



## Consolidated Financial Statements

June 30, 2019 and 2018



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# VIRGINIA HISTORICAL SOCIETY

## Table of Contents

|   | <u>Page</u> |
|---|-------------|
| Report of Independent Accountants             | 1           |
| Consolidated Financial Statements:            |             |
| Consolidated Statements of Financial Position | 3           |
| Consolidated Statements of Activities         | 4           |
| Consolidated Statements of Cash Flows         | 6           |
| Consolidated Statement of Functional Expenses | 8           |
| Notes to Consolidated Financial Statements    | 9           |

## **REPORT OF INDEPENDENT ACCOUNTANTS**

To the Board of Trustees  
Virginia Historical Society

### **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, 2019 and 2018, and the related consolidated statements of activities and cash flows for the years then ended, the consolidated statement of functional expenses for the year ended June 30, 2019, 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, 2019 and 2018, 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”) 2016-14, “Presentation of Financial Statements of Not-for-Profit Entities” (Topic 958). As a result of this adoption, net assets are now presented as net assets without donor restrictions and net assets with donor restrictions. In addition, the consolidated financial statements include a statement of functional expenses, and there are additional disclosures related to an analysis of expenses by function and nature, endowment net assets, and disclosures of quantitative and qualitative information regarding liquidity and availability of resources. The adoption resulted in the reclassification of certain net asset balances as of July 1, 2018 and July 1, 2017. Our opinion is not modified with respect to this matter.

A handwritten signature in black ink, appearing to read "Keiter", with a long horizontal flourish extending to the right.

January 15, 2020  
Glen Allen, Virginia

## VIRGINIA HISTORICAL SOCIETY

### Consolidated Statements of Financial Position June 30, 2019 and 2018

|   | 2019           | 2018          |
|---|----------------|---------------|
| <u>Assets</u>   |                |               |
| Current assets:   |                |               |
| Cash and cash equivalents                               | \$ 1,302,815   | \$ 2,992,483  |
| Accrued interest and dividends                          | 21,230         | 23,354        |
| Contributions receivable, current (Note 4)              | 586,167        | 724,766       |
| Grants receivable, current (Note 4)                     | 211,250        | 96,250        |
| Other current assets                                    | 350,799        | 365,909       |
| Total current assets                                    | 2,472,261      | 4,202,762     |
| Investments (Note 3)                                    | 67,911,700     | 56,596,608    |
| Contributions receivable (Note 4)                       | 1,260,424      | 1,324,235     |
| Grants receivable (Note 4)                              | 62,372         | 143,810       |
| Property and equipment, net (Note 6)                    | 31,725,359     | 32,916,270    |
| Total assets  | \$ 103,432,116 | \$ 95,183,685 |
| <u>Liabilities and Net Assets</u>                       |                |               |
| Current liabilities:                                    |                |               |
| Accounts payable  | \$ 260,421     | \$ 66,400     |
| Accrued expenses and other liabilities                  | 327,808        | 234,400       |
| Deferred revenue (Notes 1 and 11)                       | 731,527        | 1,078,669     |
| Total current liabilities                               | 1,319,756      | 1,379,469     |
| Bonds payable, less current portion (Note 7)            | 1,886,750      | 3,071,153     |
| Deferred revenue, less current portion (Notes 1 and 11) | 7,000,000      | -             |
| Total liabilities                                       | 10,206,506     | 4,450,622     |
| Net assets:   |                |               |
| Without donor restrictions                              |                |               |
| Controlling interest                                    | 37,783,555     | 36,430,581    |
| Non-controlling interest (Note 10)                      | 1,772,231      | 2,054,776     |
| Total net assets without donor restrictions             | 39,555,786     | 38,485,357    |
| With donor restrictions (Note 15)                       | 53,669,824     | 52,247,706    |
| Total net assets with donor restrictions                | 53,669,824     | 52,247,706    |
| Total net assets  | 93,225,610     | 90,733,063    |
| Total liabilities and net assets                        | \$ 103,432,116 | \$ 95,183,685 |

See accompanying notes to consolidated financial statements.

**VIRGINIA HISTORICAL SOCIETY**

Consolidated Statements of Activities  
Year Ended June 30, 2019 with Comparative Totals for 2018

