



Consolidated Financial Statements

June 30, 2020 and 2019



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VIRGINIA HISTORICAL SOCIETY

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REPORT OF INDEPENDENT ACCOUNTANTS

To the Board of Trustees
Virginia Historical Society
Richmond, Virginia

Report on the Consolidated Financial Statements

We have audited the accompanying consolidated financial statements of the Virginia Historical Society and Subsidiary (collectively, the "Society"), which comprise the consolidated statements of financial position as of June 30, 2020 and 2019, and the related consolidated statements of activities, cash flows, and functional expenses for the years then ended, and the related notes to the consolidated financial statements.

Management's Responsibility for the Consolidated Financial Statements

Management is responsible for the preparation and fair presentation of these consolidated financial statements in accordance with accounting principles generally accepted in the United States; this includes the design, implementation, and maintenance of internal control relevant to the preparation and fair presentation of consolidated financial statements that are free from material misstatement, whether due to fraud or error.

Auditor's Responsibility

Our responsibility is to express an opinion on these consolidated financial statements based on our audits. We conducted our audits in accordance with auditing standards generally accepted in the United States. Those standards require that we plan and perform the audits to obtain reasonable assurance about whether the consolidated financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the consolidated financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the consolidated financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the consolidated financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the consolidated financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Opinion

In our opinion, the consolidated financial statements referred to above present fairly, in all material respects, the financial position of the Virginia Historical Society and Subsidiary as of June 30, 2020 and 2019, 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.

Prior Period Adjustment

As described in Note 9 to the consolidated financial statements, management has determined that the 2019 consolidated financial statements as originally issued did not properly reflect the classification of an endowment fund as without donor restrictions instead of with donor restrictions. The accompanying 2019 consolidated financial statements have been restated to increase net assets without donor restrictions by \$9,564,192 and decrease net assets with donor restrictions by \$9,564,192 as of July 1, 2018 to correct for this error. Our opinion is not modified with respect to this matter.

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

January 27, 2021
Glen Allen, Virginia

VIRGINIA HISTORICAL SOCIETY

Consolidated Statements of Financial Position June 30, 2020 and 2019

	2020	2019
<u>Assets</u>		
Current assets:		
Cash and cash equivalents	\$ 1,843,663	\$ 1,302,815
Accrued interest and dividends	21,831	21,230
Contributions receivable, current (Note 4)	1,241,414	586,167
Grants receivable, current (Note 4)	82,500	211,250
Other current assets	557,293	350,799
Total current assets	3,746,701	2,472,261
Investments (Note 3)	67,327,730	67,911,700
Contributions receivable (Note 4)	5,251,129	1,260,424
Grants receivable (Note 4)	63,249	62,372
Property and equipment, net (Note 6)	31,342,632	31,725,359
Total assets	\$ 107,731,441	\$ 103,432,116
<u>Liabilities and Net Assets</u>		
Current liabilities:		
Accounts payable	\$ 319,617	\$ 260,421
Accrued expenses and other liabilities	242,778	327,808
Deferred revenue (Notes 1 and 13)	635,066	731,527
Total current liabilities	1,197,461	1,319,756
Bonds payable (Note 7)	1,229,582	1,886,750
Deferred revenue, less current portion (Notes 1 and 13)	7,001,000	7,000,000
Total liabilities	9,428,043	10,206,506
Net assets:		
Without donor restrictions		
Controlling interest, as restated (Note 9)	47,838,001	47,809,322
Non-controlling interest (Note 12)	1,489,536	1,772,231
Total net assets without donor restrictions	49,327,537	49,581,553
With donor restrictions, as restated (Notes 9 and 17)	48,975,861	43,644,057
Total net assets with donor restrictions	48,975,861	43,644,057
Total net assets	98,303,398	93,225,610
Total liabilities and net assets	\$ 107,731,441	\$ 103,432,116

See accompanying notes to consolidated financial statements.

