverability of assets to be held and used is measured by a comparison of the carrying amount of an asset to future undiscounted net cash flows expected to be generated by the asset. If such assets are considered to be impaired, the impairment to be recognized is measured by the amount by which the carrying amount of the assets exceeds the fair value of the assets. No impairments were identified during the years ended June 30, 2021 and 2020.

Functional Allocation of Expenses: The cost of providing various program and supporting services have been summarized on a functional basis in the consolidated statements of activities. The consolidated statements of functional expenses present expenses by function and natural classification. Expenses directly attributable to a specific functional area of the Society are reported as expenses of those functional areas while indirect costs that benefit multiple functional areas have been allocated across functions. Following FASB guidance on management and general expense, occupancy, depreciation and interest costs are allocated based on square footage while general and administrative costs are allocated based on head counts within each functional area.

VIRGINIA HISTORICAL SOCIETY

Notes to Consolidated Financial Statements, Continued

1. Summary of Significant Accounting Policies, Continued:

Functional Allocation of Expenses, Continued: Costs related to organizational officers are allocated based upon each functional areas use of their time and efforts, represented by each area's percentage of overall expenditures. All other costs are evaluated on a per invoice basis to determine what functions have been served. During 2021, the Society consolidated program expenses for research related activities into collection expenses. The 2020 consolidated statements of functional expenses have been reclassified to conform to the 2021 consolidated functional expenses.

Contributed Services: The Society receives services from volunteers for support of the Society's activities. The value of these services is not clearly measurable and is not recorded in the consolidated financial statements.

Use of Estimates: Management of the Society has made a number of estimates and assumptions relating to the reporting of assets, liabilities, revenues and expenses and disclosure of contingent assets and liabilities to prepare these consolidated financial statements in conformity with GAAP. Actual results could differ from those estimates.

Income Taxes: The Society received a favorable determination letter from the Internal Revenue Service dated May 16, 1961, stating that it is exempt from income taxes under Section 501(a) of the Internal Revenue Code as an organization described in Section 501(c)(3).

SOV is a limited liability company, and in lieu of corporate income taxes, the members are taxed on their proportionate share of the company's taxable income. For income tax purposes, SOV operates on a calendar year.

Income Tax Uncertainties: The Society has adopted financial reporting guidance related to accounting for uncertainty in income taxes, which clarifies the accounting for income taxes by prescribing the minimum recognition threshold that a tax position is required to meet before being recognized in the Society's consolidated financial statements. The guidance also provides criteria on derecognition, classification, interest and penalties, disclosure and transition.

The Society discloses the expected future tax consequences of uncertain tax positions presuming the taxing authorities' full knowledge of the facts and the Society's position, and records unrecognized tax benefits or liabilities for known, or anticipated tax issues based on the Society's analysis of whether additional taxes would be due to the authority given their full knowledge of the tax position. The Society has completed its assessment and determined that there are no tax positions which would require recognition. The Society is not currently under audit by any jurisdiction.

VIRGINIA HISTORICAL SOCIETY

Notes to Consolidated Financial Statements, Continued

1. Summary of Significant Accounting Policies, Continued:

Subsequent Events: Management has evaluated subsequent events through December 17, 2021, the date the consolidated financial statements were available for issuance, and has determined that, other than as described below, there are no additional disclosures necessary.

The Shuttered Venue Operators Grant ("SVOG") program was established by the Economic Aid to Hard-Hit Small Businesses, Nonprofits, and Venues Act, and amended by the American Rescue Plan Act. On July 15, 2021, the Society was awarded an SVOG in the amount of \$847,331.

2. Liquidity and Availability of Financial Assets:

Financial assets available for general expenditure, that is without donor or other restrictions limiting their use, within one year of the consolidated statements of financial position date of June 30, 2021 and 2020 are comprised of the following:

	2021	2020
Cash and cash equivalents	\$ 3,388,097	\$ 1,843,663
Investments	87,026,366	67,327,730
Accrued interest and dividends	30,471	21,831
Contributions receivable	4,847,916	1,241,414
Grants receivable	2,097,644	82,500
Other current assets	138,987	141,087
 Total financial assets available within one year	 97,529,481	 70,658,225
 Contractual or donor imposed limitations		
Endowment funds	(42,826,908)	(31,379,971)
Campaign/project funds	(36,723,583)	(15,711,923)
Receivables with donor restrictions	(2,668,301)	(1,241,414)
Board designations	(2,028,027)	(1,518,612)
Deferred revenue associated with Pipeline	-	(7,001,000)
 Financial assets available to meet cash needs for general expenditures within one year	 <u>\$ 13,282,662</u>	 <u>\$ 13,805,305</u>

As part of the Society's liquidity management, it structures its financial assets to be available as its general expenditures, liabilities, and other obligations come due. The Board of Trustees has approved the 2022 budget to include approximately \$2,508,296 in general endowment appropriation in alignment with the endowment spending policy. In addition, the Society has access to a line of credit that allows for maximum borrowings of \$500,000 (Note 18).