|                                      | 2019                          |                            |                      | 2018                 |
|--------------------------------------|-------------------------------|----------------------------|----------------------|----------------------|
|                                      | Without Donor<br>Restrictions | With Donor<br>Restrictions | Total                | Total                |
| Support and revenue:                 |                               |                            |                      |                      |
| Membership dues                      | \$ 307,995                    | \$ -                       | \$ 307,995           | \$ 359,944           |
| Annual giving                        | 1,191,087                     | -                          | 1,191,087            | 1,057,251            |
| Investment income, net (Note 3)      | 251,229                       | 4,604,265                  | 4,855,494            | 4,605,036            |
| Contributions                        | 1,782,302                     | 1,219,134                  | 3,001,436            | 2,512,572            |
| Grants                               | 37,318                        | 830,034                    | 867,352              | 1,249,295            |
| Publications and merchandise sales   | 259,752                       | -                          | 259,752              | 246,518              |
| Royalties                            | 18,911                        | -                          | 18,911               | 15,193               |
| Rental income (Note 11)              | 315,639                       | -                          | 315,639              | 312,828              |
| Fees and admissions                  | 804,623                       | -                          | 804,623              | 506,469              |
| Other                                | 29,349                        | -                          | 29,349               | 455,427              |
| Total support and revenue            | <u>4,998,205</u>              | <u>6,653,433</u>           | <u>11,651,638</u>    | <u>11,320,533</u>    |
| Net assets released from restriction | <u>5,231,315</u>              | <u>(5,231,315)</u>         | <u>-</u>             | <u>-</u>             |
| Expenditures:                        |                               |                            |                      |                      |
| Program services:                    |                               |                            |                      |                      |
| Collections                          | 1,402,860                     | -                          | 1,402,860            | 2,109,631            |
| Programs                             | 4,492,323                     | -                          | 4,492,323            | 3,811,000            |
| Research                             | 1,073,561                     | -                          | 1,073,561            | 1,096,430            |
| Supporting services:                 |                               |                            |                      |                      |
| Administration                       | 1,193,245                     | -                          | 1,193,245            | 1,147,434            |
| Advancement                          | 997,102                       | -                          | 997,102              | 854,571              |
| Total expenditures                   | <u>9,159,091</u>              | <u>-</u>                   | <u>9,159,091</u>     | <u>9,019,066</u>     |
| Change in net assets                 | 1,070,429                     | 1,422,118                  | 2,492,547            | 2,301,467            |
| Net assets, beginning of year        | <u>38,485,357</u>             | <u>52,247,706</u>          | <u>90,733,063</u>    | <u>88,431,596</u>    |
| Net assets, end of year              | <u>\$ 39,555,786</u>          | <u>\$ 53,669,824</u>       | <u>\$ 93,225,610</u> | <u>\$ 90,733,063</u> |

See accompanying notes to consolidated financial statements.

**VIRGINIA HISTORICAL SOCIETY**  
Consolidated Statements of Activities  
Year Ended June 30, 2018

|                                      | Without Donor<br>Restrictions | With Donor<br>Restrictions | Total                |
|--------------------------------------|-------------------------------|----------------------------|----------------------|
| Support and revenue:                 |                               |                            |                      |
| Membership dues                      | \$ 359,944                    | \$ -                       | \$ 359,944           |
| Annual giving                        | 1,057,251                     | -                          | 1,057,251            |
| Investment income, net (Note 3)      | 909,298                       | 3,695,738                  | 4,605,036            |
| Contributions                        | 80,047                        | 2,432,525                  | 2,512,572            |
| Grants                               | 26,027                        | 1,223,268                  | 1,249,295            |
| Publications and merchandise sales   | 246,518                       | -                          | 246,518              |
| Royalties                            | 15,193                        | -                          | 15,193               |
| Rental income (Note 11)              | 312,828                       | -                          | 312,828              |
| Fees and admissions                  | 506,469                       | -                          | 506,469              |
| Other                                | 55,848                        | 399,579                    | 455,427              |
| Total support and revenue            | <u>3,569,423</u>              | <u>7,751,110</u>           | <u>11,320,533</u>    |
| Net assets released from restriction | <u>5,161,658</u>              | <u>(5,161,658)</u>         | <u>-</u>             |
| Expenditures:                        |                               |                            |                      |
| Program services:                    |                               |                            |                      |
| Collections                          | 2,109,631                     | -                          | 2,109,631            |
| Programs                             | 3,811,000                     | -                          | 3,811,000            |
| Research                             | 1,096,430                     | -                          | 1,096,430            |
| Supporting services:                 |                               |                            |                      |
| Administration                       | 1,147,434                     | -                          | 1,147,434            |
| Advancement                          | 854,571                       | -                          | 854,571              |
| Total expenditures                   | <u>9,019,066</u>              | <u>-</u>                   | <u>9,019,066</u>     |
| Change in net assets                 | (287,985)                     | 2,589,452                  | 2,301,467            |
| Net assets, beginning of year        | <u>38,773,342</u>             | <u>49,658,254</u>          | <u>88,431,596</u>    |
| Net assets, end of year              | <u>\$ 38,485,357</u>          | <u>\$ 52,247,706</u>       | <u>\$ 90,733,063</u> |

See accompanying notes to consolidated financial statements.