VIRGINIA HISTORICAL SOCIETY

Consolidated Statements of Activities Year Ended June 30, 2020 with Comparative Totals for 2019

	2020			2019
	Without Donor Restrictions	With Donor Restrictions	Total	Total
Support and revenue:				
Membership dues	\$ 286,883	\$ -	\$ 286,883	\$ 307,995
Annual giving	1,385,405	-	1,385,405	1,191,087
Investment income, net (Note 3)	1,789,288	479,897	2,269,185	4,855,494
Contributions	101,269	6,160,841	6,262,110	3,001,436
Grants	814,648	1,375,320	2,189,968	867,352
Publications and merchandise sales	194,702	-	194,702	259,752
Royalties	16,528	-	16,528	18,911
Rental income (Note 13)	325,857	-	325,857	315,639
Fees and admissions	501,497	-	501,497	804,623
Other	33,680	-	33,680	29,349
Total support and revenue	<u>5,449,757</u>	<u>8,016,058</u>	<u>13,465,815</u>	<u>11,651,638</u>
Net assets released from restriction	<u>2,684,254</u>	<u>(2,684,254)</u>	<u>-</u>	<u>-</u>
Expenditures:				
Program services:				
Collections	1,570,536	-	1,570,536	1,402,860
Programs	3,938,595	-	3,938,595	4,492,323
Research	1,090,855	-	1,090,855	1,073,561
Supporting services:				
Administration	1,155,818	-	1,155,818	1,193,245
Advancement	632,223	-	632,223	997,102
Total expenditures	<u>8,388,027</u>	<u>-</u>	<u>8,388,027</u>	<u>9,159,091</u>
Change in net assets	(254,016)	5,331,804	5,077,788	2,492,547
Net assets, beginning of year, restated	<u>49,581,553</u>	<u>43,644,057</u>	<u>93,225,610</u>	<u>90,733,063</u>
Net assets, end of year	<u>\$ 49,327,537</u>	<u>\$ 48,975,861</u>	<u>\$ 98,303,398</u>	<u>\$ 93,225,610</u>

See accompanying notes to consolidated financial statements.

VIRGINIA HISTORICAL SOCIETY
Consolidated Statements of Activities
Year Ended June 30, 2019

	Without Donor Restrictions	With Donor Restrictions	Total
Support and revenue:			
Membership dues	\$ 307,995	\$ -	\$ 307,995
Annual giving	1,191,087	-	1,191,087
Investment income, net, as restated (Note 3)	1,803,995	3,051,499	4,855,494
Contributions	1,782,302	1,219,134	3,001,436
Grants	37,318	830,034	867,352
Publications and merchandise sales	259,752	-	259,752
Royalties	18,911	-	18,911
Rental income (Note 13)	315,639	-	315,639
Fees and admissions	804,623	-	804,623
Other	29,349	-	29,349
Total support and revenue	<u>6,550,971</u>	<u>5,100,667</u>	<u>11,651,638</u>
Net assets released from restriction, as restated	<u>4,140,124</u>	<u>(4,140,124)</u>	<u>-</u>
Expenditures:			
Program services:			
Collections	1,402,860	-	1,402,860
Programs	4,492,323	-	4,492,323
Research	1,073,561	-	1,073,561
Supporting services:			
Administration	1,193,245	-	1,193,245
Advancement	997,102	-	997,102
Total expenditures	<u>9,159,091</u>	<u>-</u>	<u>9,159,091</u>
Change in net assets	1,532,004	960,543	2,492,547
Net assets, beginning of year - restated	<u>48,049,549</u>	<u>42,683,514</u>	<u>90,733,063</u>
Net assets, end of year	<u>\$ 49,581,553</u>	<u>\$ 43,644,057</u>	<u>\$ 93,225,610</u>

See accompanying notes to consolidated financial statements.

