



Financial Statements

June 30, 2014 and 2013

VIRGINIA HISTORICAL SOCIETY

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REPORT OF INDEPENDENT ACCOUNTANTS

To the Board of Trustees
Virginia Historical Society:

Report on the Financial Statements

We have audited the accompanying financial statements of the Virginia Historical Society (the "Society"), which comprise the statements of financial position as of June 30, 2014 and 2013, and the related statements of activities and cash flows for the years then ended, and the related notes to the financial statements.

Management's Responsibility for the Financial Statements

Management is responsible for the preparation and fair presentation of these 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 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 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 financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the 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 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 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 financial statements referred to above present fairly, in all material respects, the financial position of the Virginia Historical Society as of June 30, 2014 and 2013, and the changes in its net assets and its cash flows for the years then ended in accordance with accounting principles generally accepted in the United States.

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

January 7, 2015
Glen Allen, Virginia

VIRGINIA HISTORICAL SOCIETY

Statements of Financial Position June 30, 2014 and 2013

	2014	2013
<u>Assets</u>		
Current assets:		
Cash and cash equivalents	\$ 2,505,025	\$ 1,461,753
Accrued interest and dividends	548,166	404,497
Contributions receivable, current (Note 3)	3,034,724	1,599,008
Grants receivable, current (Note 3)	375,183	396,089
Other current assets	274,528	333,067
Total current assets	6,737,626	4,194,414
Investments (Note 2)	56,722,718	54,513,968
Contributions receivable (Note 3)	7,920,689	4,381,280
Grants receivable (Note 3)	46,863	163,806
Beneficial interest in a trust	10,111	13,333
Bond issuance costs, net	140,480	149,978
Property and equipment, net (Note 5)	25,588,481	22,894,816
Total assets	\$ 97,166,968	\$ 86,311,595
<u>Liabilities and Net Assets</u>		
Current liabilities:		
Accounts payable	\$ 852,910	\$ 69,836
Accrued expenses and other liabilities	327,156	475,834
Current portion of bonds payable (Note 6)	176,953	170,655
Current portion of note payable	-	4,333
Deferred revenue (Note 9)	344,298	334,919
Total current liabilities	1,701,317	1,055,577
Bonds payable, less current portion (Note 6)	4,660,525	4,853,345
Note payable, less current portion	-	5,039
Total liabilities	6,361,842	5,913,961
Net assets:		
Unrestricted	27,319,758	25,694,428
Temporarily restricted (Note 13)	25,915,048	17,211,360
Permanently restricted	37,570,320	37,491,846
Total net assets	90,805,126	80,397,634
Total liabilities and net assets	\$ 97,166,968	\$ 86,311,595

See accompanying notes to financial statements.

VIRGINIA HISTORICAL SOCIETY

Statements of Activities Year Ended June 30, 2014 with Comparative Totals for 2013

	2014			2013	
	Unrestricted	Temporarily Restricted	Permanently Restricted	Total	Total
Support and revenue:					
Membership dues	\$ 256,855	\$ -	\$ -	\$ 256,855	\$ 239,389
Annual giving	1,065,157	-	-	1,065,157	1,050,144
Investment return (Note 2)	3,832,851	2,611,693	-	6,444,544	6,740,111
Contributions	2,565	9,334,525	78,474	9,415,564	7,003,597
Grants	35,560	581,994	-	617,554	530,429
Publications and merchandise sales	171,958	-	-	171,958	186,755
Royalties	8,757	-	-	8,757	6,876
Rental income (Note 9)	302,318	-	-	302,318	304,316
Fees and admissions	175,450	-	-	175,450	204,677
Other	26,256	(756)	-	25,500	33,062
Total support and revenue	<u>5,877,727</u>	<u>12,527,456</u>	<u>78,474</u>	<u>18,483,657</u>	<u>16,299,356</u>
Net assets released from restriction	<u>3,823,768</u>	<u>(3,823,768)</u>	<u>-</u>	<u>-</u>	<u>-</u>
Expenditures:					
Program services:					
Collections	1,675,687	-	-	1,675,687	1,769,147
Programs	4,379,838	-	-	4,379,838	4,263,003
Supporting services:					
Operations	1,236,147	-	-	1,236,147	1,236,213
Advancement	784,493	-	-	784,493	732,408
Total expenditures	<u>8,076,165</u>	<u>-</u>	<u>-</u>	<u>8,076,165</u>	<u>8,000,771</u>
Change in net assets	1,625,330	8,703,688	78,474	10,407,492	8,298,585
Net assets, beginning of year	<u>25,694,428</u>	<u>17,211,360</u>	<u>37,491,846</u>	<u>80,397,634</u>	<u>72,099,049</u>
Net assets, end of year	<u>\$ 27,319,758</u>	<u>\$ 25,915,048</u>	<u>\$ 37,570,320</u>	<u>\$ 90,805,126</u>	<u>\$ 80,397,634</u>

See accompanying notes to financial statements.