## VIRGINIA HISTORICAL SOCIETY

### Consolidated Statements of Cash Flows Years Ended June 30, 2019 and 2018

|   | 2019         | 2018         |
|---|--------------|--------------|
| Cash flows from operating activities:   |              |              |
| Change in net assets  | \$ 2,492,547 | \$ 2,301,467 |
| Adjustments to reconcile change in net assets to net cash from operating activities:        |              |              |
| Depreciation  | 1,302,612    | 1,332,727    |
| Amortization of bond issuance costs   | 9,498        | 9,498        |
| Contributions in perpetuity, including changes in present value of contributions receivable | (379,326)    | (1,685,925)  |
| Investment income, net of fees  | (4,855,494)  | (4,605,146)  |
| Change in assets and liabilities:   |              |              |
| Accrued interest and dividends  | 2,124        | 2,755        |
| Contributions and grants receivable   | 168,848      | 1,871,908    |
| Other current assets  | 15,110       | (57,064)     |
| Accounts payable  | 164,836      | 1,209        |
| Deferred revenue  | 6,652,858    | 723,973      |
| Accrued expenses and other liabilities  | 109,438      | (20,503)     |
| Net cash provided by (used in) operating activities   | 5,683,051    | (125,101)    |
| Cash flows from investing activities:   |              |              |
| Purchases of property and equipment   | (82,516)     | (145,667)    |
| Purchases of investments  | (9,542,735)  | (1,631,554)  |
| Proceeds from sale of investments   | 3,083,137    | 3,174,261    |
| Net cash (used in) provided by investing activities   | (6,542,114)  | 1,397,040    |
| Cash flow from financing activities:  |              |              |
| Payments on bonds payable   | (1,193,901)  | (2,716,667)  |
| Payments on capital lease obligations   | (16,030)     | (16,030)     |
| Contributions in perpetuity, including changes in present value of contributions receivable | 379,326      | 1,685,925    |
| Net cash used in financing activities   | (830,605)    | (1,046,772)  |
| Net change in cash and cash equivalents   | (1,689,668)  | 225,167      |
| Cash and cash equivalents, beginning of year  | 2,992,483    | 2,767,316    |
| Cash and cash equivalents, end of year  | \$ 1,302,815 | \$ 2,992,483 |

See accompanying notes to consolidated financial statements.

**VIRGINIA HISTORICAL SOCIETY**

Consolidated Statements of Cash Flows, Continued  
Years Ended June 30, 2019 and 2018

|   | <u>2019</u>      | <u>2018</u>       |
|---|------------------|-------------------|
| Supplemental disclosure of cash flow information:           |                  |                   |
| Cash paid during the year for interest                      | <u>\$ 95,234</u> | <u>\$ 162,439</u> |
| Noncash transactions  |                  |                   |
| Acquisition of property and equipment through capital lease | <u>\$ -</u>      | <u>\$ 40,432</u>  |
| Accounts payable for purchase of property and equipment     | <u>\$ 29,185</u> | <u>\$ -</u>       |

See accompanying notes to consolidated financial statements.

## VIRGINIA HISTORICAL SOCIETY

### Consolidated Statement of Functional Expenses Year Ended June 30, 2019 with Comparative Totals for 2018

|                         | Program Services    |                     |                     | Supporting Services |                   | 2019 Total          | 2018 Total          |
|-------------------------|---------------------|---------------------|---------------------|---------------------|-------------------|---------------------|---------------------|
|                         | Collections         | Programs            | Research            | Administration      | Advancement       |                     |                     |
| Salaries                | \$ 640,675          | \$ 1,849,663        | \$ 303,600          | \$ 491,897          | \$ 426,528        | \$ 3,712,363        | \$ 3,452,383        |
| Pension contributions   | 29,797              | 47,138              | 13,377              | 33,912              | 42,519            | 166,743             | 151,191             |
| Employee benefits       | 66,745              | 105,425             | 24,921              | 42,338              | 27,137            | 266,566             | 289,069             |
| Payroll taxes           | 56,034              | 107,450             | 22,574              | 49,395              | 29,045            | 264,498             | 246,578             |
| Professional fees       | 59,909              | 309,803             | 6,436               | 115,032             | 75,512            | 566,692             | 56,240              |
| Supplies                | 54,323              | 622,022             | 31,359              | 18,786              | 3,351             | 729,841             | 402,779             |
| Telephone               | 12,206              | 26,717              | 5,086               | 24,272              | 18,309            | 86,590              | 77,400              |
| Postage                 | 1,502               | 25,447              | 287                 | 1,257               | 35,693            | 64,186              | 63,862              |
| Occupancy               | 114,489             | 236,631             | 187,016             | 121,076             | 16,378            | 675,590             | 662,435             |
| Equipment rental        | 6,555               | 15,618              | 2,731               | 13,004              | 9,832             | 47,740              | 33,942              |
| Printing & publications | 519                 | 130,155             | 27                  | 3,894               | 57,598            | 192,193             | 256,168             |
| Travel                  | 1,069               | 12,430              | 854                 | 32,696              | 207,506           | 254,555             | 203,226             |
| Interest                | 19,174              | 30,617              | 31,320              | 9,885               | 2,743             | 93,739              | 162,493             |
| Depreciation            | 266,443             | 425,459             | 435,232             | 137,362             | 38,116            | 1,302,612           | 1,332,726           |
| Other                   | 73,420              | 547,748             | 8,741               | 98,439              | 6,835             | 735,183             | 1,628,574           |
| <b>Total expenses</b>   | <b>\$ 1,402,860</b> | <b>\$ 4,492,323</b> | <b>\$ 1,073,561</b> | <b>\$ 1,193,245</b> | <b>\$ 997,102</b> | <b>\$ 9,159,091</b> | <b>\$ 9,019,066</b> |

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 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 the 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 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.

