



Consolidated Financial Statements

June 30, 2022 and 2021



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VIRGINIA HISTORICAL SOCIETY

Table of Contents

	<u>Page</u>
Independent Auditor's Report	1
Consolidated Financial Statements:	
Consolidated Statements of Financial Position	4
Consolidated Statements of Activities	5
Consolidated Statements of Cash Flows	7
Consolidated Statements of Functional Expenses	9
Notes to Consolidated Financial Statements	11
Supplemental Information:	
Schedule of Expenditures of Federal Awards:	
Schedule of Expenditures of Federal Awards	36
Notes to Schedule of Federal Awards	37
Independent Auditor's Report on Internal Control Over Financial Reporting and on Compliance and Other Matters Based on an Audit of Financial Statements Performed in Accordance with <i>Government Auditing Standards</i>	38
Independent Auditor's Report on Compliance for Each Major Program and on Internal Control Over Compliance Required by the Uniform Guidance	40
Schedule of Findings and Questioned Costs	43
Corrective Action Plan	44

INDEPENDENT AUDITOR'S REPORT

To the Board of Trustees
Virginia Historical Society
Richmond, Virginia

Opinion

We have audited the accompanying consolidated financial statements of Virginia Historical Society and Subsidiary (collectively, the "Society"), which comprise the consolidated statements of financial position as of June 30, 2022 and 2021, 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.

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, 2022 and 2021, 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.

Basis for Opinion

We conducted our audits in accordance with auditing standards generally accepted in the United States and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Our responsibilities under those standards are further described in the Auditor's Responsibilities for the Audit of the Consolidated Financial Statements section of our report. We are required to be independent of the Society and to meet our other ethical responsibilities, in accordance with the relevant ethical requirements relating to our audits. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinions.

Responsibilities of Management 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.

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

Auditor's Responsibilities for the Audit of the Consolidated Financial Statements

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

In performing an audit in accordance with generally accepted auditing standards and *Government Auditing Standards*, we:

- Exercise professional judgement and maintain professional skepticism throughout the audit.
- Identify and assess the risks of material misstatement of the consolidated financial statements, whether due to fraud or error, and design and perform audit procedures responsive to those risks. Such procedures include examining, on a test basis, evidence regarding the amounts and disclosures in the consolidated financial statements.
- Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Society's internal control. Accordingly, no such opinion is expressed.
- Evaluate the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluate the overall presentation of the consolidated financial statements.
- Conclude whether, in our judgement, there are conditions or events, considered in aggregate, that raise substantial doubt about the Society's ability to continue as a going concern for a reasonable period of time.

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

Supplementary Information

Our audits were conducted for the purpose of forming an opinion on the consolidated financial statements as a whole. The accompanying schedule of expenditures of federal awards, as required by Title 2 U.S. *Code of Federal Regulations* (CFR) Part 200, *Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards*, is presented for purposes of additional analysis and is not a required part of the consolidated 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 consolidated financial statements. The information has been subjected to the auditing procedures applied in the audits of the consolidated financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the consolidated financial statements or to the consolidated financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States. In our opinion, the schedule of expenditures of federal awards is fairly stated, in all material respects, in relation to the consolidated financial statements as a whole.

Other Reporting Required by *Government Auditing Standards*

In accordance with *Government Auditing Standards*, we have also issued our report dated December 23, 2022, on our consideration of the Society's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is solely to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the effectiveness of the Society's internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the Society's internal control over financial reporting and compliance.

A handwritten signature in black ink, appearing to read "Keita", with a long, sweeping horizontal stroke extending to the right.

December 23, 2022
Glen Allen, Virginia

VIRGINIA HISTORICAL SOCIETY

Consolidated Statements of Financial Position June 30, 2022 and 2021

	2022	2021
<u>Assets</u>		
Current assets:		
Cash and cash equivalents	\$ 4,176,596	\$ 3,388,097
Accrued interest and dividends	29,129	30,471
Contributions receivable, current (Note 4)	6,268,875	4,847,916
Grants receivable, current (Note 4)	250,000	2,097,644
Other current assets	818,698	1,096,994
Total current assets	11,543,298	11,461,122
Investments (Note 3)	75,799,756	87,026,366
Contributions receivable (Note 4)	13,420,582	12,365,340
Grants receivable (Note 4)	-	244,857
Property and equipment, net (Note 6)	52,272,288	41,748,717
Total assets	\$ 153,035,924	\$ 152,846,402
<u>Liabilities and Net Assets</u>		
Current liabilities:		
Accounts payable	\$ 1,594,391	\$ 3,105,261
Accrued expenses and other liabilities	605,372	485,756
Deferred revenue (Note 1)	758,888	932,382
Bonds payable, current (Note 7)	713,500	-
Grants payable	232,500	-
Total current liabilities	3,904,651	4,523,399
Bonds payable (Note 7)	16,502,302	4,230,178
Total liabilities	20,406,953	8,753,577
Net assets:		
Without donor restrictions		
Controlling interest (Note 10)	61,058,940	61,594,359
Non-controlling interest (Note 10)	921,877	1,206,353
Total net assets without donor restrictions	61,980,817	62,800,712
With donor restrictions (Notes 8 and 15)	70,648,154	81,292,113
Total net assets	132,628,971	144,092,825
Total liabilities and net assets	\$ 153,035,924	\$ 152,846,402

See accompanying notes to consolidated financial statements.