Although the Society does not intend to spend from board designated funds for general expenditures, these funds could be made available if necessary.

VIRGINIA HISTORICAL SOCIETY

Notes to Consolidated Financial Statements, Continued

3. Investments:

Investments at June 30, 2021 and 2020 are comprised of the following:

	2021		2020	
	Market	Cost	Market	Cost
Cash and				
cash equivalents	\$ 4,961,275	\$ 4,961,275	\$ 2,934,350	\$ 2,934,350
Equities	10,020,058	4,920,843	6,297,285	3,985,392
Fixed income	5,123,633	5,002,712	11,182,856	10,732,310
Alternative investments	<u>66,921,400</u>	<u>32,859,073</u>	<u>46,913,239</u>	<u>34,267,300</u>
	<u>\$ 87,026,366</u>	<u>\$ 47,743,903</u>	<u>\$ 67,327,730</u>	<u>\$ 51,919,352</u>

Investment income for the years ended June 30, 2021 and 2020 is as follows:

	2021	2020
Interest and dividends, net	\$ 220,865	\$ 392,721
Unrealized gains, net	23,874,085	461,086
Realized (losses) gains, net	(1,684,547)	1,609,453
Investment fees	<u>(224,516)</u>	<u>(194,075)</u>
	<u>\$ 22,185,887</u>	<u>\$ 2,269,185</u>

VIRGINIA HISTORICAL SOCIETY

Notes to Consolidated Financial Statements, Continued

4. Contributions and Grants Receivable:

Contributions Receivable

As of June 30, 2021 and 2020, contributors to the Society have made unconditional written and oral promises to give that relate to the following purposes:

	<u>2021</u>	<u>2020</u>
Without donor restrictions		
Time restricted	\$ 708,090	\$ 190,938
Split interest agreements	<u>640,222</u>	<u>560,510</u>
	<u>\$ 1,348,312</u>	<u>\$ 751,448</u>
With donor restrictions		
Campaign/programming projects	14,716,253	4,828,990
Split interest agreements	1,058,578	911,605
Restricted in perpetuity	<u>90,113</u>	<u>500</u>
	<u>15,864,944</u>	<u>5,741,095</u>
Total contributions receivable	<u>\$ 17,213,256</u>	<u>\$ 6,492,543</u>

The Society projects that contributors will remit these contributions as follows:

	<u>2021</u>	<u>2020</u>
Year ending June 30:		
Less than one year	\$ 4,847,916	\$ 1,241,414
One year to five years	9,310,413	3,556,250
Thereafter	<u>4,079,783</u>	<u>2,348,000</u>
Gross contributions receivable	18,238,112	7,145,664
Less discount to present value, discount rate 2.10% and 2.16%	<u>1,024,856</u>	<u>653,121</u>
	<u>\$ 17,213,256</u>	<u>\$ 6,492,543</u>

VIRGINIA HISTORICAL SOCIETY

Notes to Consolidated Financial Statements, Continued

4. Contributions and Grants Receivable, Continued:

Grants Receivable

The Society has received grants primarily for programming projects. The Society projects to receive these grants as follows:

	2021	2020
Year ending June 30:		
Less than one year	\$ 2,097,644	\$ 82,500
One year to five years	<u>250,000</u>	<u>67,500</u>
	2,347,644	150,000
Gross grants receivable		
	2,347,644	150,000
Less discount to present value, discount rate 2.10% and 2.16%	<u>5,143</u>	<u>4,251</u>
	<u>\$ 2,342,501</u>	<u>\$ 145,749</u>

As of June 30, 2021, the Society had received conditional promises to give and indications of intention to give of approximately \$5,196,717. In accordance with GAAP, these conditional promises to give are not recorded in these consolidated financial statements. These potential contributions consist primarily of bequests and charitable remainder trusts. If received, approximately \$1,361,717 would be included as net assets with donor restrictions in perpetuity, approximately \$790,000 would be included as net assets with donor restrictions, and approximately \$3,045,000 would be included in net assets without donor restrictions.

5. Collections:

The Society collects manuscripts, books, maps, newspapers, photographs, portraits, and other works of art, as well as museum artifacts that are related to Virginia and American history. The Society's collections are maintained for research, education, and public exhibition in furtherance of public service rather than for financial gain. Collections are the most valuable assets of the Society and are protected, kept unencumbered, cared for, and preserved. As steward for many treasures relating to the Commonwealth's and the nation's history, the Society maintains meticulous records and is nationally noted for the depth and detail of its descriptive cataloging for its library holdings.