**Newly Adopted Accounting Standard:** In August 2016, the FASB issued Accounting Standards Update (“ASU”) 2016-14, “*Presentation of Financial Statements of Not-for-Profit Entities*” (Topic 958). The ASU amends the reporting model for not-for-profit organizations and enhances their required disclosures. The major changes include: (a) requiring the presentation of only two classes of net assets now entitled “net assets without donor restrictions” and “net assets with donor restrictions”, (b) modifying the presentation of underwater endowment funds and related disclosures, (c) requiring the use of the placed in service approach to recognize the expirations of restrictions on gifts used to acquire or construct long-lived assets absent explicit donor stipulations otherwise, (d) requiring that all not-for-profits present an analysis of expenses by function and nature in either the statement of activities, a separate statement, or in the notes, and disclose a summary of the allocation methods used to allocate costs, (e) requiring the disclosure of quantitative and qualitative information regarding liquidity and availability of resources, (f) presenting investment return net of external and direct internal investment expenses, and (g) modifying other financial statement reporting requirements and disclosures intended to increase the usefulness of not-for-profit financial statements. The Society has adopted this ASU as of and for the year ended June 30, 2019, with the presentation shown retrospectively to include the 2018 consolidated financial statements.

## VIRGINIA HISTORICAL SOCIETY

### Notes to Consolidated Financial Statements, Continued

#### 1. Summary of Significant Accounting Policies, Continued:

**Newly Adopted Accounting Standard, Continued:** In March 2019, the FASB issued Accounting Standards Update (“ASU”) 2019-03, “*Updating the Definition of Collections*” (Topic 958). The ASU modifies the definition of the term *collections* and requires that a collection-holding entity disclose its policy for the use of proceeds from when collection items are deaccessioned. The Society has early adopted this ASU as of and for the year ended June 30, 2019.

**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 \$1,592,424 and \$374,156 as of June 30, 2019 and 2018 (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:** 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 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, 2019, three donors accounted for 52% of total contributions and grants receivable. As of June 30, 2018, three donors accounted for 51% 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, 2019 and 2018, management determined that contributions and grants receivable were fully collectible and that no allowance was necessary.

**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.

## VIRGINIA HISTORICAL SOCIETY

### Notes to Consolidated Financial Statements, Continued

#### 1. Summary of Significant Accounting Policies, Continued:

**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. Amortization expense was \$9,498 for 2019 and 2018. Amortization expense is expected to be \$9,498 for the next 4 years and \$5,500 in the fifth year.

**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. 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, 30% and 60% of which is included in deferred revenue on the statements of financial position as of June 30, 2019 and 2018, respectively, based on the progress of the related project. In addition, during 2019 the Society received \$7 million under an agreement with the Atlantic Coast Pipeline, related to another project. The full amount is included in deferred revenue on the consolidated statements of financial position. The \$8 million received based on the contracts is included in investments on the statements of financial position. Based on the agreements, the Society may expend an amount not to exceed 2% per year to defray costs and expenses associated with the administration of the mitigation fund.

**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, 2019 and 2018.

## VIRGINIA HISTORICAL SOCIETY

### Notes to Consolidated Financial Statements, Continued

#### 1. Summary of Significant Accounting Policies, Continued:

**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. Following FASB guidance on management and general expense, occupancy, depreciation, and interest costs are allocated based on square footage basis while general & administrative are allocated based on head counts within each functional area. Costs related to organizational officers are allocated based upon each functional areas use of their time & 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.

**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 accounting principles generally accepted in the United States. 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 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.

## VIRGINIA HISTORICAL SOCIETY

### Notes to Consolidated Financial Statements, Continued

#### 1. Summary of Significant Accounting Policies, Continued:

**Income Tax Uncertainties, Continued:** 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 prior year balances have been reclassified to conform to current year presentation.

**Subsequent Events:** Management has evaluated subsequent events through January 15, 2020, the date the consolidated financial statements were available to be issued. Management has determined there are no subsequent events to be reported in the accompanying consolidated financial statements.

#### 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 statement of financial position date as of June 30, 2019 are comprised of the following:

|   |                      |
|---|----------------------|
| Cash and cash equivalents   | \$ 1,302,815         |
| Investments   | 67,911,700           |
| Accrued interest and dividends  | 21,230               |
| Contribution receivables  | 586,167              |
| Grants receivables  | 211,250              |
| Other current assets  | <u>114,133</u>       |
| Total financial assets available within one year  | 70,147,295           |
| Contractual or donor imposed limitations  |                      |
| Endowment funds   | (42,279,490)         |
| Campaign/project funds  | (10,766,998)         |
| Receivables with donor restrictions   | (797,417)            |
| Board designations  | <u>(1,592,424)</u>   |
| Financial assets available to meet cash needs<br>for general expenditures within one year | <u>\$ 14,710,966</u> |

## VIRGINIA HISTORICAL SOCIETY

### Notes to Consolidated Financial Statements, Continued

#### 2. Liquidity and Availability of Financial Assets, Continued:

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 2020 budget to include approximately \$2,539,000 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 17).