VIRGINIA HISTORICAL SOCIETY

Statements of Activities
Year Ended June 30, 2013

	Unrestricted	Temporarily Restricted	Permanently Restricted	Total
Support and revenue:				
Membership dues	\$ 239,389	\$ -	\$ -	\$ 239,389
Annual giving	1,050,144	-	-	1,050,144
Investment return (Note 2)	4,283,441	2,456,670	-	6,740,111
Contributions	30,828	6,043,228	929,541	7,003,597
Grants	35,274	495,155	-	530,429
Publications and merchandise sales	186,755	-	-	186,755
Royalties	6,876	-	-	6,876
Rental income (Note 9)	304,316	-	-	304,316
Fees and admissions	193,047	11,630	-	204,677
Other	25,562	7,500	-	33,062
	<u>6,355,632</u>	<u>9,014,183</u>	<u>929,541</u>	<u>16,299,356</u>
Total support and revenue				
Net assets released from restriction	<u>3,668,746</u>	<u>(3,668,746)</u>	<u>-</u>	<u>-</u>
Expenditures:				
Program services:				
Collections	1,769,147	-	-	1,769,147
Programs	4,263,003	-	-	4,263,003
Supporting services:				
Operations	1,236,213	-	-	1,236,213
Advancement	732,408	-	-	732,408
	<u>8,000,771</u>	<u>-</u>	<u>-</u>	<u>8,000,771</u>
Total expenditures				
Change in net assets	2,023,607	5,345,437	929,541	8,298,585
Net assets, beginning of year	<u>23,670,821</u>	<u>11,865,923</u>	<u>36,562,305</u>	<u>72,099,049</u>
Net assets, end of year	<u>\$ 25,694,428</u>	<u>\$ 17,211,360</u>	<u>\$ 37,491,846</u>	<u>\$ 80,397,634</u>

See accompanying notes to financial statements.

VIRGINIA HISTORICAL SOCIETY

Statements of Cash Flows Years Ended June 30, 2014 and 2013

	2014	2013
Cash flows from operating activities:		
Change in net assets	\$ 10,407,492	\$ 8,298,585
Adjustments to reconcile change in net assets to net cash from operating activities:		
Depreciation	912,343	1,015,631
Amortization of bond issuance costs	9,498	74,064
Permanently restricted contributions, including changes in present value of contributions receivable	(78,474)	(929,541)
Net realized and unrealized gain on investments	(5,892,427)	(5,615,303)
Fair value change of interest rate swaps	-	(155,530)
Change in assets and liabilities:		
Accrued interest and dividends	(143,669)	(363,762)
Contributions and grants receivable	(4,837,276)	(2,961,009)
Beneficial interest in a trust	3,222	70,665
Other current assets	58,539	(19,780)
Accounts payable	783,074	(24,335)
Deferred revenue	9,379	3,518
Accrued expenses and other liabilities	(148,678)	(81,364)
Net cash provided by (used in) operating activities	1,083,023	(688,161)
Cash flows from investing activities:		
Purchase of property and equipment	(3,606,008)	(991,379)
Purchase of investments	(629,211)	(4,084,325)
Proceeds from sale of investments	4,312,888	5,340,068
Net cash provided by investing activities	77,669	264,364
Cash flow from financing activities:		
Payment on bonds payable	(186,522)	(5,008,683)
Proceeds from issuance of Series 2013 bonds	-	4,510,072
Payment on note payable	(9,372)	(4,120)
Payment on line of credit	-	(207,000)
Permanently restricted contributions, including changes in present value of contributions receivable	78,474	929,541
Net cash (used in) provided by financing activities	(117,420)	219,810
Net change in cash and cash equivalents	1,043,272	(203,987)
Cash and cash equivalents, beginning of year	1,461,753	1,665,740
Cash and cash equivalents, end of year	\$ 2,505,025	\$ 1,461,753

See accompanying notes to financial statements.

VIRGINIA HISTORICAL SOCIETY

Statements of Cash Flows, Continued
Years Ended June 30, 2014 and 2013

	<u>2014</u>	<u>2013</u>
Supplemental disclosure of cash flow information:		
Cash paid during the year for interest	<u>\$ 139,531</u>	<u>\$ 86,081</u>
Supplemental disclosure of noncash transactions:		
Termination of interest rate swap through bonds payable	<u>\$ -</u>	<u>\$ 363,950</u>
Bond issuance costs financed through bonds payable	<u>\$ -</u>	<u>\$ 149,978</u>

See accompanying notes to financial statements.