Intellectual as well as physical control of all collections is maintained by an extensive paper trail including provenance of origin; accession date; terms of gift or purchase price, whichever is applicable; physical description and condition report; location; and conservation record.

VIRGINIA HISTORICAL SOCIETY

Notes to Consolidated Financial Statements, Continued

5. Collections, Continued:

In conformity with American Association of Museum guidelines, collections are deaccessioned rarely and in close adherence to specific steps, culminating in approval from either the Society's director or Board of Trustees. Proceeds derived from the sale of any deaccessioned collections are applied to resources restricted to the purchase of library or museum collections or for the direct care of collections. The Society considers direct care to include the preservation, conservation and/or restoration of collections.

The Society does not include either the cost or the value of its collections in the consolidated statements of financial position, nor does it recognize gifts of collection items as revenues in the consolidated statements of activities. Because items acquired for collections by purchase are not capitalized, the cost of those acquisitions as well as conservation and/or restoration is reported as a decrease in net assets in the consolidated statements of activities.

6. Property and Equipment:

A summary of property and equipment at June 30, 2021 and 2020 is as follows:

	2021	2020
Land	\$ 436,451	\$ 436,301
Buildings and improvements	48,329,853	48,185,642
Equipment and furnishings	6,701,322	6,498,552
Construction in progress	<u>12,267,080</u>	<u>907,304</u>
Total	67,734,706	56,027,799
Less accumulated depreciation	<u>25,985,989</u>	<u>24,685,167</u>
Property and equipment, net	<u>\$ 41,748,717</u>	<u>\$ 31,342,632</u>

7. Bonds Payable:

The Society had an agreement with SunTrust and the Virginia Small Business Financing Authority (the "Authority") for \$4,914,000 of Museum Facilities Revenue Note Bonds Series 2013B. The unsecured bonds were scheduled to mature on June 1, 2023 and bore interest at a rate of 3.10% at June 30, 2020. The outstanding principal balance on the 2013B bonds was \$1,072,200 as of June 30, 2020.

The Society had an agreement with SunTrust and the Authority for up to \$15,000,000 of Museum Facilities Revenue Note Bonds Series 2013A to pay costs of a capital improvement project. The unsecured bonds were scheduled to mature on June 1, 2033 and bore interest at a rate of 3.37% at June 30, 2020. The outstanding principal balance on the 2013A bonds was \$240,874 as of June 30, 2020.

VIRGINIA HISTORICAL SOCIETY

Notes to Consolidated Financial Statements, Continued

7. Bonds Payable, Continued:

The above bonds were reduced by debt issuance costs of \$83,492 as of June 30, 2020 in accordance with ASU 2015-03.

During 2021, the Society repaid the above bonds ahead of their scheduled maturity from the proceeds received from the 2020 series bond issuance as described below.

On September 1, 2020, the Society entered an agreement with Atlantic Union to receive bond financing not to exceed \$21 million to manage cash flow related to the History Matters capital campaign. On the closing date, the Society received an initial advance of \$2,863,788. Additional advances will be made through September 1, 2022 as requested by the Society. The bond incurs interest of 2.05% and interest only payments will be made on the borrowing through September 2022. Beginning in October 2022, interest and principal payments will begin and continue through September 2042. The outstanding balance of the bonds was \$4,341,595 reduced by bond issuance costs of \$111,417 as of June 30, 2021 on the consolidated statements of financial position. The bond is subject to a mandatory put option that requires the Society to repay the outstanding principal balance plus accrued interest due on the bond as of September 1, 2027 (the "put date"). Prior to the put date, the Society may request Atlantic Union to continue holding the bond after the put date.

Under the provisions of the Society's bond agreements, the Society is subject to certain specified financial and operating covenants. The Society is in compliance with these covenants as of June 30, 2021.

8. Paycheck Protection Program Loan:

In response to the economic instability caused by COVID-19, the Coronavirus Aid, Relief, and Economic Security Act ("CARES Act") was passed by Congress and signed into law by the President on March 27, 2020. The Paycheck Protection Program was a component of the CARES Act and provided for a loan ("PPP Loan") to provide a direct incentive for employers to keep their employees on the payroll. A PPP Loan is eligible for full or partial forgiveness if the funds are used for qualifying costs including payroll, rent, mortgage interest, or utilities, as further defined in the CARES Act.

The Society applied for an advanced amount for \$10,000 and was approved for a PPP Loan in the amount of \$777,500. The loan was funded on April 28, 2020. The loan accrued interest at 1.0%, but payments are not required to begin for 10 months after the funding of the PPP Loan. The Society was eligible for loan forgiveness of up to 100% of the loan, upon meeting certain requirements. The PPP Loan was uncollateralized and was fully guaranteed by the Federal government.

