



## Consolidated Financial Statements

June 30, 2023 and 2022



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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	3
Consolidated Statements of Activities	4
Consolidated Statements of Cash Flows	6
Consolidated Statements of Functional Expenses	8
Notes to Consolidated Financial Statements	10

## 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, 2023 and 2022, 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, 2023 and 2022, 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. 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 opinion.

### 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 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, 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.



December 27, 2023  
Glen Allen, Virginia

## VIRGINIA HISTORICAL SOCIETY

### Consolidated Statements of Financial Position June 30, 2023 and 2022

	2023	2022
<u>Assets</u>		
Current assets:		
Cash and cash equivalents	\$ 7,249,228	\$ 4,176,596
Accrued interest and dividends	39,379	29,129
Contributions receivable, current (Note 4)	3,863,805	6,268,875
Related party receivable, current (Note 17)	27,487	-
Grants receivable, current (Note 4)	-	250,000
Other current assets	652,551	818,698
Total current assets	11,832,450	11,543,298
Investments (Note 3)	78,093,499	75,799,756
Contributions receivable, less current portion, net (Note 4)	10,513,006	13,420,582
Related party receivable (Note 17)	1,120,904	-
Property and equipment, net (Note 6)	51,238,737	52,272,288
Collections (Note 5)	-	-
Right-of-use operating lease assets, net (Note 12)	42,529	-
Right-of-use finance lease assets, net (Note 12)	46,109	-
Total assets	\$ 152,887,234	\$ 153,035,924
<u>Liabilities and Net Assets</u>		
Current liabilities:		
Accounts payable	\$ 97,917	\$ 1,594,391
Accrued expenses and other liabilities	958,491	605,372
Deferred revenue (Note 1)	997,496	758,888
Bonds payable, current (Note 7)	-	713,500
Operating lease liabilities, current (Note 12)	24,195	-
Finance lease liabilities, current (Note 12)	14,270	-
Grants payable	177,883	232,500
Total current liabilities	2,270,252	3,904,651
Bonds payable (Note 7)	15,232,391	16,502,302
Operating lease liabilities - less current portion (Note 12)	15,806	-
Finance lease liabilities - less current portion (Note 12)	32,379	-
Total liabilities	17,550,828	20,406,953
Net assets:		
Without donor restrictions		
Controlling interest (Note 10)	68,570,066	61,058,940
Non-controlling interest (Note 10)	640,657	921,877
Total net assets without donor restrictions	69,210,723	61,980,817
With donor restrictions (Notes 8 and 14)		
	66,125,683	70,648,154
Total net assets	135,336,406	132,628,971
Total liabilities and net assets	\$ 152,887,234	\$ 153,035,924

See accompanying notes to consolidated financial statements.

## VIRGINIA HISTORICAL SOCIETY

### Consolidated Statements of Activities Year Ended June 30, 2023 with Comparative Totals for 2022

	2023			2022
	Without Donor Restrictions	With Donor Restrictions	Total	Total
Support and revenue:				
Membership dues	\$ 405,648	\$ -	\$ 405,648	\$ 345,514
Annual giving	1,486,434	-	1,486,434	1,452,204
Investment income (loss), net (Note 3)	2,423,849	3,856,546	6,280,395	(10,787,791)
Contributions	1,364,052	3,246,555	4,610,607	9,948,552
In-kind contributions (Note 15)	21,507	-	21,507	19,916
Grants	31,831	269,461	301,292	879,113
Publications and merchandise sales	305,104	-	305,104	146,005
Royalties	15,567	-	15,567	26,773
Rental income (Note 11)	431,311	-	431,311	418,943
Fees and admissions	829,897	-	829,897	709,497
Other	64,383	-	64,383	6,616
Total support and revenue	7,379,583	7,372,562	14,752,145	3,165,342
Net assets released from restriction	12,575,727	(12,575,727)	-	-
Expenditures:				
Program services:				
Collections	3,331,408	-	3,331,408	3,008,118
Programs	6,194,387	-	6,194,387	8,507,494
Supporting services:				
Administration	2,024,889	-	2,024,889	1,685,190
Advancement	1,174,720	-	1,174,720	1,143,471
Total expenditures	12,725,404	-	12,725,404	14,344,273
Loss on disposal of property and equipment	-	-	-	284,923
Change in net assets before acquisition	7,229,906	(5,203,165)	2,026,741	(11,463,854)
Acquisition of John Marshall Foundation, LLC (Note 18)	-	680,694	680,694	-
Change in net assets	7,229,906	(4,522,471)	2,707,435	(11,463,854)
Net assets, beginning of year	61,980,817	70,648,154	132,628,971	144,092,825
Net assets, end of year	\$ 69,210,723	\$ 66,125,683	\$ 135,336,406	\$ 132,628,971