VIRGINIA HISTORICAL SOCIETY

Consolidated Statements of Cash Flows Years Ended June 30, 2020 and 2019

	2020	2019
Cash flows from operating activities:		
Change in net assets	\$ 5,077,788	\$ 2,492,547
Adjustments to reconcile change in net assets to net cash from operating activities:		
Depreciation	1,300,785	1,302,612
Amortization of bond issuance costs	9,498	9,498
Contributions in perpetuity, including changes in present value of contributions receivable	(77,617)	(379,326)
Investment income, net of fees	(2,269,185)	(4,855,494)
Change in assets and liabilities:		
Accrued interest and dividends	(601)	2,124
Contributions and grants receivable	(4,518,079)	168,848
Other current assets	(206,494)	15,110
Accounts payable	(101,720)	164,836
Deferred revenue	(95,461)	6,652,858
Accrued expenses and other liabilities	(74,506)	109,438
Net cash (used in) provided by operating activities	(955,592)	5,683,051
Cash flows from investing activities:		
Purchases of property and equipment	(757,142)	(82,516)
Purchases of investments	(494,148)	(9,542,735)
Proceeds from sale of investments	3,347,303	3,083,137
Net cash provided by (used in) investing activities	2,096,013	(6,542,114)
Cash flow from financing activities:		
Payments on bonds payable	(666,666)	(1,193,901)
Payments on capital lease obligations	(10,524)	(16,030)
Contributions in perpetuity, including changes in present value of contributions receivable	77,617	379,326
Net cash used in financing activities	(599,573)	(830,605)
Net change in cash and cash equivalents	540,848	(1,689,668)
Cash and cash equivalents, beginning of year	1,302,815	2,992,483
Cash and cash equivalents, end of year	\$ 1,843,663	\$ 1,302,815

See accompanying notes to consolidated financial statements.

VIRGINIA HISTORICAL SOCIETY

Consolidated Statements of Cash Flows, Continued
Years Ended June 30, 2020 and 2019

	<u>2020</u>	<u>2019</u>
Supplemental disclosure of cash flow information:		
Cash paid during the year for interest	<u>\$ 54,375</u>	<u>\$ 95,234</u>
Noncash transactions		
Accounts payable for purchase of property and equipment	<u>\$ 160,916</u>	<u>\$ 29,185</u>

See accompanying notes to consolidated financial statements.

VIRGINIA HISTORICAL SOCIETY

Consolidated Statements of Functional Expenses
Year Ended June 30, 2020 with Comparative Totals for 2019

	Program Services			Supporting Services		2020 Total	2019 Total
	Collections	Programs	Research	Administration	Advancement		
Salaries	\$ 880,604	\$ 1,645,061	\$ 365,627	\$ 457,822	\$ 337,549	\$ 3,686,663	\$ 3,712,363
Pension contributions	37,675	77,606	18,191	36,199	16,894	186,565	166,743
Employee benefits	57,752	87,029	25,727	33,788	23,314	227,610	266,566
Payroll taxes	57,240	104,477	23,516	54,667	23,084	262,984	264,498
Professional fees	64,670	225,320	5,524	28,316	37,674	361,504	566,692
Supplies	30,925	154,959	23,154	19,792	3,215	232,045	729,841
Software subscriptions	3,657	123,770	5,350	15,944	688	149,409	-
Telephone	17,423	34,845	7,919	15,839	7,919	83,945	86,590
Postage	1,538	17,237	867	1,141	24,865	45,648	64,186
Occupancy	100,179	163,389	153,466	221,032	16,488	654,554	675,590
Equipment rental	-	-	-	-	-	-	47,740
Printing & publications	553	86,865	10	869	24,551	112,848	192,193
Travel	978	8,483	497	23,066	22,759	55,783	254,555
Interest	11,122	17,760	18,168	5,734	1,591	54,375	93,739
Depreciation	266,069	424,862	434,622	137,169	38,063	1,300,785	1,302,612
Other	40,151	766,932	8,217	104,440	53,569	973,309	735,183
Total expenses	\$ 1,570,536	\$ 3,938,595	\$ 1,090,855	\$ 1,155,818	\$ 632,223	\$ 8,388,027	\$ 9,159,091

See accompanying notes to consolidated financial statements.

VIRGINIA HISTORICAL SOCIETY

Consolidated Statements of Functional Expenses
Year Ended June 30, 2019

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

See accompanying notes to consolidated financial statements.

VIRGINIA HISTORICAL SOCIETY

Notes to Consolidated Financial Statements

1. Summary of Significant Accounting Policies:

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

During 2015, Story of Virginia, LLC (“SOV”) was established to own and manage real estate. During fiscal year 2016 and 2017, SOV raised capital from investors who in turn received historic rehabilitation tax credits. The capital raised from investors was used to assist in the payment of 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 12).