VIRGINIA HISTORICAL SOCIETY

Notes to Consolidated Financial Statements, Continued

8. Paycheck Protection Program Loan, Continued:

As of June 30, 2020, the Society had used all of the loan proceeds for qualifying costs and as a result, management believed the PPP Loan would be fully forgiven. Based on its facts and circumstances, the Society elected to recognize the loan forgiveness as of June 30, 2020 and reflect \$767,500 as grant revenue in the accompanying consolidated statements of activities for the year ended June 30, 2020. On November 13, 2020, the Society was notified that the PPP Loan of \$767,500 and the \$10,000 advanced were forgiven in full.

9. Endowment Funds:

There are 62 endowment funds at the Society. These endowment funds were established for a variety of purposes. The endowment funds include both donor-restricted endowment funds and funds designated by the Board of Trustees to function as endowments. As required by GAAP, net assets associated with endowment funds, including funds designated by the Board of Trustees to function as endowments, are classified and reported based on the existence or absence of donor-imposed restrictions. This reclassification did not impact the assets, liabilities, revenues or expenses of the Society.

Interpretation of Relevant Law: The Board of Trustees of the Society has interpreted the State Prudent Management of Institutional Funds Act ("SPMIFA") as requiring the preservation of the fair value of the original gift of the donor-restricted endowment funds absent explicit donor stipulations to the contrary. As a result of this interpretation, the Society classifies as net assets with donor restrictions (a) the original value of gifts donated to the permanent endowment, (b) the original value of subsequent gifts to the permanent endowment, and (c) accumulations to the permanent endowment made in accordance with the direction of the applicable donor gift instrument at the time the accumulation is added to the fund.

The remaining portion of the donor restricted endowment funds that are not classified as restricted in perpetuity are only reclassified as net assets without donor restrictions when those amounts appropriated for expenditure are disbursed in accordance with donor restrictions in a manner consistent with the standard of prudence prescribed by SPMIFA. In accordance with SPMIFA, the Society considers the following factors in making a determination to appropriate or accumulate funds in the endowment funds designated by the Board of Trustees:

- The duration and preservation of the fund
- The purposes of the organization and the donor-restricted endowment fund
- General economic conditions
- The possible effect of inflation and deflation
- The expected total return from income and the appreciation of investments
- Other resources of the Society
- The investment policies of the Society

VIRGINIA HISTORICAL SOCIETY

Notes to Consolidated Financial Statements, Continued

9. Endowment Funds, Continued:

Funds with Deficits: From time to time, the fair value of assets associated with individual endowment funds may fall below the level that the donor or the SPMIFA requires the Society to retain as a fund of perpetual duration. These deficiencies resulted from unfavorable market fluctuations in 4 donor restricted endowment funds that occurred shortly after the investment of new permanently restricted contributions and continued appropriation for certain programs that was deemed prudent by the Board of Trustees. In accordance with GAAP, deficiencies of this nature that reduced net assets with donor restrictions were as follows:

	2021	2020
Fair value of underwater endowment funds	\$ 4,254,005	\$ 14,496,963
Original gift amount	<u>4,359,508</u>	<u>16,184,666</u>
Deficiencies of underwater funds	<u>\$ (105,503)</u>	<u>\$ (1,687,703)</u>

Return Objectives and Risk Parameters: The Society has adopted investment and spending policies for endowment funds that attempt to provide a predictable stream of funding to programs supported by its endowment, while seeking to maintain the purchasing power of the endowment assets. Endowment assets include assets of donor-restricted funds that the organization must hold in perpetuity or for a donor-specified period(s) as well as board-designated funds. Under this policy, as approved by the Board of Trustees, the endowment assets are invested in a manner that is intended to produce results that exceed the price and yield results of the S&P 500 index while assuming a moderate level of investment risk. The Society expects its endowment funds over time to provide an average rate of return of approximately 5 percent annually. Actual returns in any given year may vary from this amount.

Strategies Employed for Achieving Objectives: To satisfy its long-term rate-of-return objectives, the Society relies on a total return strategy in which investment returns are achieved through both capital appreciation (realized and unrealized) and current yield (interest and dividends). The Society targets a diversified asset allocation that places a greater emphasis on equity-based investments to achieve its long-term return objectives within prudent risk constraints.

Spending Policy and How the Investment Objectives Relate to Spending Policy: The long-term objective of the spending policy is to maintain the purchasing power of the Society endowment with the goal of providing a predictable and sustainable level of income to support current operations. Spending for any given year should not exceed 5% of the 12 quarter rolling average of assets under management excluding any physical assets.