See accompanying notes to consolidated financial statements.

**VIRGINIA HISTORICAL SOCIETY**

Consolidated Statements of Activities, Continued  
Year Ended June 30, 2022

	Without Donor Restrictions	With Donor Restrictions	Total
Support and revenue:			
Membership dues	\$ 345,514	\$ -	\$ 345,514
Annual giving	1,452,204	-	1,452,204
Investment loss, net, (Note 3)	(3,057,964)	(7,729,827)	(10,787,791)
Contributions	281,749	9,666,803	9,948,552
In-kind contributions (Note 15)	19,916	-	19,916
Grants	879,113	-	879,113
Publications and merchandise sales	146,005	-	146,005
Royalties	26,773	-	26,773
Rental income (Note 11)	418,943	-	418,943
Fees and admissions	709,497	-	709,497
Other	6,616	-	6,616
Total support and revenue	<u>1,228,366</u>	<u>1,936,976</u>	<u>3,165,342</u>
Net assets released from restriction	<u>12,580,935</u>	<u>(12,580,935)</u>	<u>-</u>
Expenditures:			
Program services:			
Collections	3,008,118	-	3,008,118
Programs	8,507,494	-	8,507,494
Supporting services:			
Administration	1,685,190	-	1,685,190
Advancement	1,143,471	-	1,143,471
Total expenditures	<u>14,344,273</u>	<u>-</u>	<u>14,344,273</u>
Loss on disposal of property and equipment	<u>284,923</u>	<u>-</u>	<u>284,923</u>
Change in net assets	(819,895)	(10,643,959)	(11,463,854)
Net assets, beginning of year	<u>62,800,712</u>	<u>81,292,113</u>	<u>144,092,825</u>
Net assets, end of year	<u>\$ 61,980,817</u>	<u>\$ 70,648,154</u>	<u>\$ 132,628,971</u>

See accompanying notes to consolidated financial statements.

## VIRGINIA HISTORICAL SOCIETY

### Consolidated Statements of Cash Flows Years Ended June 30, 2023 and 2022

	2023	2022
Cash flows from operating activities:		
Change in net assets	\$ 2,707,435	\$ (11,463,854)
Adjustments to reconcile change in net assets to net cash from operating activities:		
Depreciation	2,174,262	2,175,640
Acquisition of John Marshall Foundation, LLC	(513,600)	-
Amortization of finance lease right-of-use assets	14,376	-
Loss on disposal of property and equipment	-	284,923
Amortization of bond issuance costs	5,500	6,286
Investment loss (income), net of fees	(6,280,395)	10,787,791
Change in assets and liabilities:		
Accrued interest and dividends	(10,250)	1,342
Contributions and grants receivable	5,562,646	(383,700)
Other current assets	166,147	278,296
Operating lease asset and liabilities, net	(2,528)	-
Accounts payable	(1,496,474)	(1,510,870)
Deferred revenue	238,608	(173,494)
Accrued expenses and other liabilities	353,119	130,140
Grants payable	(54,617)	232,500
Net cash provided by operating activities	2,864,229	365,000
Cash flows from investing activities:		
Purchases of property and equipment	(627,111)	(12,984,134)
Purchases of investments	(115,620)	(3,029,361)
Issuance of note receivable from related party	(1,175,000)	-
Repayments of note receivable from related party	26,609	-
Proceeds from sale of investments	4,102,272	3,468,180
Net cash provided by (used in) investing activities	2,211,150	(12,545,315)
Cash flows from financing activities:		
Proceeds from bonds payable	875,000	12,979,338
Repayment of bonds	(2,863,911)	-
Payments on finance lease liabilities	(13,836)	(10,524)
Net cash (used in) provided by financing activities	(2,002,747)	12,968,814
Net change in cash and cash equivalents	3,072,632	788,499
Cash and cash equivalents, beginning of year	4,176,596	3,388,097
Cash and cash equivalents, end of year	\$ 7,249,228	\$ 4,176,596