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

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 June 2018, the Financial Accounting Standards Board (“FASB”) issued Accounting Standards Update (“ASU”) 2018-08: Clarifying the Scope and the Accounting Guidance for Contributions Received and Contributions Made (“Topic 958”), which is intended to provide specific criteria to determine whether a contract or agreement should be accounted for as a contribution or as an exchange transaction. The ASU provides a framework for determining whether a contribution is conditional or unconditional. Prior to the ASU, FASB’s new revenue recognition standard eliminated exchange guidance and added additional disclosure requirements that are not relevant to these types of transactions.

VIRGINIA HISTORICAL SOCIETY

Notes to Consolidated Financial Statements, Continued

1. Summary of Significant Accounting Policies, Continued:

Newly Adopted Accounting Standard, Continued: Specific to contributions or grants received by the Society, the amendments in this ASU are effective for fiscal years beginning after December 15, 2018 with early adoption permitted. The Society adopted this guidance for the year ended June 30, 2020 with retrospective presentation in the consolidated financial statements. Adoption of this ASU did not result in any changes to presentation of revenue in the consolidated statements of activities.

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 \$1,518,612 and \$1,592,424 as of June 30, 2020 and 2019 (see Note 10).

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

Credit Risk and Concentrations: Financial instruments that potentially subject the Society to concentrations of credit risk consist principally of cash and cash equivalents and contributions and grants receivable. The Society maintains its cash and cash equivalents in a financial institution with balances that periodically exceed federally insured limits. As of June 30, 2020, three donors accounted for 48% of total contributions and grants receivable. As of June 30, 2019, three donors accounted for 52% 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, 2020 and 2019, 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 11). Certain less marketable securities are generally carried at values determined by the respective investment managers. Investments are exposed to various risks, such as interest rate, market, and credit. Due to the level of risk associated with certain investment securities and the level of uncertainty related to changes in the value of investment securities, it is at least reasonably possible that changes in risks in the near term could materially affect amounts reported on the consolidated financial statements.

Bond Issuance Costs: Bond issuance costs are amortized over the period the obligation is outstanding using the straight-line method, which approximates the interest method. Amortization expense was \$9,498 for 2020 and 2019. Amortization expense is expected to be \$9,498 for the next 3 years and \$5,500 for 2024 through 2033.

VIRGINIA HISTORICAL SOCIETY

Notes to Consolidated Financial Statements, Continued

1. Summary of Significant Accounting Policies, Continued:

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, 1% and 30% of which is included in deferred revenue on the consolidated statements of financial position as of June 30, 2020 and 2019, 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.

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

Impairment or Disposal of Long-Lived Assets: Long-lived assets are reviewed for impairment whenever events or changes in circumstances indicate that the carrying amount of an asset may not be recoverable. Recoverability of assets to be held and used is measured by a comparison of the carrying amount of an asset to future undiscounted net cash flows expected to be generated by the asset. If such assets are considered to be impaired, the impairment to be recognized is measured by the amount by which the carrying amount of the assets exceeds the fair value of the assets. No impairments were identified during the years ended June 30, 2020 and 2019.

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 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 organizational officers are allocated based upon each functional areas use of their time and efforts, represented by each area's percentage of overall expenditures. All other costs are evaluated on a per invoice basis to determine what functions have been served.

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

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

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

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

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

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

VIRGINIA HISTORICAL SOCIETY

Notes to Consolidated Financial Statements, Continued

1. Summary of Significant Accounting Policies, Continued:

Reclassification: Certain prior year balances have been reclassified to conform to current year presentation.

Subsequent Events: Management has evaluated subsequent events through January 27, 2021, the date the consolidated financial statements were available to be issued.

In July 2020, it was announced that the Atlantic Coast Pipeline had been cancelled. The Society could potentially be required to return the \$7 million received under the agreement between the Commonwealth of Virginia and the Atlantic Coast Pipeline. However, management believes it will be able to keep the \$7 million received. As of January 27, 2021, the Society has not received a request for repayment.