VIRGINIA HISTORICAL SOCIETY

Notes to Consolidated Financial Statements, Continued

9. Endowment Funds, Continued:

Spending Policy and How the Investment Objectives Relate to Spending Policy, Continued: The formula or percentage may be modified by the Board or its designated committee. This policy is consistent with the objectives of maintaining the purchasing power of the endowment assets held either in perpetuity or for a specific term, which also should experience additional real growth through gifts, bequests and other new capital infusions.

Endowment net asset composition by type of fund was as follows as of June 30, 2021:

	Without Donor Restrictions	With Donor Restrictions	Total
Donor-restricted endowment funds	\$ -	\$ 42,826,908	\$ 42,826,908
Board-designated funds	<u>2,028,027</u>	<u>-</u>	<u>2,028,027</u>
Total funds	<u>\$ 2,028,027</u>	<u>\$ 42,826,908</u>	<u>\$ 44,854,935</u>

Endowment net asset composition by type of fund was as follows as of June 30, 2020:

	Without Donor Restrictions	With Donor Restrictions	Total
Donor-restricted endowment funds	\$ -	\$ 31,379,971	\$ 31,379,971
Board-designated funds	<u>1,518,612</u>	<u>-</u>	<u>1,518,612</u>
Total funds	<u>\$ 1,518,612</u>	<u>\$ 31,379,971</u>	<u>\$ 32,898,583</u>

VIRGINIA HISTORICAL SOCIETY

Notes to Consolidated Financial Statements, Continued

9. Endowment Funds, Continued:

Changes in endowment net assets were as follows for the year ended June 30, 2021:

	Without Donor Restrictions	With Donor Restrictions	Total
Net assets, beginning of year	\$ 1,518,612	\$ 31,379,971	\$ 32,898,583
Investment gain, net	597,901	4,768,460	5,366,361
New gifts, net of discount	-	8,590,420	8,590,420
Appropriation of endowment assets for expenditure	<u>(88,486)</u>	<u>(1,911,943)</u>	<u>(2,000,429)</u>
Net assets, end of year	<u>\$ 2,028,027</u>	<u>\$ 42,826,908</u>	<u>\$ 44,854,935</u>

Changes in endowment net assets were as follows for the year ended June 30, 2020:

	Without Donor Restrictions	With Donor Restrictions	Total
Net assets, beginning of year	\$ 1,592,424	\$ 32,253,723	\$ 33,846,147
Investment gain, net	15,207	479,897	495,104
New gifts, net of discount	-	488,042	488,042
Appropriation of endowment assets for expenditure	<u>(89,019)</u>	<u>(1,841,691)</u>	<u>(1,930,710)</u>
Net assets, end of year	<u>\$ 1,518,612</u>	<u>\$ 31,379,971</u>	<u>\$ 32,898,583</u>

VIRGINIA HISTORICAL SOCIETY

Notes to Consolidated Financial Statements, Continued

10. Fair Value Measurements:

The FASB has issued guidance for measurement and disclosure of fair value and establishes a three-tier fair value hierarchy, which prioritizes the inputs used in measuring fair value.

This guidance provides a framework for measuring fair value under GAAP and defines fair value as the exchange price that would be received for an asset or paid to transfer a liability (an exit price) in the principal or most advantageous market for the asset or liability in an orderly transaction between market participants on the measurement date. This guidance requires that valuation techniques maximize the use of observable inputs and minimize the use of unobservable inputs. This guidance also establishes a fair value hierarchy which prioritizes the valuation inputs into three broad levels. Based on the underlying inputs, each fair value measurement in its entirety is reported in one of three levels:

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

Level 2 Quoted prices for similar instruments in active and inactive markets; and model driven valuations with significant inputs and drivers derived from observable active markets.

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

Contributions and grants receivable: Valued at the sum of future contributions adjusted to the present value using an observable discount rate.

Stock: Valued at the closing price reported on the active market on which the individual securities are traded.

Mutual funds: Valued at the net asset value ("NAV") of shares held by the Society at year end.

Fixed income: Valued at original cost adjusted for any premium or coupon.

Alternative investments: The Society's investments with private equity and hedge funds are accounted for at fair value based on NAV of the investment as quoted by the fund managers, as a practical expedient, as the underlying investment manager's calculation of NAV is fair value based and the NAV has been calculated as of the Society's fiscal year end date.