VIRGINIA HISTORICAL SOCIETY

Notes to Financial Statements

1. Summary of Significant Accounting Policies:

Organization: The Virginia Historical Society (the “Society”) 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 currently serves the entire Commonwealth of Virginia through its museum and library, as well as through a variety of educational programs.

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

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:

Unrestricted net assets 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.

Temporarily restricted net assets are subject to donor-imposed stipulations that will be met either by actions of the Society and/or the passage of time. These net assets represent contributions and other income, which must be spent for the purpose designated by the donors. Expirations of temporary restrictions on net assets (i.e., donor-stipulated purpose has been fulfilled and/or stipulated time period has elapsed) are reported as reclassifications between the applicable classes of net assets. Temporary restrictions on contributions to acquire long-lived assets are considered met in the period in which the assets are acquired or placed into service. It is the Society’s policy to record temporarily restricted contributions received and expended in the same fiscal year in the unrestricted net asset class.

Permanently restricted net assets are subject to donor-imposed stipulations 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.

Revenues are reported as increases in unrestricted net assets unless use of the related assets is limited by donor-imposed restrictions. Expenses are reported as decreases in unrestricted net assets. Gains and losses on investments are reported as increases or decreases in unrestricted net assets 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 temporary restrictions on net assets (i.e., the donor-stipulated purpose has been fulfilled and/or the stipulated time period has elapsed) are reported as net assets released from restrictions.

VIRGINIA HISTORICAL SOCIETY

Notes to Financial Statements, Continued

1. Summary of Significant Accounting Policies, Continued:

Cash and Cash Equivalents: For purposes of the statement 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: 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, 2014 and 2013, three and one donor(s) accounted for 65% and 44% of total contributions and grants receivable, respectively.

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 temporarily restricted net assets. Contributions and grants receivable are solicited from entities and individuals primarily throughout Virginia.

Investments and Investment Income: The Society accounts for its investments at fair value (see Note 8). 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 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 2014 and \$74,063 for 2013. Amortization expense is expected to be \$9,498 for each of the next five years.

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.

VIRGINIA HISTORICAL SOCIETY

Notes to Financial Statements, Continued

1. Summary of Significant Accounting Policies, Continued:

Collection Objects: In conformity with the practice followed by most museums, the Society's 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 unrestricted net assets or temporarily restricted net assets if the assets used to purchase collection items are restricted by the donor. See Note 4 for a description of the collection objects and library holdings.

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

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 year ended June 30, 2014 and 2013.

Functional Allocation of Expenses: The costs of providing the various programs and other activities have been summarized on a functional basis in the statement of activities. Accordingly, certain costs have been allocated among the programs and supporting services benefited.

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 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 financial statements in conformity with accounting principles generally accepted in the United States. Actual results could differ from those estimates.

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

VIRGINIA HISTORICAL SOCIETY

Notes to Financial Statements, Continued

1. Summary of Significant Accounting Policies, Continued:

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 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 tax returns for years since 2011 remain open for examination by tax authorities. The Society is not currently under audit by any jurisdiction.

Subsequent Events: Management has evaluated subsequent events through January 7, 2015, the date the financial statements were available to be issued. Management has determined there are no subsequent events to be reported in the accompanying financial statements.

2. Investments:

Investments at June 30, 2014 and 2013 are comprised of the following:

	2014		2013	
	Market	Cost	Market	Cost
Cash and cash equivalents	\$ 4,630,874	\$ 4,630,874	\$ 4,829,433	\$ 4,829,433
Equities	11,431,118	7,589,910	14,146,372	10,930,758
Fixed income	3,455,364	3,318,913	3,352,737	3,230,244
Alternative investments	37,205,362	25,464,387	32,185,426	23,708,508
	\$ 56,722,718	\$ 41,004,084	\$ 54,513,968	\$ 42,698,943

VIRGINIA HISTORICAL SOCIETY

Notes to Financial Statements, Continued

2. Investments, Continued:

Investment returns for the years ended June 30, 2014 and 2013 are as follows:

	2014	2013
Interest and dividends	\$ 552,117	\$ 1,124,808
Unrealized gains, net	3,903,609	4,589,894
Realized gains, net	1,988,818	1,025,409
	\$ 6,444,544	\$ 6,740,111