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

#### 3. Investments:

Investments at June 30, 2019 and 2018 are comprised of the following:

|                         | 2019          |               | 2018          |               |
|-------------------------|---------------|---------------|---------------|---------------|
|                         | Market        | Cost          | Market        | Cost          |
| Cash and                |               |               |               |               |
| cash equivalents        | \$ 3,253,051  | \$ 3,253,051  | \$ 2,264,891  | \$ 2,264,891  |
| Equities                | 8,261,744     | 5,256,427     | 10,204,988    | 7,557,635     |
| Fixed income            | 10,963,616    | 10,742,990    | 2,796,339     | 2,843,750     |
| Alternative investments | 45,433,289    | 33,711,940    | 41,330,390    | 31,901,797    |
|                         | \$ 67,911,700 | \$ 52,964,408 | \$ 56,596,608 | \$ 44,568,073 |

Investment income for the years ended June 30, 2019 and 2018 is as follows:

|                             | 2019         | 2018         |
|-----------------------------|--------------|--------------|
| Interest and dividends, net | \$ 523,268   | \$ 286,258   |
| Unrealized gains, net       | 2,918,757    | 1,329,904    |
| Realized gains, net         | 1,606,543    | 3,150,662    |
| Investment fees             | (193,074)    | (161,788)    |
|                             | \$ 4,855,494 | \$ 4,605,036 |

## VIRGINIA HISTORICAL SOCIETY

### Notes to Consolidated Financial Statements, Continued

#### 4. Contributions and Grants Receivable:

##### Contributions Receivable

As of June 30, 2019 and 2018, contributors to the Society have made unconditional written and oral promises to give that relate to the following purposes:

|  | 2019         | 2018         |
|--|--------------|--------------|
| Without donor restrictions - split interest agreements | \$ 373,093   | \$ 330,346   |
| With donor restrictions                                |              |              |
| Campaign/programming projects                          | 687,755      | 914,703      |
| Split interest agreements                              | 784,785      | 802,010      |
| Restricted in perpetuity                               | 958          | 1,942        |
|  | 1,473,498    | 1,718,655    |
| Total contributions receivable                         | \$ 1,846,591 | \$ 2,049,001 |

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

|  | 2019         | 2018         |
|--|--------------|--------------|
| Year ending June 30:   |              |              |
| Less than one year   | \$ 586,167   | \$ 724,766   |
| One year to five years   | 119,165      | 216,132      |
| Thereafter   | 1,748,000    | 1,921,439    |
| Gross contributions receivable                                   | 2,453,332    | 2,862,337    |
| Less discount to present value, discount rate<br>4.40% and 4.09% | 606,741      | 813,336      |
|  | \$ 1,846,591 | \$ 2,049,001 |

## 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:

|  | <u>2019</u>       | <u>2018</u>       |
|--|-------------------|-------------------|
| Year ending June 30:   |                   |                   |
| Less than one year   | \$ 211,250        | \$ 96,250         |
| One year to five years   | <u>71,250</u>     | <u>161,600</u>    |
|  | 282,500           | 257,850           |
|  |                   |                   |
| Less discount to present value, discount rate<br>4.40% and 4.09% | <u>8,878</u>      | <u>17,790</u>     |
|  | <u>\$ 273,622</u> | <u>\$ 240,060</u> |

As of June 30, 2019, the Society had received conditional promises to give and indications of intention to give of approximately \$4,954,217. 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 \$1,379,217 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 \$2,835,000 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, 2019 and 2018 is as follows:

|                               | <u>2019</u>          | <u>2018</u>          |
|-------------------------------|----------------------|----------------------|
| Land                          | \$ 436,301           | \$ 436,301           |
| Buildings and improvements    | 48,164,843           | 48,144,888           |
| Equipment and furnishings     | 6,449,412            | 6,416,851            |
| Construction in progress      | <u>59,185</u>        | <u>-</u>             |
| Total                         | 55,109,741           | 54,998,040           |
| Less accumulated depreciation | <u>23,384,382</u>    | <u>22,081,770</u>    |
| Property and equipment, net   | <u>\$ 31,725,359</u> | <u>\$ 32,916,270</u> |

#### 7. Bonds Payable:

The Society has 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 are scheduled to mature on June 1, 2023 and bear interest at a rate of 3.10% at June 30, 2019 and 3.34% at June 30, 2018. The outstanding principal balance on the 2013B bonds was \$1,072,200 as of June 30, 2019 and \$1,302,239 as of June 30, 2018. No principal payments are due on this amount until March 2022.

## VIRGINIA HISTORICAL SOCIETY

### Notes to Consolidated Financial Statements, Continued

#### 7. Bonds Payable, Continued:

The Society has 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 are scheduled to mature on June 1, 2033 and bear interest at a rate of 3.37% at June 30, 2019 and 3.61% at June 30, 2018. The outstanding principal balance on the 2013A bonds was \$907,540 as of June 30, 2019 and \$1,871,402 as of June 30, 2018. No principal payments are due on this amount until January 2033.

The above bonds have been reduced by debt issuance costs of \$92,990 and \$102,488 as of June 30, 2019 and 2018, respectively in accordance with ASU 2015-03.

During 2019, the Society made principal payments in advance on the Series A and B bonds of \$963,862 and \$230,039, respectively. During 2018, the Society made principal payments in advance on the Series A and B bonds of \$2,650,000 and \$66,667, respectively. Accordingly, no payments on the remaining principal balance of \$1,979,740 are due until March 2022.

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, 2019.

#### 8. Endowment Funds:

There are 57 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.