VIRGINIA HISTORICAL SOCIETY

Notes to Consolidated Financial Statements, Continued

10. Fair Value Measurements, Continued:

Assets and liabilities measured at fair value on a recurring basis at June 30, 2021, include the following:

	Fair Value Using			Asset/Liabilities
	Level 1	Level 2	Level 3	at Fair Value
Assets:				
Contributions and grants receivable, net	\$ -	\$ -	\$ 19,555,757	\$ 19,555,757
Investments:				
Cash and cash equivalents	4,961,275	-	-	4,961,275
Equities:				
Common stock	5,022,190	-	-	5,022,190
Foreign stock	460,769	-	-	460,769
Mutual funds	4,537,099	-	-	4,537,099
Total equities	10,020,058	-	-	10,020,058
Fixed income:				
US government and municipal bonds	-	1,692,954	-	1,692,954
Mortgage backed securities and CMO's	-	168,735	-	168,735
Corporate bonds	-	2,188,957	-	2,188,957
Foreign bonds	-	219,900	-	219,900
Agency securitized	-	853,087	-	853,087
Total fixed income	-	5,123,633	-	5,123,633
Alternative investments measured at NAV ^(a)				
	-	-	-	66,921,400
Total investments	14,981,333	5,123,633	-	87,026,366
Total assets	\$ 14,981,333	\$ 5,123,633	\$ 19,555,757	\$ 106,582,123
Liabilities:				
Annuity obligations	\$ -	\$ 180,716	\$ -	\$ 180,716
Total liabilities	\$ -	\$ 180,716	\$ -	\$ 180,716

(a) In accordance with Subtopic 820-10, certain investments that were measured at net asset value per share (or its equivalent) have not been classified in the fair value hierarchy. The fair value amounts presented in this table are intended to permit reconciliation of the fair value hierarchy to the line items presented in the consolidated statements of financial position.

VIRGINIA HISTORICAL SOCIETY

Notes to Consolidated Financial Statements, Continued

10. Fair Value Measurements, Continued:

Assets and liabilities measured at fair value on a recurring basis at June 30, 2020, include the following:

	Fair Value Using			Asset/Liabilities
	Level 1	Level 2	Level 3	at Fair Value
Assets:				
Contributions and grants receivable, net	\$ -	\$ -	\$ 6,638,292	\$ 6,638,292
Investments:				
Cash and cash equivalents	2,934,350	-	-	2,934,350
Equities:				
Common stock	2,782,862	-	-	2,782,862
Foreign stock	242,053	-	-	242,053
Mutual funds	3,272,370	-	-	3,272,370
Total equities	6,297,285	-	-	6,297,285
Fixed income:				
US government and municipal bonds	-	8,336,194	-	8,336,194
Mortgage backed securities and CMO's	-	40,514	-	40,514
Corporate bonds	-	1,875,657	-	1,875,657
Foreign bonds	-	25,243	-	25,243
Agency securitized	-	905,248	-	905,248
Total fixed income	-	11,182,856	-	11,182,856
Alternative investments measured at NAV ^(a)				
	-	-	-	46,913,239
Total investments	9,231,635	11,182,856	-	67,327,730
Total assets	\$ 9,231,635	\$ 11,182,856	\$ 6,638,292	\$ 73,966,022
Liabilities:				
Annuity obligations	\$ -	\$ 112,960	\$ -	\$ 112,960
Total liabilities	\$ -	\$ 112,960	\$ -	\$ 112,960

(a) In accordance with Subtopic 820-10, certain investments that were measured at net asset value per share (or its equivalent) have not been classified in the fair value hierarchy. The fair value amounts presented in this table are intended to permit reconciliation of the fair value hierarchy to the line items presented in the consolidated statements of financial position.

VIRGINIA HISTORICAL SOCIETY

Notes to Consolidated Financial Statements, Continued

10. Fair Value Measurements, Continued:

The following methods and assumptions were used to estimate the fair value of each class of financial instruments:

Certain investments in hedge funds, private equity, managed real estate, and managed partnerships are valued by general partners of the funds based on several criteria established in the fund agreement. All exchange traded securities are measured at the listed price at a specified time. Financial instruments that are tied to an underlying exchange traded security are valued at the listed price provided that the general partner determines that the price accurately reflects fair value. All other assets and liabilities of the fund are valued based on a calculation of fair value based on supporting information by the general partners. The Society reserves the right to adjust the fair value if changes in significant factors influence the fair value of the fund.

During 2021, The Society received \$20,230,631 in new pledges and grants, and collected payments on pledges and grants in the amount of \$6,940,539. During 2020, The Society received \$5,749,500 in new pledges and grants, and collected payments on pledges and grants in the amount of \$1,231,667.

The Society's investments in alternative investments are subject to restrictions on the frequency of redemptions. At June 30, 2021 and 2020, the redemption limits and related amounts were as follows:

Redemption Limit	2021	2020
Daily	\$ 1,117,368	\$ 1,234,125
Monthly	10,891,084	6,021,546
Monthly (1 year lock up)	1,407,821	1,316,090
Quarterly	5,512,255	3,872,142
Quarterly (1 year lock up)	8,029,995	7,337,516
Semi-annually	5,771,263	4,657,505
Semi-annually (1 year lock up)	3,542,323	1,567,342
Annually	1,470,272	1,090,114
Annually (1 year lock up)	2,016,713	1,286,832
Annually (2 year lock up)	7,931,533	5,648,899
Less frequently	6,961,546	4,282,956
Upon sale of underlying investments	<u>12,269,227</u>	<u>8,598,172</u>
	<u>\$ 66,921,400</u>	<u>\$ 46,913,239</u>

The Society had unfunded alternative investment commitments of \$6,608,840 as of June 30, 2021.