See accompanying notes to consolidated financial statements.



## VIRGINIA HISTORICAL SOCIETY

### Consolidated Statements of Cash Flows, Continued Years Ended June 30, 2023 and 2022

	<u>2023</u>	<u>2022</u>
Supplemental disclosure of cash flow information:		
Cash paid during the year for interest	<u>\$ 353,366</u>	<u>\$ 166,981</u>
Noncash transactions:		
Establishment of operating right-of-use assets and lease obligations	<u>\$ 35,142</u>	<u>\$ -</u>
Establishment of financing right-of-use assets and lease obligations	<u>\$ 56,062</u>	<u>\$ -</u>

See accompanying notes to consolidated financial statements.

## VIRGINIA HISTORICAL SOCIETY

### Consolidated Statements of Functional Expenses Year Ended June 30, 2023 with Comparative Totals for 2022

	Program Services		Supporting Services		2023 Total	2022 Total
	Collections	Programs	Administration	Advancement		
Salaries	\$ 1,368,689	\$ 1,997,769	\$ 564,724	\$ 504,485	\$ 4,435,667	\$ 4,054,155
Pension contributions	69,990	93,057	32,990	29,183	225,220	200,953
Employee benefits	98,350	89,962	66,804	35,759	290,875	285,763
Payroll taxes	84,136	128,104	73,681	30,444	316,365	285,138
Construction costs - non-capitalized	-	-	-	-	-	726,984
Exhibitions	-	900,837	-	-	900,837	2,611,442
Professional fees	37,884	432,045	89,836	124,881	684,646	761,179
Education	-	78,093	-	-	78,093	279,787
Supplies	54,010	116,937	18,634	4,798	194,379	180,789
Grant awards	-	401,206	-	-	401,206	402,500
Software subscriptions	74,940	81,715	29,985	5,783	192,423	211,277
Telephone	33,681	24,280	18,455	2,277	78,693	72,526
Promotion	-	337,091	8,550	-	345,641	395,911
Postage	2,193	19,437	870	41,661	64,161	67,130
Occupancy	346,253	225,848	239,437	18,810	830,348	580,283
Lease expenses	8,173	5,331	12,209	444	26,157	-
Printing & publications	20,880	174,534	7,724	59,664	262,802	132,161
Travel	3,564	19,176	16,880	4,985	44,605	36,188
Interest	167,862	109,490	66,895	9,119	353,366	166,981
Depreciation	906,128	857,802	361,106	49,226	2,174,262	2,175,640
Other	54,675	101,673	416,109	253,201	825,658	717,486
<b>Total expenses</b>	<b>\$ 3,331,408</b>	<b>\$ 6,194,387</b>	<b>\$ 2,024,889</b>	<b>\$ 1,174,720</b>	<b>\$ 12,725,404</b>	<b>\$ 14,344,273</b>

See accompanying notes to consolidated financial statements.

**VIRGINIA HISTORICAL SOCIETY**

Consolidated Statements of Functional Expenses, Continued  
Year Ended June 30, 2022

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

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).

Effective April 1, 2023, VHS became the single member of John Marshall Foundation, LLC (“JMF”). The acquisition was consummated in order to more effectively deploy resources and expand civics-related educational programs throughout the Commonwealth of Virginia. See Note 18.