3. Contributions and Grants Receivable:

Contributions Receivable

As of June 30, 2014 and 2013, contributors to the Society have made unconditional written and oral promises to give that relate to the following purposes:

	2014	2013
Unrestricted - split interest agreements	\$ 397,540	\$ 401,712
Temporarily restricted:		
Story of Virginia Campaign	9,249,063	3,679,531
New wing	428,952	495,033
Education	425,286	419,374
Split interest agreements	132,038	403,856
Total temporarily restricted	10,235,339	4,997,794
Permanently restricted	322,534	580,782
Total contributions receivable	\$ 10,955,413	\$ 5,980,288

VIRGINIA HISTORICAL SOCIETY

Notes to Financial Statements, Continued

3. Contributions and Grants Receivable, Continued:

Contributions Receivable, Continued

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

	2014	2013
Year ending June 30:		
Less than one year	\$ 3,034,724	\$ 1,599,008
One year to five years	6,481,313	3,269,567
Thereafter	2,213,334	1,577,838
Gross contributions receivable	11,729,371	6,446,413
Less discount to present value, discount rate 2.152% and 2.195%	773,958	466,125
	\$ 10,955,413	\$ 5,980,288

At June 30, 2014, the Society had received conditional promises to give and indications of intention to give of approximately \$5,327,000. In accordance with GAAP, these conditional promises to give are not recorded in these financial statements. These potential contributions consist primarily of bequests and charitable remainder trusts. If received, approximately \$1,120,000 would be included as permanently restricted net assets, approximately \$780,000 would be included as temporarily restricted net assets, and approximately \$3,427,000 would be included as unrestricted net assets.

Grants Receivable

Grants receivable amounted to \$422,046 at June 30, 2014 and \$559,895 at June 30, 2013. These grants are primarily for the Story of Virginia Campaign.

VIRGINIA HISTORICAL SOCIETY

Notes to Financial Statements, Continued

4. 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 state'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.

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.

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

5. Property and Equipment:

A summary of property and equipment at June 30, 2014 and 2013 is as follows:

	<u>2014</u>	<u>2013</u>
Land	\$ 436,301	\$ 436,301
Buildings and improvements	29,513,682	29,513,682
Equipment and furnishings	9,020,784	8,856,548
Construction in progress	<u>3,909,650</u>	<u>467,878</u>
Total	42,880,417	39,274,409
Less accumulated depreciation	<u>17,291,936</u>	<u>16,379,593</u>
Property and equipment, net	<u>\$ 25,588,481</u>	<u>\$ 22,894,816</u>

VIRGINIA HISTORICAL SOCIETY

Notes to Financial Statements, Continued

6. Bonds Payable:

On June 27, 2013, the Society entered into an agreement with Suntrust and the Virginia Small Business Financing Authority (the "Authority") to issue \$4,914,000 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 2.75%. The outstanding principal balance on the 2013B bonds was \$4,727,478 as of June 30, 2014 and \$4,914,000 as of June 30, 2013.

On June 27, 2013, the Society entered into an agreement with Suntrust and the Authority to issue up to \$15,000,000 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 2.97%. The outstanding principal balance on the 2013A bonds was \$110,000 as of June 30, 2014 and 2013. No principal payments are due on this amount until July 2016. The Society pays a 0.12% unused line of credit fee on the difference between the loan balance and \$15,000,000.

The scheduled principal payments for the bonds are as follows:

<u>Year</u>	<u>Principal</u>
2015	\$ 176,953
2016	308,190
2017	203,710
2018	209,382
2019	745,361
Thereafter	<u>3,193,882</u>
	<u>\$ 4,837,478</u>

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, 2014.

7. Endowment Funds:

There are 62 endowment funds at the Society. These endowment funds were established for a variety of purposes. The endowment funds include both donor-restricted endowment funds and funds designated by the Board of Trustees to function as endowments. As required by GAAP, net assets associated with endowment funds, including funds designated by the Board of Trustees to function as endowments, are classified and reported based on the existence or absence of donor-imposed restrictions.

VIRGINIA HISTORICAL SOCIETY

Notes to Financial Statements, Continued

7. 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 permanently restricted net assets (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 permanently restricted net assets are classified as temporarily restricted net assets until those amounts appropriated for expenditure are disbursed in accordance with the 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 SPIMFA requires the Society to retain as a fund of perpetual duration. In accordance with GAAP, deficiencies of this nature that reduced unrestricted net assets were \$6,352,428 and \$7,028,063 as of June 30, 2014 and 2013. These deficiencies resulted from unfavorable market fluctuations 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.