**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.

**VIRGINIA HISTORICAL SOCIETY**

Notes to Consolidated Financial Statements, Continued

**8. Endowment Funds, Continued:**

**Interpretation of Relevant Law, Continued:** 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

**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 17 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:

|  | 2019           | 2018           |
|--|----------------|----------------|
| Fair value of underwater endowment funds | \$ 12,030,455  | \$ 11,926,775  |
| Original gift amount                     | 19,575,021     | 19,982,119     |
| Deficiencies of underwater funds         | \$ (7,544,566) | \$ (8,055,344) |

## 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 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. 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, 2019:

|                                     | Without Donor<br>Restrictions | With Donor<br>Restrictions | Total         |
|-------------------------------------|-------------------------------|----------------------------|---------------|
| Donor-restricted<br>endowment funds | \$ -                          | \$ 42,279,490              | \$ 42,279,490 |
| Board-designated funds              | 1,592,424                     | -                          | 1,592,424     |
| Total funds                         | \$ 1,592,424                  | \$ 42,279,490              | \$ 43,871,914 |

## 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, 2018:

|                                  | Without Donor<br>Restrictions | With Donor<br>Restrictions | Total         |
|----------------------------------|-------------------------------|----------------------------|---------------|
| Donor-restricted endowment funds | \$ -                          | \$ 39,885,734              | \$ 39,885,734 |
| Board-designated funds           | 374,156                       | -                          | 374,156       |
| Total funds                      | \$ 374,156                    | \$ 39,885,734              | \$ 40,259,890 |

Changes in endowment net assets were as follows for the year ended June 30, 2019:

|   | Without Donor<br>Restrictions | With Donor<br>Restrictions | Total         |
|---|-------------------------------|----------------------------|---------------|
| Net assets, beginning of year                     | \$ 374,156                    | \$ 39,885,734              | \$ 40,259,890 |
| Investment gain, net                              | 133,352                       | 4,604,265                  | 4,737,617     |
| New gifts, net of discount                        | 1,158,443                     | 379,326                    | 1,537,769     |
| Appropriation of endowment assets for expenditure | (73,527)                      | (2,589,835)                | (2,663,362)   |
| Net assets, end of year                           | \$ 1,592,424                  | \$ 42,279,490              | \$ 43,871,914 |

Changes in endowment net assets were as follows for the year ended June 30, 2018:

|   | Without Donor<br>Restrictions | With Donor<br>Restrictions | Total         |
|---|-------------------------------|----------------------------|---------------|
| Net assets, beginning of year                     | \$ 369,076                    | \$ 37,059,027              | \$ 37,428,103 |
| Investment gain, net                              | 19,191                        | 3,695,738                  | 3,714,929     |
| New gifts, net of discount                        | -                             | 1,685,925                  | 1,685,925     |
| Appropriation of endowment assets for expenditure | (14,111)                      | (2,554,956)                | (2,569,067)   |
| Net assets, end of year                           | \$ 374,156                    | \$ 39,885,734              | \$ 40,259,890 |

## VIRGINIA HISTORICAL SOCIETY

### Notes to Consolidated Financial Statements, Continued

#### 9. Fair Value Measurements:

The Financial Accounting Standards Board (“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, 2019, include the following:

|   | Fair Value Using         |                          |                         | Asset/Liabilities<br>at Fair Value |
|---|--------------------------|--------------------------|-------------------------|------------------------------------|
|   | Level 1                  | Level 2                  | Level 3                 |                                    |
| <b>Assets:</b>  |                          |                          |                         |                                    |
| Contributions and grants<br>receivable, net               | \$ -                     | \$ -                     | \$ 2,120,213            | \$ 2,120,213                       |
| <b>Investments:</b>                                       |                          |                          |                         |                                    |
| Cash and cash equivalents                                 | 3,253,051                | -                        | -                       | 3,253,051                          |
| <b>Equities:</b>  |                          |                          |                         |                                    |
| Common stock  | 4,279,357                | -                        | -                       | 4,279,357                          |
| Foreign stock   | 328,530                  | -                        | -                       | 328,530                            |
| Mutual funds  | 3,653,857                | -                        | -                       | 3,653,857                          |
| Total equities  | <u>8,261,744</u>         | <u>-</u>                 | <u>-</u>                | <u>8,261,744</u>                   |
| <b>Fixed income:</b>                                      |                          |                          |                         |                                    |
| US government<br>and municipal bonds                      | -                        | 8,620,378                | -                       | 8,620,378                          |
| Mortgage backed<br>securities and CMO's                   | -                        | 40,612                   | -                       | 40,612                             |
| Corporate bonds   | -                        | 1,300,661                | -                       | 1,300,661                          |
| Foreign bonds   | -                        | 141,709                  | -                       | 141,709                            |
| Agency securitized  | -                        | 860,256                  | -                       | 860,256                            |
| Total fixed income  | <u>-</u>                 | <u>10,963,616</u>        | <u>-</u>                | <u>10,963,616</u>                  |
| Alternative investments<br>measured at NAV <sup>(a)</sup> | <u>-</u>                 | <u>-</u>                 | <u>-</u>                | <u>45,433,289</u>                  |
| Total investments   | <u>11,514,795</u>        | <u>10,963,616</u>        | <u>-</u>                | <u>67,911,700</u>                  |
| <br>Total assets  | <br><u>\$ 11,514,795</u> | <br><u>\$ 10,963,616</u> | <br><u>\$ 2,120,213</u> | <br><u>\$ 70,031,913</u>           |
| <b>Liabilities:</b>                                       |                          |                          |                         |                                    |
| Annuity obligations                                       | \$ -                     | \$ 103,668               | \$ -                    | \$ 103,668                         |
| Total liabilities   | <u>\$ -</u>              | <u>\$ 103,668</u>        | <u>\$ -</u>             | <u>\$ 103,668</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, 2018, include the following:

|   | Fair Value Using         |                         |                         | Asset/Liabilities<br>at Fair Value |
|---|--------------------------|-------------------------|-------------------------|------------------------------------|
|   | Level 1                  | Level 2                 | Level 3                 |                                    |
| <b>Assets:</b>  |                          |                         |                         |                                    |
| Contributions and grants<br>receivable, net               | \$ -                     | \$ -                    | \$ 2,289,061            | \$ 2,289,061                       |
| <b>Investments:</b>                                       |                          |                         |                         |                                    |
| Cash and cash equivalents                                 | 2,264,891                | -                       | -                       | 2,264,891                          |
| <b>Equities:</b>  |                          |                         |                         |                                    |
| Common stock  | 6,357,585                | -                       | -                       | 6,357,585                          |
| Foreign stock   | 441,168                  | -                       | -                       | 441,168                            |
| Mutual funds  | 3,378,944                | -                       | -                       | 3,378,944                          |
| Real estate   | 27,291                   | -                       | -                       | 27,291                             |
| Total equities  | <u>10,204,988</u>        | <u>-</u>                | <u>-</u>                | <u>10,204,988</u>                  |
| <b>Fixed income:</b>                                      |                          |                         |                         |                                    |
| US government<br>and municipal bonds                      | -                        | 507,933                 | -                       | 507,933                            |
| Mortgage backed<br>securities and CMO's                   | -                        | 39,446                  | -                       | 39,446                             |
| Corporate bonds   | -                        | 1,383,918               | -                       | 1,383,918                          |
| Foreign bonds   | -                        | 34,561                  | -                       | 34,561                             |
| Agency securitized  | -                        | 830,481                 | -                       | 830,481                            |
| Total fixed income  | <u>-</u>                 | <u>2,796,339</u>        | <u>-</u>                | <u>2,796,339</u>                   |
| Alternative investments<br>measured at NAV <sup>(a)</sup> | <u>-</u>                 | <u>-</u>                | <u>-</u>                | <u>41,330,390</u>                  |
| Total investments   | <u>12,469,879</u>        | <u>2,796,339</u>        | <u>-</u>                | <u>56,596,608</u>                  |
| <br>Total assets  | <br><u>\$ 12,469,879</u> | <br><u>\$ 2,796,339</u> | <br><u>\$ 2,289,061</u> | <br><u>\$ 58,885,669</u>           |
| <b>Liabilities:</b>                                       |                          |                         |                         |                                    |
| Annuity obligations                                       | \$ -                     | \$ 127,109              | \$ -                    | \$ 127,109                         |
| Total liabilities   | <u>\$ -</u>              | <u>\$ 127,109</u>       | <u>\$ -</u>             | <u>\$ 127,109</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:

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.

The following table provides a reconciliation between the beginning and ending balances of assets measured at fair value on a recurring basis in the table above that used significant unobservable inputs (Level 3):

|                                       | Contributions<br>and Grants<br><u>Receivable, Net</u> |
|---------------------------------------|---|
| Balance at July 1, 2017               | \$ 4,160,969  |
| New pledges and grants                | 77,650  |
| Pledge and grants payments received   | (1,959,342)   |
| Change in pledges and grants discount | <u>9,784</u>  |
| Balance at June 30, 2018              | <u>2,289,061</u>                                      |
| New pledges and grants                | 783,000   |
| Pledge and grant payments received    | (803,817)   |
| Change in pledges and grants discount | <u>(148,031)</u>                                      |
| Balance at June 30, 2019              | <u><u>\$ 2,120,213</u></u>                            |

## VIRGINIA HISTORICAL SOCIETY

### Notes to Consolidated Financial Statements, Continued

#### 9. Fair Value Measurements, Continued:

The Society's investments in alternative investments are subject to restrictions on the frequency of redemptions. At June 30, 2019 and 2018, the redemption limits and related amounts were as follows:

| Redemption Limit                    | 2019                 | 2018                 |
|-------------------------------------|----------------------|----------------------|
| Daily                               | \$ 1,202,469         | \$ 1,153,379         |
| Monthly                             | 6,498,676            | 5,901,244            |
| Monthly (1 year lock up)            | 1,864,015            | 1,772,606            |
| Quarterly                           | 4,470,196            | 4,489,744            |
| Quarterly (1 year lock up)          | 7,759,144            | 7,861,413            |
| Semi-annually                       | 5,072,444            | 5,019,067            |
| Semi-annually (1 year lock up)      | 1,546,661            | 1,145,597            |
| Annually (1 year lock up)           | 1,709,632            | 2,126,797            |
| Annually (2 year lock up)           | 5,196,373            | 4,724,716            |
| Less Frequently                     | 4,000,709            | 1,664,423            |
| Upon sale of underlying investments | <u>6,112,970</u>     | <u>5,471,404</u>     |
|                                     | <u>\$ 45,433,289</u> | <u>\$ 41,330,390</u> |

The Society had unfunded alternative investment commitments of \$4,683,715 as of June 30, 2019.