**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, John Marshall Foundation, LLC, and Story of Virginia, LLC (collectively, the “Society”). All significant intercompany transactions and balances have been eliminated in the consolidation.

**Contributions of Nonfinancial 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.

**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.

## VIRGINIA HISTORICAL SOCIETY

### Notes to Consolidated Financial Statements, Continued

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

**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 \$1,725,632 and \$1,698,355 as of June 30, 2023 and 2022 (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.

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.

## VIRGINIA HISTORICAL SOCIETY

### Notes to Consolidated Financial Statements, Continued

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

**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, 2023, two donors accounted for 33% of total contributions. As of June 30, 2022, three donors accounted for 41% 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, 2023 and 2022, 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.

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, 2023, 2022, and 2021. Contract liabilities were \$997,496 as of June 30, 2023, \$758,888 as of June 30, 2022, and \$932,382 as of June 30, 2021.

## VIRGINIA HISTORICAL SOCIETY

### Notes to Consolidated Financial Statements, Continued

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

**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. 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 \$5,500 and \$6,286 for 2023 and 2022, respectively. Amortization expense is expected to be \$5,500 for 2024 through 2041 and \$917 for 2042.

**Property and Equipment:** Property and equipment are stated at cost, less accumulated depreciation. Major repairs and betterments are capitalized and normal maintenance and repairs are charged to expense as incurred. Depreciation is computed by the straight-line method over the estimated useful lives of the related assets, ranging from 3 to 40 years.

Upon retirement or sale of an asset, the cost and accumulated depreciation are removed from the accounts and any gain or loss is reflected in operations.

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

## VIRGINIA HISTORICAL SOCIETY

### Notes to Consolidated Financial Statements, Continued

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

**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, 2023 and 2022 was immaterial; therefore, no discount was considered necessary. Grants payable totaled \$177,883 and \$232,500 as of June 30, 2023 and 2022, respectively.

**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, 2023 and 2022.

**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.

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.



## VIRGINIA HISTORICAL SOCIETY

### Notes to Consolidated Financial Statements, Continued

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

**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). JMF is a disregarded entity for income tax purposes as the Society is its sole member.

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.

**Adoption of New Accounting Standard:** Effective July 1, 2022, the Society adopted FASB ASC 842, Leases. Prior to adoption of the new lease standard, only leases classified as capital leases under ASC 840, Leases, were recorded in the consolidated statements of financial position. The new standard establishes a right-of-use ("ROU") model that requires a lessee to record a ROU asset and a lease liability on the consolidated balance sheets for all leases with terms longer than 12 months. Leases are classified as either finance or operating, with classification affecting the pattern of expense recognition in the consolidated statements of activities. Leases with a term of less than 12 months will not record a right of use asset and lease liability and the payments will be recognized into income on a straight-line basis over the lease term.

The new lease standard requires a modified retrospective transition approach and provides an option transition method to either (1) record current existing leases as of the effective date; or (2) record leases existing as of the earliest comparative period presented in the consolidated financial statements by recasting comparative period consolidated financial statements. The Society adopted the new lease standard as of July 1, 2022, using the effective date as the date of application. As such, financial statement information and disclosures required under the new lease standard are not provided for dates and periods prior to July 1, 2022.

## VIRGINIA HISTORICAL SOCIETY

### Notes to Consolidated Financial Statements, Continued

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

**Adoption of New Accounting Standard, Continued:** The Society elected to adopt the package of practical expedients available under the transition guidance within the new standard. This package relieves the requirement to reassess prior conclusions about lease identification, lease classification, or initial direct lease costs for existing or expiring leases at the point of adoption. The adoption of ASC 842 resulted in the recognition of operating lease ROU assets and operating lease liabilities of \$35,142 and a financing lease ROU assets and financing lease liabilities of \$56,062 as of July 1, 2022.