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

VIRGINIA HISTORICAL SOCIETY

Notes to Financial Statements, Continued

7. Endowment Funds, Continued:

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, 2014:

	Unrestricted	Temporarily Restricted	Permanently Restricted	Total
Donor-restricted endowment funds	\$ (6,352,428)	\$ 8,617,802	\$ 37,570,320	\$ 39,835,694
Board-designated funds	<u>391,372</u>	<u>-</u>	<u>-</u>	<u>391,372</u>
Total funds	<u>\$ (5,961,056)</u>	<u>\$ 8,617,802</u>	<u>\$ 37,570,320</u>	<u>\$ 40,227,066</u>

VIRGINIA HISTORICAL SOCIETY

Notes to Financial Statements, Continued

7. Endowment Funds, Continued:

Endowment net asset composition by type of fund was as follows as of June 30, 2013:

	Unrestricted	Temporarily Restricted	Permanently Restricted	Total
Donor-restricted endowment funds	\$ (7,028,063)	\$ 7,490,862	\$ 37,491,846	\$ 37,954,645
Board-designated funds	<u>381,604</u>	<u>-</u>	<u>-</u>	<u>381,604</u>
Total funds	<u>\$ (6,646,459)</u>	<u>\$ 7,490,862</u>	<u>\$ 37,491,846</u>	<u>\$ 38,336,249</u>

Changes in endowment net assets were as follows for the year ended June 30, 2014:

	Unrestricted	Temporarily Restricted	Permanently Restricted	Total
Net assets (deficit), beginning of year	\$ (6,646,459)	\$ 7,490,862	\$ 37,491,846	\$ 38,336,249
Investment gain, net	3,544,519	2,611,693	-	6,156,212
New gifts, net of uncollectible pledges	-	-	78,474	78,474
Appropriation of endowment assets for expenditure	<u>(2,859,116)</u>	<u>(1,484,753)</u>	<u>-</u>	<u>(4,343,869)</u>
Net assets (deficit), end of year	<u>\$ (5,961,056)</u>	<u>\$ 8,617,802</u>	<u>\$ 37,570,320</u>	<u>\$ 40,227,066</u>

VIRGINIA HISTORICAL SOCIETY

Notes to Financial Statements, Continued

7. Endowment Funds, Continued:

Changes in endowment net assets were as follows for the year ended June 30, 2013:

	Unrestricted	Temporarily Restricted	Permanently Restricted	Total
Net assets (deficit), beginning of year	\$ (7,715,055)	\$ 6,493,750	\$ 36,562,305	\$ 35,341,000
Investment gain, net	2,318,629	2,456,670	-	4,775,299
New gifts, net of uncollectible pledges	-	-	929,541	929,541
Appropriation of endowment assets for expenditure	(1,250,033)	(1,459,558)	-	(2,709,591)
Net assets (deficit), end of year	\$ (6,646,459)	\$ 7,490,862	\$ 37,491,846	\$ 38,336,249

8. Fair Value Measurements:

The Financial Accounting Standards Board (“FASB”) has issued guidance for measurement and disclosure of fair value and establishes a three-tier fair value hierarchy, which prioritizes the inputs used in measuring fair value.

VIRGINIA HISTORICAL SOCIETY

Notes to Financial Statements, Continued

8. Fair Value Measurements, Continued:

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 Association 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: Valued at fair value as determined by the fund's management or general partner of each limited partnership investment. Valuation of interests in underlying investments are based on an amount equal to the investment's pro-rata interest in the net assets, which are at fair value of such limited partnerships, as reported by the management of the limited partnership, adjusted for manager and incentive fees, if any.

VIRGINIA HISTORICAL SOCIETY

Notes to Financial Statements, Continued

8. Fair Value Measurements, Continued:

Assets and liabilities measured at fair value on a recurring basis at June 30, 2014, include the following:

	Fair Value Using			Asset/Liabilities at Fair Value
	Level 1	Level 2	Level 3	
Assets:				
Contributions and grants receivable, net	\$ -	\$ -	\$ 11,377,459	\$ 11,377,459
Investments:				
Cash and cash equivalents	4,630,874	-	-	4,630,874
Equities:				
Common stock	6,053,721	-	-	6,053,721
Foreign stock	891,465	-	-	891,465
Mutual funds - equity	4,485,932	-	-	4,485,932
Total equities	<u>11,431,118</u>	<u>-</u>	<u>-</u>	<u>11,431,118</u>
Fixed income:				
US government bonds	-	561,601	-	561,601
Municipal bonds	-	14,008	-	14,008
Mortgage backed securities	-	848,346	-	848,346
CMO's/asset backed	-	238,845	-	238,845
Corporate bonds	-	1,792,564	-	1,792,564
Total fixed income	<u>-</u>	<u>3,455,364</u>	<u>-</u>	<u>3,455,364</u>
Alternative investments:				
Hedge funds	-	-	23,015,918	23,015,918
Private equity	-	2,398,262	-	2,398,262
Managed real estate	-	-	2,826,705	2,826,705
Managed partnerships	-	8,964,477	-	8,964,477
Total alternative investments	<u>-</u>	<u>11,362,739</u>	<u>25,842,623</u>	<u>37,205,362</u>
Total investments	<u>16,061,992</u>	<u>14,818,103</u>	<u>25,842,623</u>	<u>56,722,718</u>
Beneficial interest	<u>-</u>	<u>10,111</u>	<u>-</u>	<u>10,111</u>
Total assets	<u>\$ 16,061,992</u>	<u>\$ 14,828,214</u>	<u>\$ 37,220,082</u>	<u>\$ 68,110,288</u>

VIRGINIA HISTORICAL SOCIETY

Notes to Financial Statements, Continued

8. Fair Value Measurements, Continued:

	Fair Value Using			Asset/Liabilities at Fair Value
	Level 1	Level 2	Level 3	
Liabilities:				
Annuity obligations	\$ -	\$ 304,894	\$ -	\$ 304,894
Total liabilities	<u>\$ -</u>	<u>\$ 304,894</u>	<u>\$ -</u>	<u>\$ 304,894</u>

Assets and liabilities measured at fair value on a recurring basis at June 30, 2013, include the following:

	Fair Value Using			Asset/Liabilities at Fair Value
	Level 1	Level 2	Level 3	
Assets:				
Contributions and grants receivable, net	\$ -	\$ -	\$ 6,540,183	\$ 6,540,183
Investments:				
Cash and cash equivalents	4,829,433	-	-	4,829,433
Equities:				
Common stock	5,729,828	-	-	5,729,828
Foreign stock	747,916	-	-	747,916
Mutual funds - equity	5,570,077	-	-	5,570,077
Mutual funds - international equity	<u>2,098,551</u>	<u>-</u>	<u>-</u>	<u>2,098,551</u>
Total equities	<u>14,146,372</u>	<u>-</u>	<u>-</u>	<u>14,146,372</u>
Fixed income:				
US government bonds	-	279,090	-	279,090
Municipal bonds	-	12,874	-	12,874
Mortgage backed securities	-	1,030,962	-	1,030,962
CMO's/asset backed	-	246,447	-	246,447
Corporate bonds	<u>-</u>	<u>1,783,364</u>	<u>-</u>	<u>1,783,364</u>
Total fixed income	<u>-</u>	<u>3,352,737</u>	<u>-</u>	<u>3,352,737</u>

VIRGINIA HISTORICAL SOCIETY

Notes to Financial Statements, Continued

8. Fair Value Measurements, Continued:

	Fair Value Using			Asset/Liabilities at Fair Value
	Level 1	Level 2	Level 3	
Alternative investments:				
Hedge funds	\$ -	\$ -	\$ 20,951,834	\$ 20,951,834
Private equity	-	1,886,388	-	1,886,388
Managed real estate	-	-	5,351,389	5,351,389
Managed partnerships	-	3,995,815	-	3,995,815
Total alternative investments	-	5,882,203	26,303,223	32,185,426
Total investments	18,975,805	9,234,940	26,303,223	54,513,968
Beneficial interest	-	13,333	-	13,333
 Total assets	<u>\$ 18,975,805</u>	<u>\$ 9,248,273</u>	<u>\$ 32,843,406</u>	<u>\$ 61,067,484</u>
 Liabilities:				
 Annuity obligations	<u>\$ -</u>	<u>\$ 302,953</u>	<u>\$ -</u>	<u>\$ 302,953</u>
 Total liabilities	<u>\$ -</u>	<u>\$ 302,953</u>	<u>\$ -</u>	<u>\$ 302,953</u>

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.