VIRGINIA HISTORICAL SOCIETY

Consolidated Statements of Activities Year Ended June 30, 2022 with Comparative Totals for 2021

	2022			2021
	Without Donor Restrictions	With Donor Restrictions	Total	Total
Support and revenue:				
Membership dues	\$ 345,514	\$ -	\$ 345,514	\$ 368,825
Annual giving	1,452,204	-	1,452,204	1,713,802
Investment (loss) income, net (Note 3)	(3,057,964)	(7,729,827)	(10,787,791)	22,185,887
Contributions	281,749	9,666,803	9,948,552	26,386,735
In-kind contributions (Note 16)	19,916	-	19,916	-
Grants	879,113	-	879,113	2,824,713
Publications and merchandise sales	146,005	-	146,005	103,865
Royalties	26,773	-	26,773	5,573
Rental income (Note 11)	418,943	-	418,943	350,169
Fees and admissions	709,497	-	709,497	244,105
Other	6,616	-	6,616	7,802
Total support and revenue	1,228,366	1,936,976	3,165,342	54,191,476
Net assets released from restriction	12,580,935	(12,580,935)	-	-
Expenditures:				
Program services:				
Collections	3,008,118	-	3,008,118	2,676,286
Programs	8,507,494	-	8,507,494	4,047,697
Supporting services:				
Administration	1,685,190	-	1,685,190	891,616
Advancement	1,143,471	-	1,143,471	584,044
Total expenditures	14,344,273	-	14,344,273	8,199,643
Loss on disposal of property and equipment	284,923	-	284,923	-
Change in net assets	(819,895)	(10,643,959)	(11,463,854)	45,991,833
Net assets, beginning of year	62,800,712	81,292,113	144,092,825	98,100,992
Net assets, end of year	\$ 61,980,817	\$ 70,648,154	\$ 132,628,971	\$ 144,092,825

See accompanying notes to consolidated financial statements.

VIRGINIA HISTORICAL SOCIETY

Consolidated Statements of Activities, Continued
Year Ended June 30, 2021

	Without Donor Restrictions	With Donor Restrictions	Total
Support and revenue:			
Membership dues	\$ 368,825	\$ -	\$ 368,825
Annual giving	1,713,802	-	1,713,802
Investment income, net, (Note 3)	17,417,427	4,768,460	22,185,887
Contributions	172,668	26,214,067	26,386,735
Grants	40,718	2,783,995	2,824,713
Publications and merchandise sales	103,865	-	103,865
Royalties	5,573	-	5,573
Rental income (Note 11)	350,169	-	350,169
Fees and admissions	244,105	-	244,105
Other	7,802	-	7,802
	<u>20,424,954</u>	<u>33,766,522</u>	<u>54,191,476</u>
Net assets released from restriction	<u>1,450,270</u>	<u>(1,450,270)</u>	<u>-</u>
Expenditures:			
Program services:			
Collections	2,676,286	-	2,676,286
Programs	4,047,697	-	4,047,697
Supporting services:			
Administration	891,616	-	891,616
Advancement	584,044	-	584,044
	<u>8,199,643</u>	<u>-</u>	<u>8,199,643</u>
Change in net assets	13,675,581	32,316,252	45,991,833
Net assets, beginning of year	<u>49,125,131</u>	<u>48,975,861</u>	<u>98,100,992</u>
Net assets, end of year	<u>\$ 62,800,712</u>	<u>\$ 81,292,113</u>	<u>\$ 144,092,825</u>

See accompanying notes to consolidated financial statements.

VIRGINIA HISTORICAL SOCIETY

Consolidated Statements of Cash Flows Years Ended June 30, 2022 and 2021

	2022	2021
Cash flows from operating activities:		
Change in net assets	\$ (11,463,854)	\$ 45,991,833
Adjustments to reconcile change in net assets to net cash from operating activities:		
Depreciation	2,175,640	1,303,801
Loss on disposal of property and equipment	284,923	-
Amortization of bond issuance costs	6,286	87,575
Contributions in perpetuity, including changes in present value of contributions receivable	-	(438,496)
Investment loss (income), net of fees	10,787,791	(22,185,887)
Change in assets and liabilities:		
Accrued interest and dividends	1,342	(8,640)
Contributions and grants receivable	(383,700)	(12,917,465)
Other current assets	278,296	(539,701)
Accounts payable	(1,510,870)	2,785,644
Deferred revenue	(173,494)	(6,906,090)
Accrued expenses and other liabilities	130,140	182,602
Grants payable	232,500	-
Net cash (used in) provided by operating activities	365,000	7,355,176
Cash flows from investing activities:		
Purchases of property and equipment	(12,984,134)	(11,638,986)
Purchases of investments	(3,029,361)	(738,227)
Proceeds from sale of investments	3,468,180	3,225,478
Net cash used in investing activities	(12,545,315)	(9,151,735)
Cash flows from financing activities:		
Proceeds from bonds payable	12,979,338	2,913,021
Payments on capital lease obligations	(10,524)	(10,524)
Contributions in perpetuity, including changes in present value of contributions receivable	-	438,496
Net cash provided by financing activities	12,968,814	3,340,993
Net change in cash and cash equivalents	788,499	1,544,434
Cash and cash equivalents, beginning of year	3,388,097	1,843,663
Cash and cash equivalents, end of year	\$ 4,176,596	\$ 3,388,097

See accompanying notes to consolidated financial statements.

VIRGINIA HISTORICAL SOCIETY

Consolidated Statements of Cash Flows, Continued Years Ended June 30, 2022 and 2021

	<u>2022</u>	<u>2021</u>
Supplemental disclosure of cash flow information:		
Cash paid during the year for interest	<u>\$ 166,981</u>	<u>\$ 51,484</u>
Noncash transactions		
Acquisition of property and equipment through capital lease	<u>\$ -</u>	<u>\$ 70,900</u>
Payment of 2013 A and 2013B series bonds through advance from 2020 series bonds	<u>\$ -</u>	<u>\$ 1,313,074</u>
Bond issuance cost related to 2020 series bonds	<u>\$ -</u>	<u>\$ 115,500</u>

See accompanying notes to consolidated financial statements.