The ROU and lease liabilities are initially measured at the present value of future lease payments, discounted using a risk-free rate (in leases for which the rate implicit in the lease cannot be readily determined) as of the lease commencement date or the effective date, whichever is later. The ROU assets and lease liabilities are calculated to include options to extend or terminate the lease when the Society determines that it is reasonably certain it will exercise those options. In making those determinations, the Society considers various existing economic and market factors, business strategies, as well as the nature, length, and terms of the lease agreements.

Certain leases may include variable lease payments as well as variable payments for items such as property taxes, insurance, maintenance, and other operating expenses associated with the leased assets. Those variable payments are excluded from the measurement of the Society's right of use assets and lease liabilities and are recognized in the period in which the obligation for those payments are incurred.

The Society has made accounting policy elections to not recognize ROU assets and lease liabilities that arise from short-term leases for any class of underlying asset and to not separate non-lease components of lease payments from the lease components.

**Subsequent Events:** Management has evaluated subsequent events through December 27, 2023, the date the consolidated financial statements were available for issuance, and has determined that, other than as described in Note 17, there are no additional disclosures necessary.

## 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, 2023 and 2022 are comprised of the following:

	2023	2022
Cash and cash equivalents	\$ 7,249,228	\$ 4,176,596
Investments	75,188,603	75,799,756
Accrued interest and dividends	39,379	29,129
Contributions receivable	3,863,805	6,268,875
Receivable from officer	27,487	-
Grants receivable	-	250,000
Other current assets	23,491	34,080
Total financial assets available within one year	86,391,993	86,558,436
Contractual or donor imposed limitations		
Endowment funds	(35,897,666)	(33,987,742)
Campaign/project funds	(20,676,025)	(32,980,490)
Receivables with donor restrictions	(1,903,165)	(2,081,115)
Board designations	(1,725,632)	(1,698,355)
Financial assets available to meet cash needs for general expenditures within one year	\$ 26,189,505	\$ 15,810,734

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 2024 budget to include \$2,757,703 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.

## VIRGINIA HISTORICAL SOCIETY

### Notes to Consolidated Financial Statements, Continued

#### 3. Investments:

Investments at June 30, 2023 and 2022 are comprised of the following:

	2023		2022	
	Market	Cost	Market	Cost
Cash and				
cash equivalents	\$ 1,609,689	\$ 1,609,689	\$ 4,731,423	\$ 4,731,423
Equities	11,189,547	8,316,012	5,762,152	3,548,817
Fixed income	4,744,852	5,121,054	4,646,526	4,926,661
Alternative investments	<u>60,549,411</u>	<u>32,137,620</u>	<u>60,659,655</u>	<u>35,644,092</u>
	<u>\$ 78,093,499</u>	<u>\$ 47,184,375</u>	<u>\$ 75,799,756</u>	<u>\$ 48,850,993</u>

Investment income (loss) for the years ended June 30, 2023 and 2022 is as follows:

	2023	2022
Interest and dividends, net	\$ 391,231	\$ 231,367
Unrealized (losses) gains, net	3,712,767	(12,333,700)
Realized gains (losses), net	2,427,615	1,586,683
Investment fees	<u>(251,218)</u>	<u>(272,141)</u>
	<u>\$ 6,280,395</u>	<u>\$ (10,787,791)</u>

## VIRGINIA HISTORICAL SOCIETY

### Notes to Consolidated Financial Statements, Continued

#### 4. Contributions and Grants Receivable:

##### Contributions Receivable

As of June 30, 2023 and 2022, contributors to the Society have made unconditional written and oral promises to give that relate to the following purposes:

	2023	2022
Without donor restrictions		
Time restricted	\$ 592,497	\$ 781,535
Split interest agreements	528,651	508,833
	\$ 1,121,148	\$ 1,290,368
With donor restrictions		
Campaign/programming projects	11,161,204	16,319,034
Split interest agreements	2,057,500	2,016,944
Restricted in perpetuity	36,959	63,111
	13,255,663	18,399,089
Total contributions receivable	\$ 14,376,811	\$ 19,689,457