VIRGINIA HISTORICAL SOCIETY

Notes to Consolidated Financial Statements, Continued

11. Non-Controlling Interest:

Unrestricted net assets for controlling and non-controlling interests are as follows for the years ended June 30, 2021 and 2020:

	Controlling Interest	Non-Controlling Interest	Total Net Assets Without Donor Restrictions
Balance, July 1, 2019	\$ 47,809,322	\$ 1,772,231	\$ 49,581,553
Change in net assets	<u>28,679</u>	<u>(282,695)</u>	<u>(254,016)</u>
Balance, June 30, 2020	47,838,001	1,489,536	49,327,537
Adjustment for adoption of ASU 2014-09	(202,406)	-	(202,406)
Change in net assets	<u>13,958,764</u>	<u>(283,183)</u>	<u>13,675,581</u>
Balance, June 30, 2021	<u>\$ 61,594,359</u>	<u>\$ 1,206,353</u>	<u>\$ 62,800,712</u>

12. Rental Income:

The Society is the lessor of an operating lease covering certain space with the Department of Historic Resources of the Commonwealth of Virginia. The commencement date of the lease was March 1, 1998. Rent is to be paid annually on July 1 for the lease term of 20 years. The lease was renewed for an additional 10 years to expire June 2028. Thus, deferred revenue equal to the entire annual payment is recorded on the consolidated statement of financial position at each June 30. Annual payments escalate at a rate of 50% of the previous year's percentage increase in the Consumer Price Index. On March 31, 2021, the lease agreement was amended to lease an additional 6,495 square feet until June 30, 2028. Rental income was \$350,169 for 2021 and \$325,857 for 2020.

13. Leases:

The Society leases copiers, mailing equipment, data storage, and a vehicle under operating leases. Rental expense was \$27,173 and \$33,478 for the years ended June 30, 2021 and 2020.

Minimum future payments under non-cancellable operating leases at June 30, 2021 are as follows:

2022	\$ 63,380
2023	45,139
2024	35,512
2025	14,256
2026	14,256
Thereafter	<u>2,376</u>
Future minimum lease payments	<u>\$ 174,919</u>

VIRGINIA HISTORICAL SOCIETY

Notes to Consolidated Financial Statements, Continued

14. Defined Contribution 401(k) Retirement Plan:

The Society has a 401(k) retirement plan. Under the plan, employees who have attained the age of 21 and have one month of service may elect to contribute up to 100% of their compensation to the Plan. An employee's contribution is also limited by Internal Revenue Service regulations. The Society makes an employer matching contribution of up to 6%. Employees are fully vested in employer contributions immediately. Employees are allowed to borrow from their accounts subject to the provisions of the plan document. The total expense for the Plan was \$188,704 and \$184,322 for the years ended June 30, 2021 and 2020, respectively.

15. Executive Retirement Plan – 457(b):

The Society had a 457(b) Nonqualified Executive Retirement Plan (the "Plan"). Under the Plan, administrative staff and other highly compensated employees could participate upon approval of the Board-designated Administrative Committee, which had discretionary authority to make determinations as to eligibility and benefits under the Plan. Employee contribution was also limited by Internal Revenue Service regulations. Employees were fully vested in employer contributions immediately. The total expense for legacy participants in the Plan was \$1,348 and \$2,243 for the years ended June 30, 2021 and 2020.

16. Net Assets With Donor Restrictions:

Net assets with donor restrictions were available for the following purposes at June 30:

	<u>2021</u>	<u>2020</u>
Time restricted	\$ 1,741,622	\$ 1,883,967
Campaign/project funds	36,723,583	15,711,923
Unapproved or unspent appreciation	2,845,078	8,280,261
Principal gifts held in perpetuity	<u>39,981,830</u>	<u>23,099,710</u>
	<u>\$ 81,292,113</u>	<u>\$ 48,975,861</u>

Net assets released for expenses satisfying the restricted purposes of contributions and grants during 2021 and 2020 were related to meeting time and purpose restrictions.

VIRGINIA HISTORICAL SOCIETY

Notes to Consolidated Financial Statements, Continued

17. Commitments and Contingencies:

From time to time, the Society is involved in litigation that it considers to be in the normal course of business. The Society is not presently involved in any legal proceedings which management expects individually or in the aggregate to have a material adverse effect on its financial condition, results of operations or cash flows.

At June 30, 2021, unpaid commitments totaled \$1,563,223, for project expenditures related to the History Matters Campaign.