VIRGINIA HISTORICAL SOCIETY

Consolidated Statements of Functional Expenses Year Ended June 30, 2022 with Comparative Totals for 2021

	<u>Program Services</u>		<u>Supporting Services</u>		<u>2022 Total</u>	<u>2021 Total</u>
	<u>Collections</u>	<u>Programs</u>	<u>Administration</u>	<u>Advancement</u>		
Salaries	\$ 1,146,284	\$ 1,973,891	\$ 626,609	\$ 307,371	\$ 4,054,155	\$ 3,682,237
Pension contributions	58,776	88,578	25,523	28,076	200,953	190,052
Employee benefits	92,838	103,260	63,520	26,145	285,763	322,010
Payroll taxes	74,255	110,200	70,573	30,110	285,138	264,048
Construction costs - non-capitalized	-	726,984	-	-	726,984	-
Exhibitions	-	2,611,442	-	-	2,611,442	146,890
Professional fees	44,890	371,084	57,739	287,466	761,179	307,606
Education	-	279,787	-	-	279,787	-
Supplies	48,303	100,825	22,574	9,087	180,789	107,628
Grant awards	-	402,500	-	-	402,500	-
Software subscriptions	85,983	86,723	30,409	8,162	211,277	192,612
Telephone	31,286	22,491	17,049	1,700	72,526	62,453
Promotion	-	381,549	14,362	-	395,911	121,400
Postage	992	21,463	379	44,296	67,130	49,112
Occupancy	231,671	151,110	184,916	12,586	580,283	580,039
Printing & publications	21,707	43,929	2,249	64,276	132,161	108,509
Travel	2,840	8,577	22,828	1,943	36,188	20,160
Interest	79,124	51,934	31,550	4,373	166,981	51,484
Depreciation	1,033,508	674,118	411,868	56,146	2,175,640	1,303,801
Other	55,661	297,049	103,042	261,734	717,486	689,602
Total expenses	<u>\$ 3,008,118</u>	<u>\$ 8,507,494</u>	<u>\$ 1,685,190</u>	<u>\$ 1,143,471</u>	<u>\$ 14,344,273</u>	<u>\$ 8,199,643</u>

See accompanying notes to consolidated financial statements.

VIRGINIA HISTORICAL SOCIETY

Consolidated Statements of Functional Expenses, Continued
Year Ended June 30, 2021

	Program services		Supporting services		2021
	Collections	Programs	Administration	Advancement	
Salaries	\$ 1,172,844	\$ 2,004,452	\$ 268,063	\$ 236,878	\$ 3,682,237
Pension contributions	65,248	91,103	14,054	19,647	190,052
Employee benefits	109,130	120,165	59,359	33,356	322,010
Payroll taxes	74,913	103,794	59,336	26,005	264,048
Exhibition	-	146,890	-	-	146,890
Professional fees	39,527	193,345	55,940	18,794	307,606
Supplies	40,591	54,974	9,794	2,269	107,628
Software subscriptions	81,777	70,255	31,523	9,057	192,612
Telephone	28,406	19,127	13,377	1,543	62,453
Promotion	-	119,348	2,052	-	121,400
Postage	1,513	13,768	636	33,195	49,112
Occupancy	242,291	146,912	177,674	13,162	580,039
Printing & publications	21,335	36,559	451	50,164	108,509
Travel	2,432	4,676	12,995	57	20,160
Interest	27,668	16,776	5,537	1,503	51,484
Depreciation	696,082	422,067	147,840	37,812	1,303,801
Other	72,529	483,486	32,985	100,602	689,602
Total expenses	\$ 2,676,286	\$ 4,047,697	\$ 891,616	\$ 584,044	\$ 8,199,643

See accompanying notes to consolidated financial statements.

VIRGINIA HISTORICAL SOCIETY

Notes to Consolidated Financial Statements

1. Summary of Significant Accounting Policies:

Society: 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 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 99% and is the general partner of SOV, and is required to consolidate SOV’s financial statements as a result of its control over SOV (see Note 10).

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.

Contributions of Nonfinancial Assets: In September 2020, the Financial Accounting Standards Board (“FASB”) issued Accounting Standards Update (“ASU”) 2020-07: Presentation and Disclosures by Not-for-Profit Entities for Contributed Nonfinancial Assets, which aims to increase transparency through enhancements to presentation and disclosures. With the new ASU, organizations receiving contributions of nonfinancial assets are now required to present such contributions as a separate line item on the statement of activities. Previously these were allowed to be included in the contributions line item. This ASU also adds additional disclosure requirements for these gifts. The previous disclosure requirements were less detailed and primarily related only to contributed services. The new, more detailed requirements are for contributions of all nonfinancial assets, including both goods and services. These requirements include a disaggregation of the total amount of contributed nonfinancial assets recognized within the consolidated statement of activities by category and, for each category, information regarding the valuation methodology and whether the contributed nonfinancial assets were either monetized or used during the reporting period. The Society has adopted this ASU using the retrospective approach as of July 1, 2020. In-kind contributions are separately stated on the consolidated statements of activities for the years ended June 30, 2022 and 2021. See also Note 16.

VIRGINIA HISTORICAL SOCIETY

Notes to Consolidated Financial Statements, Continued

1. Summary of Significant Accounting Policies, Continued:

Contributions of Nonfinancial Assets, Continued: The value of contributed services and materials that either (a) created or enhanced a nonfinancial asset or (b) required specialized skills, was provided by individual possessing those skills, and are of the type that would have been purchased if not contributed, amounted to \$19,915 for 2022 and have been recognized at their fair value as determined by the donor (see Note 16). There were no in-kind contributions for 2021.

The Society receives contributed 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.