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

	2023	2022
Year ending June 30:		
Less than one year	\$ 3,863,805	\$ 6,268,875
One year to five years	8,361,596	11,113,059
Thereafter	2,836,150	4,386,299
Gross contributions receivable	15,061,551	21,768,233
Less discount to present value, discount rate 7.22% and 3.79%	684,740	2,078,776
	\$ 14,376,811	\$ 19,689,457

## 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>2023</u>	<u>2022</u>
Year ending June 30:		
Less than one year	\$ -	\$ 250,000
One year to five years	<u>-</u>	<u>-</u>
 Gross grants receivable	 <u>\$ -</u>	 <u>\$ 250,000</u>

As of June 30, 2023, the Society had received conditional promises to give and indications of intention to give of approximately \$5,492,717. 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 \$1,261,717 would be included as net assets with donor restrictions in perpetuity, approximately \$1,218,000 would be included as net assets with donor restrictions, and approximately \$3,013,000 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, 2023 and 2022 is as follows:

	<u>2023</u>	<u>2022</u>
Land	\$ 942,561	\$ 428,961
Buildings and improvements	68,543,908	68,085,820
Equipment and furnishings	9,111,437	8,989,111
Capitalized media	1,018,480	1,018,480
Construction in progress	<u>46,697</u>	<u>-</u>
Total	79,663,083	78,522,372
Less accumulated depreciation	<u>28,424,346</u>	<u>26,250,084</u>
Property and equipment, net	<u>\$ 51,238,737</u>	<u>\$ 52,272,288</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 began and continue through September 2042. The outstanding balance of the bonds was \$15,332,308 reduced by bond issuance costs of \$99,917 as of June 30, 2023. The outstanding balance of the bonds was \$17,321,218 reduced by bond issuance costs of \$105,416 as of June 30, 2022. 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. The Society made an amendment to the agreement allowing principal repayments during 2023 of \$2,863,911 and the interest only payments until fiscal year 2027.

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, 2023.

Future principal payments on the bond payable were as follows as of June 30, 2023:

<u>Year</u>	<u>Amount</u>
2024	\$ -
2025	-
2026	-
2027	783,706
2028	812,325
Thereafter	<u>13,736,277</u>
	15,332,308
Less: bond issuance costs	<u>(99,917)</u>
	<u>\$ 15,232,391</u>

#### 8. Endowment Funds:

There are 70 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 14 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:

	2023	2022
Fair value of underwater endowment funds	\$ 12,039,615	\$ 12,379,187
Original gift amount	13,983,083	14,865,431
Deficiencies of underwater funds	\$ (1,943,468)	\$ (2,486,244)

## 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, 2023:

	Without Donor Restrictions	With Donor Restrictions	Total
Donor-restricted endowment funds	\$ -	\$ 35,967,666	\$ 35,967,666
Board-designated funds	1,725,632	-	1,725,632
Total funds	\$ 1,725,632	\$ 35,967,666	\$ 37,693,298

## 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, 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

Changes in endowment net assets were as follows for the year ended June 30, 2023:

	Without Donor Restrictions	With Donor Restrictions	Total
Net assets, beginning of year	\$ 1,698,355	\$ 33,987,742	\$ 35,686,097
Investment gain, net	141,200	3,856,546	3,997,746
New gifts, net of discount	-	129,580	129,580
Appropriation of endowment assets for expenditure	(113,923)	(2,076,202)	(2,190,125)
Net assets, end of year	\$ 1,725,632	\$ 35,897,666	\$ 37,623,298

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

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	(98,375)	(2,072,006)	(2,170,381)
Net assets, end of year	\$ 1,698,355	\$ 33,987,742	\$ 35,686,097

## 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.

**Annuity obligations:** Valued at the sum of future expected liability based on life expectancy adjusted to present value using an observable discount rate.