VIRGINIA HISTORICAL SOCIETY

Notes to Financial Statements, Continued

8. Fair Value Measurements, Continued:

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 Receivable, Net	Alternative Investments	Total
	<u> </u>	<u> </u>	<u> </u>
Balance at July 1, 2012	\$ 3,579,174	\$ 24,128,024	\$ 27,707,198
Purchases of investments	-	7,848,149	7,848,149
Sales of investments	-	(8,110,928)	(8,110,928)
Realized and unrealized gains	-	2,437,978	2,437,978
New pledges and grants	6,822,667	-	6,822,667
Pledge and grants payments received	(3,618,968)	-	(3,618,968)
Change in pledges and grants discount	<u>(242,690)</u>	<u>-</u>	<u>(242,690)</u>
Balance at June 30, 2013	6,540,183	26,303,223	32,843,406
Purchases of investments	-	6,215,113	6,215,113
Sales of investments	-	(8,463,403)	(8,463,403)
Realized and unrealized gains	-	1,787,690	1,787,690
New pledges and grants	7,467,171	-	7,467,171
Pledge and grant payments received	(2,224,712)	-	(2,224,712)
Write off of deferred gifts	(105,397)	-	(105,397)
Change in pledges and grants discount	<u>(299,786)</u>	<u>-</u>	<u>(299,786)</u>
Balance at June 30, 2014	<u>\$ 11,377,459</u>	<u>\$ 25,842,623</u>	<u>\$ 37,220,082</u>

VIRGINIA HISTORICAL SOCIETY

Notes to Financial Statements, Continued

8. Fair Value Measurements, Continued:

The Society's investments in alternative investments are subject to restrictions on the frequency of redemptions. At June 30, 2014 and 2013, the redemption limits and related amounts were as follows:

Redemption Limit	2014	2013
Monthly	\$ 9,198,296	\$ 4,525,756
Monthly (beginning 12 months after initial purchase)	4,107,743	2,216,204
Quarterly	4,295,258	1,356,448
Quarterly (beginning 12 months after initial purchase)	10,381,355	11,203,888
Semi-annually	2,208,759	217,723
Annually	-	3,177,507
Annually (beginning 24 months after initial purchase)	4,187,246	4,136,511
Upon sale of underlying investments	2,826,705	5,351,389
	\$ 37,205,362	\$ 32,185,426

9. Rental Income:

During 1996, the Society agreed to the terms of an operating lease covering certain space with the Department of Historic Resources of the Commonwealth of Virginia. The commencement date of the lease was March 1, 1998. Rent is to be paid annually on July 1 for the lease term of 20 years. Thus, deferred revenue equal to the entire annual payment is recorded on the statement of financial position at each June 30. Annual payments escalate at a rate of 50% of the previous year's increase in the Consumer Price Index. Rental income was \$302,318 and \$304,316 for the years ended June 30, 2014 and 2013.

VIRGINIA HISTORICAL SOCIETY

Notes to Financial Statements, Continued

10. Leases:

The Society leases copiers, mailing equipment, and a parking lot under operating leases. Rental expense was \$33,909 and \$33,056 for the years ended June 30, 2014 and 2013.

Minimum future payments under non-cancellable operating leases at June 30, 2014 are as follows:

2015	\$	30,206
2016		11,167
2017		11,167
2018		5,592
2019		<u>3,506</u>
Future minimum lease payments	\$	<u>61,638</u>

11. Defined Contribution 401(k) Retirement Plan:

The Society began a 401(k) retirement plan in 1997. 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. Effective July 1, 2012, the Society increased the employer matching contribution to 4%. Employees are vested in employer contributions as follows:

Years of service	Vesting percentage
1	33%
2	66%
3 or more	100%

Employees are allowed to borrow from their accounts subject to the provisions of the plan document. The total expense for the Plan was \$137,334 and \$101,452 for the years ended June 30, 2014 and 2013.

VIRGINIA HISTORICAL SOCIETY

Notes to Financial Statements, Continued

12. Executive Retirement Plan – 457(b):

The Society began a 457(b) Nonqualified Executive Retirement Plan (the “Plan”) effective August 1, 2007. 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 vested in employer contributions as follows:

Years of service	Vesting percentage
1	33%
2	66%
3 or more	100%

The total expense for the Plan was \$2,650 for the years ended June 30, 2014 and 2013.

13. Temporarily Restricted Net Assets:

Temporarily restricted net assets available were \$25,915,048 and \$17,211,360 June 30, 2014 and 2013, including:

	2014	2013
Time restricted	\$ 2,534,373	\$ 2,080,870
Campaign funds	14,762,873	7,639,628
Unapproved or unspent appreciation	8,617,802	7,490,862
Total temporarily restricted net assets	\$ 25,915,048	\$ 17,211,360

Net assets released for expenses satisfying the restricted purposes of contributions and grants during 2014 and 2013 were related to meeting time restrictions.

VIRGINIA HISTORICAL SOCIETY

Notes to Financial Statements, Continued

14. **Commitments and Contingencies:**

The Society entered into a contract for the renovation of its facility and paid \$3,909,650 as of June 30, 2014 and \$467,878 as of June 30, 2013. These amounts are recorded as construction in progress as part of property and equipment (See Note 5). The Society is committed to pay approximately \$10 million during 2015 in connection to the renovation project.