#### 10. Non-Controlling Interest:

Unrestricted net assets for controlling and non-controlling interests are as follows for the years ended June 30, 2019 and 2018:

|                        | Controlling Interest | Non-Controlling Interest | Total Net Assets Without Donor Restrictions |
|------------------------|----------------------|--------------------------|---|
| Balance, July 1, 2017  | \$ 36,436,235        | \$ 2,337,107             | \$ 38,773,342                               |
| Change in net assets   | <u>(5,654)</u>       | <u>(282,331)</u>         | <u>(287,985)</u>                            |
| Balance, June 30, 2018 | 36,430,581           | 2,054,776                | 38,485,357                                  |
| Change in net assets   | <u>1,352,974</u>     | <u>(282,545)</u>         | <u>1,070,429</u>                            |
| Balance, June 30, 2019 | <u>\$ 37,783,555</u> | <u>\$ 1,772,231</u>      | <u>\$ 39,555,786</u>                        |

## VIRGINIA HISTORICAL SOCIETY

### Notes to Consolidated Financial Statements, Continued

#### 11. Rental Income:

The Society agreed to the terms 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. Rental income was \$315,639 and \$312,828 for the years ended June 30, 2019 and 2018.

#### 12. Leases:

The Society leases copiers, mailing equipment, a parking lot, data storage, and a vehicle under operating leases. Rental expense was \$52,674 and \$33,791 for the years ended June 30, 2019 and 2018.

Minimum future payments under non-cancellable operating leases at June 30, 2019 are as follows:

|                               |                  |
|-------------------------------|------------------|
| 2020                          | \$ 32,218        |
| 2021                          | 25,428           |
| 2022                          | 20,003           |
| 2023                          | <u>5,376</u>     |
| Future minimum lease payments | <u>\$ 83,025</u> |

#### 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 six months 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 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 \$164,094 and \$148,541 for the years ended June 30, 2019 and 2018.

## VIRGINIA HISTORICAL SOCIETY

### Notes to Consolidated Financial Statements, Continued

#### 14. Executive Retirement Plan – 457(b):

The Society has a 457(b) Nonqualified Executive Retirement Plan (the “Plan”). Under the Plan, administrative staff and other highly compensated employees may participate upon approval of the Board-designated Administrative Committee, which has discretionary authority to make determinations as to eligibility and benefits under the Plan. Employee contribution is also limited by Internal Revenue Service regulations. Employees are fully vested in employer contributions immediately. The total expense for the Plan was \$2,650 for both the years ended June 30, 2019 and 2018.

#### 15. Net Assets With Donor Restrictions:

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

|                                    | <u>2019</u>          | <u>2018</u>          |
|------------------------------------|----------------------|----------------------|
| Time restricted                    | \$ 1,746,162         | \$ 1,956,773         |
| Campaign/project funds             | 10,766,998           | 11,017,137           |
| Unapproved or unspent appreciation | 9,329,444            | 7,807,826            |
| Principal gifts held in perpetuity | <u>31,827,220</u>    | <u>31,465,970</u>    |
|                                    | <u>\$ 53,669,824</u> | <u>\$ 52,247,706</u> |

Net assets released for expenses satisfying the restricted purposes of contributions and grants during 2019 and 2018 were related to meeting time and purpose restrictions.

#### 16. 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 or results of operations.

## VIRGINIA HISTORICAL SOCIETY

### Notes to Consolidated Financial Statements, Continued

#### 17. 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.

**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 has a line of credit with Suntrust Bank, allowing for maximum borrowings of up to \$500,000 through March 31, 2018 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 extended through April 20, 2020. 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, 2019 or 2018.

## VIRGINIA HISTORICAL SOCIETY

### Notes to Consolidated Financial Statements, Continued

#### 18. New Accounting Guidance:

**Revenue Recognition:** In May 2014, the FASB issued new guidance over revenue recognition which eliminates all transaction and industry-specific accounting principles and replaces them with a unified, five step approach. The new standard will be effective for periods beginning after December 15, 2018 and will permit the use of either the retrospective reporting method for previous periods or the cumulative transition method. The Society is currently evaluating the reporting and economic implications of the new standard.

**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 statement of operations. On the statement 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 statement of operations. On the statement 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, 2020, 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.

**Contributions:** In June 2018, the FASB issued new guidance over contributions received and made by not-for-profit entities. This standard presents new methodology for determining whether a grant or contribution received or made by a not-for-profit entity should be accounted for as an exchange transaction or as a contribution. This new standard is effective for fiscal years beginning after December 15, 2018, for entities receiving contributions and fiscal years beginning after December 15, 2019, for entities providing contributions, with early adoption permitted. The Society is currently evaluating the reporting and economic implications of the new standard.