## 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, 2023, include the following:

	Fair Value Using			Asset/Liabilities at Fair Value
	Level 1	Level 2	Level 3	
<b>Assets:</b>				
Contributions and grants receivable, net	\$ -	\$ -	\$ 14,376,811	\$ 14,376,811
<b>Investments:</b>				
Cash and cash equivalents	1,609,689	-	-	1,609,689
<b>Equities:</b>				
Mutual funds	11,189,547	-	-	11,189,547
Total equities	11,189,547	-	-	11,189,547
<b>Fixed income:</b>				
US government and municipal bonds	-	267,113	-	267,113
Mortgage backed securities and CMO's	-	328,093	-	328,093
Corporate bonds	-	2,046,207	-	2,046,207
Foreign bonds	-	151,738	-	151,738
Agency securitized	-	1,951,701	-	1,951,701
Total fixed income	-	4,744,852	-	4,744,852
Alternative investments measured at NAV <sup>(a)</sup>	-	-	-	60,549,411
Total investments	12,799,236	4,744,852	-	78,093,499
<b>Total assets</b>	<b>\$ 12,799,236</b>	<b>\$ 4,744,852</b>	<b>\$ 14,376,811</b>	<b>\$ 92,470,310</b>
<b>Liabilities:</b>				
Annuity obligations	\$ -	\$ 101,279	\$ -	\$ 101,279
Total liabilities	\$ -	\$ 101,279	\$ -	\$ 101,279

(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, 2022, include the following:

	Fair Value Using			Asset/Liabilities at Fair Value
	Level 1	Level 2	Level 3	
<b>Assets:</b>				
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 <sup>(a)</sup>	<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>
<b>Liabilities:</b>				
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:

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 2023, the Society received \$1,123,831 in new pledges and grants, and collected payments on pledges and grants in the amount of \$7,225,864. 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.

The Society's investments in alternative investments are subject to restrictions on the frequency of redemptions. At June 30, 2023 and 2022, the redemption limits and related amounts were as follows:

Redemption Limit	2023	2022
Daily	\$ -	\$ 746,022
Monthly	8,048,661	8,532,451
Monthly (1 year lock up)	602,505	605,296
Quarterly	3,710,258	5,604,507
Quarterly (1 year lock up)	6,396,532	6,310,596
Semi-annually	4,087,740	3,823,196
Semi-annually (1 year lock up)	1,753,950	1,889,443
Annually	1,747,434	1,504,623
Annually (1 year lock up)	2,523,760	2,021,839
Annually (2 year lock up)	7,176,615	7,131,935
Less frequently	2,904,896	2,939,187
Upon sale of underlying investments	<u>21,597,060</u>	<u>19,550,560</u>
	<u>\$ 60,549,411</u>	<u>\$ 60,659,655</u>

The Society had unfunded alternative investment commitments of \$10,134,501 as of June 30, 2023.

## 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, 2023 and 2022:

	Controlling Interest	Non-Controlling Interest	Total Net Assets Without Donor Restrictions
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
Change in net assets	7,511,126	(281,220)	7,229,906
Balance, June 30, 2023	\$ 68,570,066	\$ 640,657	\$ 69,210,723

#### 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 (“DHR”). 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 \$431,311 for 2023 and \$418,943 for 2022.

During 2023, the Society and DHR entered into a memorandum of understanding (“MOU”) whereby the Society is managing improvements to DHR’s leased space. DHR is providing the financing for the improvements project in accordance with the MOU. The liability for funds received and not yet paid total \$512,775 as of June 30, 2023 and are included in accrued expenses and other liabilities on the 2023 consolidated statement of financial position.



## VIRGINIA HISTORICAL SOCIETY

### Notes to Consolidated Financial Statements, Continued

#### 12. Leases:

The Society leases copiers, equipment, storage, and a vehicle from third-parties under leasing agreements which can include scheduled rent increases at specific intervals during the terms of the leases. The Society recognizes lease expense on a straight-line basis over the life of the related leases. The Society uses the risk-free rate at lease commencement to estimate the incremental borrowing rate. The weighted average discount rate was 3.2% for operating leases and 2.9% for financing leases at June 30, 2023. The weighted average term remaining on the operating leases was 1.8 years for operating leases and 3.2 years at June 30, 2023. Lease expense was \$40,533 for the year ended June 30, 2023.