On September 1, 2020, the Society entered an agreement with Atlantic Union to receive bond financing not to exceed \$21 million to manage cash flow related to the History Making capital campaign. On the closing date, the Society received an initial advance of \$2,863,788. Additional advances will be made through September 1, 2022 as requested by the Society. The bond incurs interest of 2.05% and interest only payments will be made on the borrowing through September 2022. Beginning in October 2022, interest and principal payments will begin and continue through September 2042.

On November 13, 2020, the Society was notified that the Paycheck Protection Program Loan of \$767,500 was forgiven in full. The Society was required to pay back the advance of \$10,000 received at that time. This amount was paid on November 24, 2020 and there is no remaining liability outstanding as of January 27, 2021.

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, 2020 and 2019 are comprised of the following:

VIRGINIA HISTORICAL SOCIETY

Notes to Consolidated Financial Statements, Continued

2. Liquidity and Availability of Financial Assets, Continued:

	2020	2019
Cash and cash equivalents	\$ 1,843,663	\$ 1,302,815
Investments	67,327,730	67,911,700
Accrued interest and dividends	21,831	21,230
Contributions receivable	1,241,414	586,167
Grants receivable	82,500	211,250
Other current assets	141,087	114,133
Total financial assets available within one year	70,658,225	70,147,295
Contractual or donor imposed limitations		
Endowment funds, as restated	(31,379,971)	(32,253,723)
Campaign/project funds	(15,711,923)	(9,644,172)
Receivables with donor restrictions	(1,241,414)	(797,417)
Board designations	(1,518,612)	(1,592,424)
Deferred revenue associated with Pipeline	(7,001,000)	(7,300,000)
Financial assets available to meet cash needs for general expenditures within one year	\$ 13,805,305	\$ 18,559,559

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 2021 budget to include approximately \$2,512,000 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 19).

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, 2020 and 2019 are comprised of the following:

	2020		2019	
	Market	Cost	Market	Cost
Cash and				
cash equivalents	\$ 2,934,350	\$ 2,934,350	\$ 3,253,051	\$ 3,253,051
Equities	6,297,285	3,985,392	8,261,744	5,256,427
Fixed income	11,182,856	10,732,310	10,963,616	10,742,990
Alternative investments	46,913,239	34,267,300	45,433,289	33,711,940
	\$ 67,327,730	\$ 51,919,352	\$ 67,911,700	\$ 52,964,408

Investment income for the years ended June 30, 2020 and 2019 is as follows:

	2020	2019
Interest and dividends, net	\$ 392,721	\$ 523,268
Unrealized gains, net	461,086	2,918,757
Realized gains, net	1,609,453	1,606,543
Investment fees	(194,075)	(193,074)
	\$ 2,269,185	\$ 4,855,494

VIRGINIA HISTORICAL SOCIETY

Notes to Consolidated Financial Statements, Continued

4. Contributions and Grants Receivable:

Contributions Receivable

As of June 30, 2020 and 2019, contributors to the Society have made unconditional written and oral promises to give that relate to the following purposes:

	2020	2019
Without donor restrictions		
Time restricted	\$ 190,938	\$ -
Split interest agreements	560,510	373,093
	\$ 751,448	\$ 373,093
With donor restrictions		
Campaign/programming projects	4,828,990	687,755
Split interest agreements	911,605	784,785
Restricted in perpetuity	500	958
	5,741,095	1,473,498
Total contributions receivable	\$ 6,492,543	\$ 1,846,591

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

	2020	2019
Year ending June 30:		
Less than one year	\$ 1,241,414	\$ 586,167
One year to five years	3,556,250	119,165
Thereafter	2,348,000	1,748,000
Gross contributions receivable	7,145,664	2,453,332
Less discount to present value, discount rate 2.16% and 4.40%	653,121	606,741
	\$ 6,492,543	\$ 1,846,591

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:

	2020	2019
Year ending June 30:		
Less than one year	\$ 82,500	\$ 211,250
One year to five years	67,500	71,250
Gross grants receivable	150,000	282,500
Less discount to present value, discount rate 2.16% and 4.40%	4,251	8,878
	\$ 145,749	\$ 273,622