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 net assets totaled \$1,698,355 and \$2,028,027 as of June 30, 2022 and 2021 (see Note 8).

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.

VIRGINIA HISTORICAL SOCIETY

Notes to Consolidated Financial Statements, Continued

1. Summary of Significant Accounting Policies, Continued:

Basis of Presentation, Continued: 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.

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, 2022, three donors accounted for 41% of total contributions and grants receivable. As of June 30, 2021, two donors accounted for 30% 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, 2022 and 2021, management determined that contributions and grants receivable were fully collectible and that no allowance was necessary.

Revenue Recognition: The Society recognizes revenue from exchange transactions in accordance with FASB guidance contained in Revenue from Contracts with Customers (Topic 606).

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, 2022, 2021, and 2020. Contract liabilities were \$758,888 as of June 30, 2022, \$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 9). 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.

The Shuttered Venue Operators Grant ("SVOG"): The 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. The Society's policy is to account for the SVOG as a governmental grant in the accompanying consolidated financial statements. The Society applies the guidance of FASB ASC 958-605 contained in ASU 2021-10. The Society had substantially met the conditions of the grant as of June 30, 2022, and has recognized the grant in grant revenue.

Bond Issuance Costs: Bond issuance costs are amortized over the period the obligation is outstanding using the straight-line method, which approximates the effective 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 \$6,286 and \$4,083 for 2022 and 2021, respectively. Amortization expense is expected to be \$5,500 for 2023 through 2041 and \$916 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.

VIRGINIA HISTORICAL SOCIETY

Notes to Consolidated Financial Statements, Continued

1. Summary of Significant Accounting Policies, Continued:

Property and Equipment, Continued: 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. 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.

Grants Payable: The Society makes grants to various Virginia not-for-profit organizations to carry out its mission. A grant is recognized as an expense in the year the board of trustees authorizes the grant. Although certain requirements are stipulated for each grant, management has assessed the possibility that those requirements will not be met as remote and, therefore, they are considered to be unconditional. Grants are generally paid within one year of authorization. Management determined the discount on future expected cash flows for grants payable at June 30, 2022 was immaterial; therefore, no discount was considered necessary. Grants payable totaled \$232,500 as of June 30, 2022 and there was no grants payable at June 30, 2021.

Deferred Revenue: Deferred revenue consists of advance payments related to rental income, multiple year memberships, grants and other agreements.

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, 2022 and 2021.

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. Costs related to Societal officers are allocated based upon each functional areas use of their time and efforts, represented by each area's percentage of overall expenditures.

VIRGINIA HISTORICAL SOCIETY

Notes to Consolidated Financial Statements, Continued

1. Summary of Significant Accounting Policies, Continued:

Functional Allocation of Expenses, Continued: All other costs are evaluated on a per invoice basis to determine what functions have been served. The Society consolidates program expenses for research related activities into collection expenses.

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 as 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.

Reclassifications: Certain balances have been reclassified to conform with current year presentation.

Subsequent Events: Management has evaluated subsequent events through December 23, 2022, 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.

On July 1, 2022, the Society advanced funds to an officer in exchange for the borrower's note. The advance totaled \$1,175,000 and bears interest at 3.00%. Principal and interest are payable monthly and the note has a maturity date of July 1, 2027 with an option to extend for one or more successive five year terms. The note is secured by the related property.

VIRGINIA HISTORICAL SOCIETY

Notes to Consolidated Financial Statements, Continued

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, 2022 and 2021 are comprised of the following:

	2022	2021
Cash and cash equivalents	\$ 4,176,596	\$ 3,388,097
Investments	75,799,756	87,026,366
Accrued interest and dividends	29,129	30,471
Contributions receivable	6,268,875	4,847,916
Grants receivable	250,000	2,097,644
Other current assets	34,080	138,987
Total financial assets available within one year	86,558,436	97,529,481
Contractual or donor imposed limitations		
Endowment funds	(33,987,742)	(42,826,908)
Campaign/project funds	(32,980,490)	(32,211,258)
Receivables with donor restrictions	(2,081,115)	(2,668,301)
Board designations	(1,698,355)	(2,028,027)
Financial assets available to meet cash needs for general expenditures within one year	\$ 15,810,734	\$ 17,794,987

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 2023 budget to include \$2,902,666 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, 2022 and 2021 are comprised of the following:

	2022		2021	
	Market	Cost	Market	Cost
Cash and				
cash equivalents	\$ 4,731,423	\$ 4,731,423	\$ 4,961,275	\$ 4,961,275
Equities	5,762,152	3,548,817	10,020,058	4,920,843
Fixed income	4,646,526	4,926,661	5,123,633	5,002,712
Alternative investments	60,659,655	35,644,092	66,921,400	32,859,073
	\$ 75,799,756	\$ 48,850,993	\$ 87,026,366	\$ 47,743,903

Investment income (loss) for the years ended June 30, 2022 and 2021 is as follows:

	2022	2021
Interest and dividends, net	\$ 231,367	\$ 220,865
Unrealized (losses) gains, net	(12,333,700)	23,874,085
Realized gains (losses), net	1,586,683	(1,684,547)
Investment fees	(272,141)	(224,516)
	\$ (10,787,791)	\$ 22,185,887

VIRGINIA HISTORICAL SOCIETY

Notes to Consolidated Financial Statements, Continued

4. Contributions and Grants Receivable:

Contributions Receivable

As of June 30, 2022 and 2021, contributors to the Society have made unconditional written and oral promises to give that relate to the following purposes:

	2022	2021
Without donor restrictions		
Time restricted	\$ 781,535	\$ 708,090
Split interest agreements	508,833	640,222
	\$ 1,290,368	\$ 1,348,312
With donor restrictions		
Campaign/programming projects	16,319,034	14,716,253
Split interest agreements	2,016,944	1,058,578
Restricted in perpetuity	63,111	90,113
	18,399,089	15,864,944
Total contributions receivable	\$ 19,689,457	\$ 17,213,256