In March 2020, COVID-19 was declared a worldwide health pandemic and has had a significant impact on the national and global economy. As a result, most events after March 2020 were either postponed, canceled, or have been conducted in an online setting, and as of the date of issuance, event activity at the Society has not returned to prior levels. Additionally, the Society obtained a Paycheck Program Protection loan (see Note 8) and a Shuttered Venue Operators Grant (see Note 1). The ultimate impact of COVID-19 on the Society's future financial state is unknown at this time.

18. Other Agreements:

Operating Agreement: SOV is organized as a taxable limited liability company in order that third-party investors could invest in limited member equity interests and receive specific individual allocations of Virginia Rehabilitation Tax Credits (which SOV earned for the qualified rehabilitation expenditures of VHS' location at 428 North Arthur Ashe Boulevard, commonly known as "Battle Abbey") that were agreed upon in the entity formation documents. No further capital contributions are expected to be received.

Under the operating agreement, SOV paid VHS a development fee of \$2,100,000 for its services in connection with the rehabilitation of certain areas of its facility. In addition, SOV has certain obligations to indemnify the investor members as stipulated in the operating agreement.

Lease-Sublease Agreements: VHS has a deed of lease agreement with SOV that calls for annual payments of \$2,602,769 payable in arrears on the last day of each lease year through December 31, 2025.

SOV has a deed of sublease agreement with VHS that calls for annual payments of \$2,706,880 payable in arrears on the last day of each lease year through November 30, 2024.

Rent income and expense are recognized on a straight-line basis, but such inter-entity rents are eliminated in the Society's consolidated financial statements.

VIRGINIA HISTORICAL SOCIETY

Notes to Consolidated Financial Statements, Continued

18. Other Agreements, Continued:

Put and Call Options: As part of the operating agreement, there is a put and call option for the purchase of SOV's investors' interests. At any time on or after December 31, 2017, each investor member shall have the option (the "Put Option") to sell to SOV all of its member interest. The sales price shall be the Agreement Price, as defined in the operating agreement, multiplied by 95%.

At any time on or after June 30, 2018, SOV shall have the option (the "Call Option") to purchase the member interest of each remaining investor member. The sales price shall be the Agreement Price multiplied by 105%.

Line of Credit: The Society had a line of credit with Truist Bank, allowing for maximum borrowings of up to \$500,000 through March 31, 2021 as defined and limited by the loan agreement. Interest was payable monthly at the 30 day LIBOR rate plus 1.5%. The line of credit was secured by the Society's real property. On September 8, 2020, the Society terminated the line of credit agreement with Truist bank. There were no outstanding borrowings on the line of credit at June 30, 2020.

On September 8, 2020, the Society entered into a line of credit agreement with Atlantic Union Bank, allowing for maximum borrowings of up to \$500,000 through February 28, 2022 as defined and limited by the loan agreement. Interest was payable monthly at the 30 day LIBOR rate plus 2.0%. The line of credit is secured by the Society's real property. There were no outstanding borrowings on the line of credit at June 30, 2021.

19. New Accounting Guidance:

Leases: In February 2016, the FASB issued new guidance over leases which requires that all leasing activity with initial terms in excess of twelve months be recognized on the balance sheet with a right of use asset and a lease liability. The standard will require entities to classify leases as either a finance, or operating lease based upon the contractual terms. For finance leases, the right to use asset and lease liability will be calculated based upon the present value of the lease payments. The asset will then be amortized and the interest on the obligation will be recognized separately within the consolidated statements of activities. On the consolidated statements of cash flows, the principal portion of the finance lease payments will be classified as a financing activity. For operating leases, the right to use asset and lease liability will also be calculated based upon the present value of the lease payments. However, the cost of the lease will generally be allocated over the lease term on a straight-line basis and presented as a single expense on the consolidated statements of activities. On the consolidated statements of cash flows, all cash payments for operating leases will be classified as an operating activity. The new standard will be effective for periods beginning after December 15, 2021, and will require entities to use a modified retrospective approach to the earliest period presented. The Society is currently evaluating the reporting and economic implications of the new standard.

VIRGINIA HISTORICAL SOCIETY

Notes to Consolidated Financial Statements, Continued

19. New Accounting Guidance, Continued:

In-kind Donations: In September 2020, the FASB issued new guidance related to contributions of non-financial assets received (ASU 2020-07) which amends previous guidance concerning presentation and disclosure of non-financial assets received. Specifically, the amendments require (1) presentation as a separate line item of contributed non-financial assets and (2) disclosure of information about each category of non-financial assets. The new standard will be effective for periods beginning after June 15, 2021 and will require entities to use a retrospective approach to the earliest period presented. The Society is currently evaluating the reporting and economic implications of the new standard.