As of June 30, 2020, the Society had received conditional promises to give and indications of intention to give of approximately \$7,796,717. In accordance with GAAP, these conditional promises to give are not recorded in these consolidated financial statements. These potential contributions consist primarily of bequests and charitable remainder trusts. If received, approximately \$1,361,717 would be included as net assets with donor restrictions in perpetuity, approximately \$3,290,000 would be included as net assets with donor restrictions, and approximately \$3,145,000 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, 2020 and 2019 is as follows:

	<u>2020</u>	<u>2019</u>
Land	\$ 436,301	\$ 436,301
Buildings and improvements	48,185,642	48,164,843
Equipment and furnishings	6,498,552	6,449,412
Construction in progress	<u>907,304</u>	<u>59,185</u>
Total	56,027,799	55,109,741
Less accumulated depreciation	<u>24,685,167</u>	<u>23,384,382</u>
Property and equipment, net	<u>\$ 31,342,632</u>	<u>\$ 31,725,359</u>

VIRGINIA HISTORICAL SOCIETY

Notes to Consolidated Financial Statements, Continued

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, 2020 and 2019. The outstanding principal balance on the 2013B bonds was \$1,072,200 as of June 30, 2020 and as of June 30, 2019. No principal payments are due on this amount until March 2022.

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, 2020 and 2019. The outstanding principal balance on the 2013A bonds was \$240,874 as of June 30, 2020 and \$907,540 as of June 30, 2019. No principal payments are due on this amount until January 2033.

The above bonds have been reduced by debt issuance costs of \$83,492 and \$92,990 as of June 30, 2020 and 2019, respectively in accordance with ASU 2015-03.

During 2020, the Society made principal payments in advance on the Series A bond of \$666,666. During 2019, the Society made principal payments in advance on the Series A and B bonds of \$963,862 and \$230,039, respectively.

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, 2020.

8. Paycheck Protection Program Loan:

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

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

VIRGINIA HISTORICAL SOCIETY

Notes to Consolidated Financial Statements, Continued

8. Paycheck Protection Program Loan, Continued:

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

9. Prior Period Adjustment – Correction of Error:

During 2020, the Society determined that the 2019 financial statements did not properly reflect in accordance with GAAP the existence or absence of donor restrictions related to the Glasgow Clark gift. As a result of additional review of the Glasgow Clark gift paperwork, this endowment has been reclassified from an endowment in perpetuity with donor restrictions to net assets without donor restrictions. Accordingly, balances at 2019 have been adjusted to reflect this reclassification.

10. 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. This reclassification did not impact the assets, liabilities, revenues or expenses of the Society.

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

VIRGINIA HISTORICAL SOCIETY

Notes to Consolidated Financial Statements, Continued

10. 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 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:

	2020	2019 (as restated)
Fair value of underwater endowment funds	\$ 14,496,963	\$ 14,219,776
Original gift amount	16,184,666	15,695,687
Deficiencies of underwater funds	\$ (1,687,703)	\$ (1,475,911)

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.

VIRGINIA HISTORICAL SOCIETY

Notes to Consolidated Financial Statements, Continued

10. Endowment Funds, Continued:

Return Objectives and Risk Parameters, Continued: 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, 2020:

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

Endowment net asset composition by type of fund was as follows as of June 30, 2019 (as restated):

	Without Donor Restrictions	With Donor Restrictions	Total
Donor-restricted endowment funds	\$ -	\$ 32,253,723	\$ 32,253,723
Board-designated funds	1,592,424	-	1,592,424
Total funds	\$ 1,592,424	\$ 32,253,723	\$ 33,846,147

VIRGINIA HISTORICAL SOCIETY

Notes to Consolidated Financial Statements, Continued

10. Endowment Funds, Continued:

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

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

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

	<u>Without Donor Restrictions</u>	<u>With Donor Restrictions</u>	<u>Total</u>
Net assets, beginning of year (restated)	\$ 374,156	\$ 30,321,542	\$ 30,695,698
Investment gain, net	133,352	3,051,499	3,184,851
New gifts, net of discount	1,158,443	379,326	1,537,769
Appropriation of endowment assets for expenditure	<u>(73,527)</u>	<u>(1,498,644)</u>	<u>(1,572,171)</u>
Net assets, end of year (restated)	<u>\$ 1,592,424</u>	<u>\$ 32,253,723</u>	<u>\$ 33,846,147</u>