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

	2022	2021
Year ending June 30:		
Less than one year	\$ 6,268,875	\$ 4,847,916
One year to five years	11,113,059	9,310,413
Thereafter	4,386,299	4,079,783
Gross contributions receivable	21,768,233	18,238,112
Less discount to present value, discount rate 3.79% and 2.10%	2,078,776	1,024,856
	\$ 19,689,457	\$ 17,213,256

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:

	2022	2021
Year ending June 30:		
Less than one year	\$ 250,000	\$ 2,097,644
One year to five years	-	250,000
Gross grants receivable	250,000	2,347,644
Less discount to present value, discount rate of 2.10%	-	5,143
	\$ 250,000	\$ 2,342,501

As of June 30, 2022, the Society had received conditional promises to give and indications of intention to give of approximately \$5,146,717. 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 \$740,000 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, 2022 and 2021 is as follows:

	<u>2022</u>	<u>2021</u>
Land	\$ 428,961	\$ 436,451
Buildings and improvements	68,085,820	48,329,853
Equipment and furnishings	8,989,111	6,701,322
Capitalized media	1,018,480	-
Construction in progress	<u>-</u>	<u>12,267,080</u>
Total	78,522,372	67,734,706
Less accumulated depreciation	<u>26,250,084</u>	<u>25,985,989</u>
Property and equipment, net	<u>\$ 52,272,288</u>	<u>\$ 41,748,717</u>

VIRGINIA HISTORICAL SOCIETY

Notes to Consolidated Financial Statements, Continued

7. Bonds Payable:

On September 1, 2020, the Society entered an agreement with Atlantic Union Bank to receive bond financing not to exceed \$21 million to manage cash flow related to the History Matters capital campaign. Advances were made through September 1, 2022 as requested by the Society. The bond incurs interest of 2.05% and interest only payments were 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 \$17,321,218 reduced by bond issuance costs of \$105,416 as of June 30, 2022. The outstanding balance of the bonds was \$4,341,595 reduced by bond issuance costs of \$111,417 as of June 30, 2021. These balances are reported 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, 2022.

Future principal payments on the bond payable were as follows as of June 30, 2022:

<u>Year</u>	<u>Amount</u>
2023	\$ 713,500
2024	870,200
2025	889,000
2026	907,700
2027	926,800
Thereafter	<u>13,014,018</u>
	17,321,218
Less: bond issuance costs	<u>(105,416)</u>
	<u>\$ 17,215,802</u>

8. Endowment Funds:

There are 66 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.

VIRGINIA HISTORICAL SOCIETY

Notes to Consolidated Financial Statements, Continued

8. Endowment Funds, Continued:

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 Society 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

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 20 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:

	2022	2021
Fair value of underwater endowment funds	\$ 12,379,187	\$ 4,254,005
Original gift amount	14,865,431	4,359,508
Deficiencies of underwater funds	\$ (2,486,244)	\$ (105,503)

VIRGINIA HISTORICAL SOCIETY

Notes to Consolidated Financial Statements, Continued

8. Endowment Funds, Continued:

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 Society 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.

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, 2022:

	Without Donor Restrictions	With Donor Restrictions	Total
Donor-restricted endowment funds	\$ -	\$ 33,987,742	\$ 33,987,742
Board-designated funds	1,698,355	-	1,698,355
Total funds	\$ 1,698,355	\$ 33,987,742	\$ 35,686,097

VIRGINIA HISTORICAL SOCIETY

Notes to Consolidated Financial Statements, Continued

8. Endowment Funds, Continued:

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

	<u>Without Donor Restrictions</u>	<u>With Donor Restrictions</u>	<u>Total</u>
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>

Changes in endowment net assets were as follows for the year ended June 30, 2022:

	<u>Without Donor Restrictions</u>	<u>With Donor Restrictions</u>	<u>Total</u>
Net assets, beginning of year	\$ 2,028,027	\$ 42,826,908	\$ 44,854,935
Investment loss, net	(231,297)	(7,729,827)	(7,961,124)
New gifts, net of discount	-	962,667	962,667
Appropriation of endowment assets for expenditure	<u>(98,375)</u>	<u>(2,072,006)</u>	<u>(2,170,381)</u>
Net assets, end of year	<u>\$ 1,698,355</u>	<u>\$ 33,987,742</u>	<u>\$ 35,686,097</u>

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

	<u>Without Donor Restrictions</u>	<u>With Donor Restrictions</u>	<u>Total</u>
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>

VIRGINIA HISTORICAL SOCIETY

Notes to Consolidated Financial Statements, Continued

9. 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

9. Fair Value Measurements, Continued:

Assets and liabilities measured at fair value on a recurring basis at June 30, 2022, include the following:

	Fair Value Using			Asset/Liabilities at Fair Value
	Level 1	Level 2	Level 3	
Assets:				
Contributions and grants receivable, net	\$ -	\$ -	\$ 19,939,457	\$ 19,939,457
Investments:				
Cash and cash equivalents	4,731,423	-	-	4,731,423
Equities:				
Common stock	3,150,120	-	-	3,150,120
Foreign stock	342,994	-	-	342,994
Mutual funds	2,269,038	-	-	2,269,038
Total equities	<u>5,762,152</u>	<u>-</u>	<u>-</u>	<u>5,762,152</u>
Fixed income:				
US government and municipal bonds	-	786,468	-	786,468
Mortgage backed securities and CMO's	-	241,917	-	241,917
Corporate bonds	-	1,869,401	-	1,869,401
Foreign bonds	-	154,265	-	154,265
Agency securitized	-	1,594,475	-	1,594,475
Total fixed income	<u>-</u>	<u>4,646,526</u>	<u>-</u>	<u>4,646,526</u>
Alternative investments measured at NAV ^(a)	<u>-</u>	<u>-</u>	<u>-</u>	<u>60,659,655</u>
Total investments	<u>10,493,575</u>	<u>4,646,526</u>	<u>-</u>	<u>75,799,756</u>
Total assets	<u>\$ 10,493,575</u>	<u>\$ 4,646,526</u>	<u>\$ 19,939,457</u>	<u>\$ 95,739,213</u>
Liabilities:				
Annuity obligations	\$ -	\$ 155,781	\$ -	\$ 155,781
Total liabilities	<u>\$ -</u>	<u>\$ 155,781</u>	<u>\$ -</u>	<u>\$ 155,781</u>

(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

9. 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 at Fair Value
	Level 1	Level 2	Level 3	
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

9. 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 2022, The Society received \$9,984,581 in new pledges and grants, and collected payments on pledges and grants in the amount of \$8,552,104. 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.

The Society's investments in alternative investments are subject to restrictions on the frequency of redemptions. At June 30, 2022 and 2021, the redemption limits and related amounts were as follows:

Redemption Limit	2022	2021
Daily	\$ 746,022	\$ 1,117,368
Monthly	8,532,451	10,891,084
Monthly (1 year lock up)	605,296	1,407,821
Quarterly	5,604,507	5,512,255
Quarterly (1 year lock up)	6,310,596	8,029,995
Semi-annually	3,823,196	5,771,263
Semi-annually (1 year lock up)	1,889,443	3,542,323
Annually	1,504,623	1,470,272
Annually (1 year lock up)	2,021,839	2,016,713
Annually (2 year lock up)	7,131,935	7,931,533
Less frequently	2,939,187	6,961,546
Upon sale of underlying investments	<u>19,550,560</u>	<u>12,269,227</u>
	<u>\$ 60,659,655</u>	<u>\$ 66,921,400</u>

The Society had unfunded alternative investment commitments of \$9,921,675 as of June 30, 2022.

VIRGINIA HISTORICAL SOCIETY

Notes to Consolidated Financial Statements, Continued

10. Non-Controlling Interest:

Unrestricted net assets for controlling and non-controlling interests are as follows for the years ended June 30, 2022 and 2021:

	Controlling Interest	Non-Controlling Interest	Total Net Assets Without Donor Restrictions
Balance, June 30, 2020	\$ 47,635,595	\$ 1,489,536	\$ 49,125,131
Change in net assets	13,958,764	(283,183)	13,675,581
Balance, June 30, 2021	61,594,359	1,206,353	62,800,712
Change in net assets	(535,419)	(284,476)	(819,895)
Balance, June 30, 2022	\$ 61,058,940	\$ 921,877	\$ 61,980,817

11. 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 \$418,943 for 2022 and \$350,169 for 2021.

12. Leases:

The Society leases copiers, mailing equipment, data storage, and a vehicle under operating leases. Rental expense was \$44,590 and \$40,316 for the years ended June 30, 2022 and 2021.

Minimum future payments under non-cancellable operating leases at June 30, 2022 are as follows:

Year Ended	Amount
2023	\$ 63,624
2024	57,888
2025	28,743
2026	15,852
2027	2,376
Future minimum lease payments	\$ 168,483

VIRGINIA HISTORICAL SOCIETY

Notes to Consolidated Financial Statements, Continued

13. 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 \$200,953 and \$188,704 for the years ended June 30, 2022 and 2021, respectively.

14. 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 contributions were also limited by Internal Revenue Service regulations. Employees were fully vested in employer contributions immediately. The Society made final payments to participants during 2021 and terminated the plan as of June 30, 2021. The total expense for legacy participants in the Plan was \$1,348 for the years ended June 30, 2021.

15. Net Assets With Donor Restrictions:

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

	2022	2021
Time restricted	\$ 3,679,922	\$ 1,741,622
Campaign/project funds	32,980,490	32,211,258
Unapproved or unspent appreciation	755,592	4,437,014
Principal gifts held in perpetuity	33,232,150	42,902,219
	\$ 70,648,154	\$ 81,292,113

Net assets released for expenses satisfying the restricted purposes of contributions and grants during 2022 and 2021 were related to meeting time and purpose restrictions of the capital campaign and other programmatic restrictions.

VIRGINIA HISTORICAL SOCIETY

Notes to Consolidated Financial Statements, Continued

16. Donated Services and Assets:

The Society receives in-kind contributions of time and pro bono services from members of the community and volunteers related to program operations and fundraising campaigns. Donated services are recognized as contributions if the services (a) create or enhance nonfinancial assets or (b) require specialized skills, are performed by people with those skills, and would otherwise be purchased by the Society. The Society recognizes in-kind contribution revenue and a corresponding expense in an amount approximating the estimated fair value at the time of the donation.

During fiscal year 2022, the Society received donated services for legal services. The Society also received contributions for events. The Society received the following in-kind contributions for the year ending June 30, 2022:

Events	\$	12,912
Legal services		<u>7,004</u>
	\$	<u>19,916</u>

There were no in-kind contributions received for the year ending June 30, 2021.

All donated services and assets were utilized by the Society's programs and supporting services. There were no donor-imposed restrictions associated with the donated services and assets.

Donated services and assets are valued at the standard market rates charged for those services or assets to cash-paying customers.

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.

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.

VIRGINIA HISTORICAL SOCIETY

Notes to Consolidated Financial Statements, Continued

18. Other Agreements, Continued:

Operating Agreement, Continued: 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.

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: 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, 2023 as defined and limited by the loan agreement. Interest is 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, 2022 and 2021.