Future minimum lease payments are as follows as of June 30, 2023:

Year Ending	Finance Leases	Operating Leases
2024	\$ 15,438	\$ 25,126
2025	15,438	14,487
2026	22,995	1,596
2027	2,573	-
Total lease payments	56,445	41,209
Less amount representing interest	(9,796)	(1,208)
Total finance and operating lease liabilities	\$ 46,649	\$ 40,001

The components of lease expense for the year ended June 30, 2023 are as follows:

Operating lease cost	\$ 24,752
Finance lease cost	
Amortization of leased assets	14,376
Interest on lease liabilities	1,405
Total finance lease cost	\$ 15,781

#### 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 \$225,220 and \$200,953 for the years ended June 30, 2023 and 2022, respectively.

## VIRGINIA HISTORICAL SOCIETY

### Notes to Consolidated Financial Statements, Continued

**14. Net Assets With Donor Restrictions:**

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

	2023	2022
Time restricted	\$ 9,551,992	\$ 3,679,922
Campaign/project funds	20,676,025	32,980,490
Unapproved or unspent appreciation	2,328,426	755,592
Principal gifts held in perpetuity	33,569,240	33,232,150
	\$ 66,125,683	\$ 70,648,154

Net assets released for expenses satisfying the restricted purposes of contributions and grants during 2023 and 2022 were related to meeting time and purpose restrictions of the capital campaign and other programmatic restrictions.

**15. Donated Services and Assets:**

During fiscal year 2023 and 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 following year ending:

	2023	2022
Events	\$ 4,127	\$ 12,912
Legal services	17,380	7,004
	\$ 21,507	\$ 19,916

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.

**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, results of operations or cash flows.

## VIRGINIA HISTORICAL SOCIETY

### Notes to Consolidated Financial Statements, Continued

#### 17. Other Agreements:

**Operating Agreements:** 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.

The JMF is organized as a tax-exempt limited liability company. Under the operating agreement, the president of the Society is also the president of JMF. In addition, JMF has certain obligations to indemnify the member and managers 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 29, 2024 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, 2023 and 2022.

## VIRGINIA HISTORICAL SOCIETY

### Notes to Consolidated Financial Statements, Continued

#### 17. Other Agreements, Continued:

**Loan to Related Party:** 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 bi-weekly and the note has a maturity date of July 1, 2032. In accordance with a subsequent compensation agreement, should the officer still be employed by the Society at the maturity date, and having met certain performance criteria during the note period, any unpaid principal balance on the note will be forgiven. The Society has a deed of trust in the related property. During fiscal year 2023, principal payments of \$26,609 and interest payments of \$37,791 were made.

The expected principal repayment of the note is as follows:

Year Ending	
2024	\$ 27,487
2025	28,394
2026	29,331
2027	30,299
2028	31,298
Thereafter	<u>1,001,582</u>
Total payments	<u>\$ 1,148,391</u>

#### 18. Acquisition:

As discussed in Note 1, in April 2023, the JMF was acquired by the Society and all assets, totaling \$680,694, were transferred, as an inherent contribution to the Society. The assets of JMF were recorded at fair market value at the date of acquisition, which were estimated to approximate book value recorded on JMF's financial statements. The land is restricted for historical use and is not able to be sold or used for commercial purposes. The assets included land valued at \$513,600 and net cash totaling \$167,094 and were recorded in the consolidated financial statements for the year ended June 30, 2023. Per JMF's operating agreement, assets are to be used for general charitable and educational purposes within the meaning of section 501(c)(3) of the Internal Revenue Code of 1986 at the discretion of management by benefiting, performing the functions of, or carrying out the exempt purposes of JMF.

#### 19. New Accounting Guidance:

**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.