VIRGINIA HISTORICAL SOCIETY

Notes to Consolidated Financial Statements, Continued

11. Fair Value Measurements:

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

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

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

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

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

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

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

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

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

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

VIRGINIA HISTORICAL SOCIETY

Notes to Consolidated Financial Statements, Continued

11. Fair Value Measurements, Continued:

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

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

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

VIRGINIA HISTORICAL SOCIETY

Notes to Consolidated Financial Statements, Continued

11. 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 at Fair Value
	Level 1	Level 2	Level 3	
Assets:				
Contributions and grants				
receivable, net	\$ -	\$ -	\$ 2,120,213	\$ 2,120,213
Investments:				
Cash and cash equivalents	3,253,051	-	-	3,253,051
Equities:				
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>
Fixed income:				
US government				
and municipal bonds	-	8,620,378	-	8,620,378
Mortgage backed				
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				
measured at NAV ^(a)	<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>
Total assets	<u>\$ 11,514,795</u>	<u>\$ 10,963,616</u>	<u>\$ 2,120,213</u>	<u>\$ 70,031,913</u>
Liabilities:				
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

11. 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 and Grants <u>Receivable, Net</u>
Balance at July 1, 2018	\$ 2,289,061
New pledges and grants	783,000
Pledge and grants payments received	(803,817)
Change in pledges and grants discount	<u>(148,031)</u>
Balance at June 30, 2019	<u>2,120,213</u>
New pledges and grants	5,749,500
Pledge and grant payments received	(1,231,667)
Change in pledges and grants discount	<u>246</u>
Balance at June 30, 2020	<u><u>\$ 6,638,292</u></u>

VIRGINIA HISTORICAL SOCIETY

Notes to Consolidated Financial Statements, Continued

11. Fair Value Measurements, Continued:

The Society's investments in alternative investments are subject to restrictions on the frequency of redemptions. At June 30, 2020 and 2019, the redemption limits and related amounts were as follows:

Redemption Limit	2020	2019
Daily	\$ 1,234,125	\$ 1,202,469
Monthly	6,021,546	6,498,676
Monthly (1 year lock up)	1,316,090	1,864,015
Quarterly	3,872,142	4,470,196
Quarterly (1 year lock up)	7,337,516	7,759,144
Semi-annually	4,657,505	5,072,444
Semi-annually (1 year lock up)	1,567,342	1,546,661
Annually	1,090,114	-
Annually (1 year lock up)	1,286,832	1,709,632
Annually (2 year lock up)	5,648,899	5,196,373
Less frequently	4,282,956	4,000,709
Upon sale of underlying investments	<u>8,598,172</u>	<u>6,112,970</u>
	<u>\$ 46,913,239</u>	<u>\$ 45,433,289</u>

The Society had unfunded alternative investment commitments of \$4,507,840 as of June 30, 2020.

12. Non-Controlling Interest:

Unrestricted net assets for controlling and non-controlling interests are as follows for the years ended June 30, 2020 and 2019:

	Controlling Interest	Non-Controlling Interest	Total Net Assets Without Donor Restrictions
Balance, July 1, 2018, as restated	\$ 45,994,773	\$ 2,054,776	\$ 48,049,549
Change in net assets	<u>1,814,549</u>	<u>(282,545)</u>	<u>1,532,004</u>
Balance, June 30, 2019	47,809,322	1,772,231	49,581,553
Change in net assets	<u>28,679</u>	<u>(282,695)</u>	<u>(254,016)</u>
Balance, June 30, 2020	<u>\$ 47,838,001</u>	<u>\$ 1,489,536</u>	<u>\$ 49,327,537</u>

VIRGINIA HISTORICAL SOCIETY

Notes to Consolidated Financial Statements, Continued

13. Rental Income:

The Society is the lessor of an operating lease covering certain space with the Department of Historic Resources of the Commonwealth of Virginia. The commencement date of the lease was March 1, 1998. Rent is to be paid annually on July 1 for the lease term of 20 years. The lease was renewed for an additional 10 years to expire June 2028. Thus, deferred revenue equal to the entire annual payment is recorded on the consolidated statement of financial position at each June 30. Annual payments escalate at a rate of 50% of the previous year's percentage increase in the Consumer Price Index. Rental income was \$325,857 and \$315,639 for the years ended June 30, 2020 and 2019.