VIRGINIA HISTORICAL SOCIETY

Notes to Consolidated Financial Statements, Continued

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.

Current Expected Credit Losses: In June 2016, the FASB issued ASU 2016-13 – Current Expected Credit Losses (“CECL”), which replaces the current incurred loss model used to measure impairment loss with the expected loss model for financial assets measured at amortized cost. The standard will be effective for non profit entities with years beginning after January 1, 2023. The Society is currently evaluating the impact that CECL will have on its financial reporting.

SUPPLEMENTAL INFORMATION

VIRGINIA HISTORICAL SOCIETY

Schedule of Expenditures of Federal Awards
Year Ended June 30, 2022

<u>Federal Grantor/Pass-Through Grantor/Program Title</u>	<u>CFDA Number</u>	<u>Pass-Through Entity</u>	<u>Federal Expenditures</u>
Small Business Administration:			
Shuttered Venue Operators Grant	59.075	N/A	<u>847,331</u>
Total			<u>\$ 847,331</u>

See independent auditor's report.

VIRGINIA HISTORICAL SOCIETY

Notes to Schedule of Expenditures of Federal Awards
Year Ended June 30, 2022

Note 1 – Basis of Presentation

The accompanying Schedule of Expenditures of Federal Awards includes the federal grant activity of Virginia Historical Society and is presented on the basis of accounting as described in Note 2 of the basic consolidated financial statements. The information in this schedule is presented in accordance with the requirements of Title 2 U.S. Code of Federal Regulations (CFR) Part 200, *Uniform Administrative Requirements, Costs Principles, and Audit Requirements for Federal Awards (Uniform Guidance)*. Because the Schedule presents only a selected portion of the operations of Virginia Historical Society, it is not intended to and does not present the financial position, changes in net assets, or cash flows of Virginia Historical Society.

Note 2 – Nonmonetary Assistance

Expenditures reported on the Schedule are reported on the accrual basis of accounting. Such expenditures are recognized following the cost principles contained in the Uniform Guidance, wherein certain types of expenditures are not allowable or are limited as to reimbursement.

The Society has elected not to use the 10% de minimis indirect cost rate.

See independent auditor's report.

**INDEPENDENT AUDITOR'S REPORT ON INTERNAL CONTROL OVER
FINANCIAL REPORTING AND ON COMPLIANCE AND OTHER MATTERS
BASED ON AN AUDIT OF FINANCIAL STATEMENTS PERFORMED IN
ACCORDANCE WITH GOVERNMENT AUDITING STANDARDS**

To the Board of Trustees
Virginia Historical Society
Richmond, Virginia

We have audited, in accordance with the auditing standards generally accepted in the United States and the standards applicable to financial audits contained in the *Government Auditing Standards* issued by the Comptroller General of the United States, the consolidated financial statements of Virginia Historical Society and Subsidiary (collectively, the "Society"), which comprise the consolidated statement of financial position as of June 30, 2022, and the related consolidated statements of activities, functional expenses, and cash flows for the year then ended, and the related notes to the consolidated financial statements, and have issued our report thereon dated December 23, 2022.

Report on Internal Control Over Financial Reporting

In planning and performing our audit of the consolidated financial statements, we considered the Society's internal control over financial reporting ("internal control") as a basis for designing audit procedures that are appropriate in the circumstances for the purpose of expressing our opinion on the consolidated financial statements, but not for the purpose of expressing an opinion on the effectiveness of the Society's internal control. Accordingly, we do not express an opinion on the effectiveness of the Society's internal control.

A deficiency in internal control exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct, misstatements on a timely basis. *A material weakness* is a deficiency, or combination of deficiencies, in internal control, such that there is a reasonable possibility that a material misstatement of the entity's consolidated financial statements will not be prevented, or detected and corrected on a timely basis. *A significant deficiency* is a deficiency, or a combination of deficiencies, in internal control that is less severe than a material weakness, yet important enough to merit attention by those charged with governance.

Our consideration of internal control was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control that might be material weaknesses or significant deficiencies. Given these limitations, during our audit we did not identify any deficiencies in internal control that we consider to be material weaknesses. However, material weaknesses may exist that have not been identified.

Report on Compliance and Other Matters

As part of obtaining reasonable assurance about whether the Society's consolidated financial statements are free from material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements, noncompliance with which could have a direct and material effect on the consolidated financial statements. However, providing an opinion on compliance with those provisions was not an objective of our audit, and accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards*.

Purpose of This Report

The purpose of this report is solely to describe the scope of our testing of internal control and compliance and the results of that testing, and not to provide an opinion on the effectiveness of the Society's internal control or on compliance. This report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the Society's internal control and compliance. Accordingly, this communication is not suitable for any other purpose.

A handwritten signature in black ink, appearing to read "Keita", with a stylized flourish extending to the right.

December 23, 2022
Glen Allen, Virginia

**INDEPENDENT AUDITOR'S REPORT ON COMPLIANCE FOR
EACH MAJOR PROGRAM AND ON INTERNAL CONTROL OVER
COMPLIANCE REQUIRED BY THE UNIFORM GUIDANCE**

To the Board of Trustees
Virginia Historical Society
Richmond, Virginia

Report on Compliance for Each Major Federal Program

Opinion on Each Major Federal Program

We have audited Virginia Historical Society and Subsidiary's (collectively, the "Society") compliance with the types of compliance requirements identified as subject to audit in the OMB *Compliance Supplement* that could have a direct and material effect on each of the Society's major federal programs for the year ended June 30, 2022. The Society's major federal programs are identified in the summary of auditor's results section of the accompanying schedule of findings and questioned costs.