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

REPORT OF INDEPENDENT ACCOUNTANTS

To the Board of Trustees
Virginia Historical Society

We have audited the financial statements of the Virginia Historical Society as of June 30, 2014 and 2013 and for the years then ended and our report thereon dated January 7, 2015, which expressed an unqualified opinion on those financial statements appears on page 1. Our audits were conducted for the purpose of forming and opinion on the financial statements as a whole. The supplemental information is presented for the purpose of additional analysis and is not a required part of the financial statements. Such information is the responsibility of management and was derived from and relates directly to the underlying accounting and other records used to prepare the financial statements. The information has been subjected to the auditing procedures applied in the audits of the financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the financial statements or to the financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States. In our opinion, the information is fairly stated in all material respects in relation to the financial statements as a whole.



January 7, 2015
Glen Allen, Virginia

VIRGINIA HISTORICAL SOCIETY

Schedules of Functional Expenses
Year Ended June 30, 2014 with Comparative Totals for 2013

	<u>Program services</u>		<u>Supporting services</u>		<u>2014 Total</u>	<u>2013 Total</u>
	<u>Collections</u>	<u>Programs</u>	<u>Operations</u>	<u>Advancement</u>		
Salaries	\$ 747,485	\$ 1,466,657	\$ 506,071	\$ 336,495	\$ 3,056,708	\$ 3,055,985
Pension contributions	-	-	139,984	-	139,984	104,102
Employee benefits	116,893	226,727	65,886	35,393	444,899	467,244
Payroll taxes	52,249	108,306	57,714	23,111	241,380	242,539
Accounting fees	-	-	44,240	-	44,240	37,220
Legal fees	-	-	3,863	-	3,863	16,363
Supplies	39,586	116,124	32,121	9,939	197,771	203,800
Telephone	19,174	32,629	6,056	8,073	65,932	52,983
Postage	3,359	45,626	799	70,884	120,668	156,056
Occupancy	96,329	410,625	99,106	13,780	619,840	614,091
Equipment rental	11,313	14,271	3,568	4,757	33,909	33,056
Printing & publications	325	77,419	57	136,969	214,770	164,111
Travel	2,426	112,575	32,652	1,219	148,872	173,678
Interest	29,806	93,533	26,063	4,652	154,054	300,630
Depreciation	176,516	553,922	154,353	27,552	912,343	1,015,631
Other	380,225	1,121,424	63,615	111,668	1,676,932	1,363,282
Total expenses	<u>\$ 1,675,687</u>	<u>\$ 4,379,838</u>	<u>\$ 1,236,147</u>	<u>\$ 784,493</u>	<u>\$ 8,076,165</u>	<u>\$ 8,000,771</u>

See independent accountants' report on supplemental information

VIRGINIA HISTORICAL SOCIETY

Schedules of Functional Expenses
Year Ended June 30, 2013

	<u>Program services</u>		<u>Supporting services</u>		<u>Total expenses</u>
	<u>Collections</u>	<u>Programs</u>	<u>Operations</u>	<u>Advancement</u>	
Salaries	\$ 777,408	\$ 1,464,117	\$ 485,059	\$ 329,401	\$ 3,055,985
Pension contributions	-	-	104,102	-	104,102
Employee benefits	118,412	244,807	67,696	36,329	467,244
Payroll taxes	54,288	107,900	57,987	22,364	242,539
Accounting fees	-	-	37,220	-	37,220
Legal fees	-	-	16,363	-	16,363
Supplies	38,743	124,759	29,446	10,852	203,800
Telephone	14,855	27,182	4,691	6,255	52,983
Postage	3,315	83,219	775	68,748	156,056
Occupancy	91,934	406,760	108,011	7,387	614,091
Equipment rental	11,379	14,373	2,511	4,792	33,056
Printing & publications	832	79,680	350	83,250	164,111
Travel	8,526	135,693	27,013	2,446	173,678
Interest	58,224	182,712	50,606	9,088	300,630
Depreciation	196,499	616,633	171,828	30,671	1,015,631
Other	394,733	775,168	72,556	120,825	1,363,282
	<u>\$ 1,769,147</u>	<u>\$ 4,263,003</u>	<u>\$ 1,236,213</u>	<u>\$ 732,408</u>	<u>\$ 8,000,771</u>
Total expenses	<u>\$ 1,769,147</u>	<u>\$ 4,263,003</u>	<u>\$ 1,236,213</u>	<u>\$ 732,408</u>	<u>\$ 8,000,771</u>

See independent accountants' report on supplemental information