14. Leases:

The Society leases copiers, mailing equipment, a parking lot, data storage, and a vehicle under operating leases. Rental expense was \$33,478 and \$52,674 for the years ended June 30, 2020 and 2019.

Minimum future payments under non-cancellable operating leases at June 30, 2020 are as follows:

2021	\$ 27,948
2022	21,263
2023	<u>5,376</u>
Future minimum lease payments	<u>\$ 54,587</u>

15. 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 \$184,322 and \$164,094 for the years ended June 30, 2020 and 2019.

VIRGINIA HISTORICAL SOCIETY

Notes to Consolidated Financial Statements, Continued

16. 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 \$2,243 and \$2,650 for the years ended June 30, 2020 and 2019.

17. Net Assets With Donor Restrictions:

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

	<u>2020</u>	<u>2019</u>
Time restricted	\$ 1,883,967	\$ 1,746,162
Campaign/project funds	15,711,923	9,644,172
Unapproved or unspent appreciation	8,280,261	9,329,444
Principal gifts held in perpetuity, as restated	<u>23,099,710</u>	<u>22,924,279</u>
	<u>\$ 48,975,861</u>	<u>\$ 43,644,057</u>

Net assets released for expenses satisfying the restricted purposes of contributions and grants during 2020 and 2019 were related to meeting time and purpose restrictions.

18. Commitments and Contingencies:

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

At June 30, 2020, unpaid commitments totaled \$18,926,565, for project expenditures related to the History Making Campaign.

VIRGINIA HISTORICAL SOCIETY

Notes to Consolidated Financial Statements, Continued

19. 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 is payable monthly at the 30 day LIBOR rate plus 1.5%. The line of credit was extended through March 10, 2021. 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, 2020 or 2019.

VIRGINIA HISTORICAL SOCIETY

Notes to Consolidated Financial Statements, Continued

20. New Accounting Guidance:

Revenue Recognition: During 2014, the FASB issued a new standard for revenue recognition, ASU 2014-09, which has been incorporated into FASB guidance as ASC 606. The standard defines a process for evaluating revenue recognition including 1) identify the contract, 2) identify separate performance obligations, 3) determine the transaction price, 4) allocate the transaction price to the performance obligations, and 5) recognize revenue when (or as) the Organization satisfies a performance obligation. One of the key concepts in the standard is that revenue should be recognized when a customer has control over a good or service. The standard also requires an entity to enhance revenue recognition disclosures in the accounting policy note including both quantitative and qualitative information, significant judgments involved in the process, and the amount and timing of remaining performance obligations. The standard is effective for organizations with annual reporting periods beginning after December 15, 2018. Due to the COVID-19 pandemic, the FASB further issued ASU 2020-05 which defers the effective date of ASC 606 to reporting periods beginning after December 15, 2019 for certain entities that had not yet issued their financial statements as of June 3, 2020. The Society has elected to defer adoption of ASC 606 in accordance with ASU 2020-05 and 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 consolidated statements of activities. On the consolidated statements of cash flows, the principal portion of the finance lease payments will be classified as a financing activity. For operating leases, the right to use asset and lease liability will also be calculated based upon the present value of the lease payments. However, the cost of the lease will generally be allocated over the lease term on a straight-line basis and presented as a single expense on the consolidated statements of activities. On the consolidated statements of cash flows, all cash payments for operating leases will be classified as an operating activity. The new standard will be effective for periods beginning after December 15, 2021, and will require entities to use a modified retrospective approach to the earliest period presented. The Society is currently evaluating the reporting and economic implications of the new standard.

VIRGINIA HISTORICAL SOCIETY

Notes to Consolidated Financial Statements, Continued

20. **New Accounting Guidance, Continued:**

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