In our opinion, the Society complied, in all material respects, with the types of compliance requirements referred to above that could have a direct and material effect on each of its major federal programs for the year ended June 30, 2022.

Basis for Opinion on Each Major Federal Program

We conducted our audit of compliance in accordance with auditing standards generally accepted in the United States; the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States and the audit requirements of Title 2 U.S. *Code of Federal Regulations* Part 200, *Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards* (Uniform Guidance). Our responsibilities under those standards and the Uniform Guidance are further described in the Auditor's Responsibilities for the Audit of Compliance section of our report.

We are required to be independent of the Society and to meet our other ethical responsibilities, in accordance with relevant ethical requirements relating to our audit. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion on compliance for each major federal program. Our audit does not provide a legal determination of the Society's compliance with the compliance requirements referred to above.

Responsibilities of Management for Compliance

Management is responsible for compliance with the requirements referred to above and for the design, implementation, and maintenance of effective internal control over compliance with the requirements of laws, statutes, regulations, rules, and provisions of contracts or grant agreements applicable to the Society's federal programs.

Auditor's Responsibilities for the Audit of Compliance

Our objectives are to obtain reasonable assurance about whether material noncompliance with the compliance requirements referred to above occurred, whether due to fraud or error, and express an opinion on the Society's compliance based on our audit. Reasonable assurance is a high level of assurance but is not absolute assurance and therefore is not a guarantee that an audit conducted in accordance with generally accepted auditing standards, *Government Auditing Standards*, and the Uniform Guidance will always detect material noncompliance when it exists. The risk of not detecting material noncompliance resulting from fraud is higher than for that resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control. Noncompliance with the compliance requirements referred to above is considered material if there is a substantial likelihood that, individually or in the aggregate, it would influence the judgment made by a reasonable user of the report on compliance about the Society's compliance with the requirements of each major federal program as a whole.

In performing an audit in accordance with generally accepted auditing standards, *Government Auditing Standards*, and the Uniform Guidance, we:

- Exercise professional judgment and maintain professional skepticism throughout the audit.
- Identify and assess the risks of material noncompliance, whether due to fraud or error, and design and perform audit procedures responsive to those risks. Such procedures include examining, on a test basis, evidence regarding the Society's compliance with the compliance requirements referred to above and performing such other procedures as we considered necessary in the circumstances.
- Obtain an understanding of the Society's internal control over compliance relevant to the audit in order to design audit procedures that are appropriate in the circumstances and to test and report on internal control over compliance in accordance with the Uniform Guidance, but not for the purpose of expressing an opinion on the effectiveness of the Society's internal control over compliance. Accordingly, no such opinion is expressed.

We are required to communicate with those charged with governance regarding, among other matters, the planned scope and timing of the audit and any significant deficiencies and material weaknesses in internal control over compliance that we identified during the audit.

Report on Internal Control over Compliance

A *deficiency in internal control over compliance* exists when the design or operation of a control over compliance does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct, noncompliance with a type of compliance requirement of a federal program on a timely basis. A *material weakness in internal control over compliance* is a deficiency, or a combination of deficiencies, in internal control over compliance, such that there is a reasonable possibility that material noncompliance with a type of compliance requirement of a federal program will not be prevented, or detected and corrected, on a timely basis. A *significant deficiency in internal control over compliance* is a deficiency, or a combination of deficiencies, in internal control over compliance with a type of compliance requirement of a federal program that is less severe than a material weakness in internal control over compliance, yet important enough to merit attention by those charged with governance.

Our consideration of internal control over compliance was for the limited purpose described in the Auditor's Responsibilities for the Audit of Compliance section above and was not designed to identify all deficiencies in internal control over compliance that might be material weaknesses or significant deficiencies in internal control over compliance. Given these limitations, during our audit we did not identify any deficiencies in internal control over compliance that we consider to be material weaknesses, as defined above. However, material weaknesses or significant deficiencies in internal control over compliance may exist that were not identified.

Our audit was not designed for the purpose of expressing an opinion on the effectiveness of internal control over compliance. Accordingly, no such opinion is expressed.

The purpose of this report on internal control over compliance is solely to describe the scope of our testing of internal control over compliance and the results of that testing based on the requirements of the Uniform Guidance. Accordingly, this report is not suitable for any other purpose.

A handwritten signature in black ink, appearing to read "Keiter", with a stylized flourish at the end.

December 23, 2022
Glen Allen, Virginia

VIRGINIA HISTORICAL SOCIETY

Schedule of Findings and Questioned Costs Year Ended June 30, 2022

A. SUMMARY OF AUDIT RESULTS:

- (1) The auditor's report expresses an unmodified opinion on the consolidated financial statements.
- (2) No material weaknesses or significant deficiencies in internal control were disclosed during the audit.
- (3) No noncompliance which is material to the consolidated financial statements was disclosed by the audit of the consolidated financial statements.
- (4) No material weaknesses or significant deficiencies relating to the audit of the major federal award programs were disclosed by the audit.
- (5) The auditor's report on compliance for the major federal award programs expresses an unmodified opinion on compliance for major programs.
- (6) No findings were disclosed by the audit.
- (7) Major Program:
59.075 – Shuttered Venue Operators Grant
- (8) The dollar threshold used to distinguish between Type A and Type B programs was \$750,000.
- (9) The auditee did not qualify as a low risk auditee.

B. FINDINGS RELATING TO THE CONSOLIDATED FINANCIAL STATEMENTS WHICH ARE REQUIRED TO BE REPORTED IN ACCORDANCE WITH *GOVERNMENT AUDITING STANDARDS*:

None

C. FINDINGS AND QUESTIONED COSTS FOR FEDERAL AWARDS:

None

VIRGINIA HISTORICAL SOCIETY

Corrective Action Plan
Year Ended June 30, 2022

Not Applicable