



Financial Statements

June 30, 2015 and 2014



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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, 2015 and 2014, 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, 2015 and 2014, 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 21, 2016
Glen Allen, Virginia

VIRGINIA HISTORICAL SOCIETY

Statements of Financial Position June 30, 2015 and 2014

	2015	2014
<u>Assets</u>		
Current assets:		
Cash and cash equivalents	\$ 4,640,931	\$ 2,505,025
Accrued interest and dividends	26,012	36,595
Contributions receivable, current (Note 3)	2,565,304	3,034,724
Grants receivable, current (Note 3)	182,644	375,183
Property held for sale	355,207	-
Other current assets	292,298	274,528
Total current assets	8,062,396	6,226,055
Investments (Note 2)	55,882,022	57,234,289
Contributions receivable (Note 3)	4,646,037	7,920,689
Grants receivable (Note 3)	13,953	46,863
Beneficial interest in a trust	-	10,111
Bond issuance costs, net	130,982	140,480
Property and equipment, net (Note 5)	34,796,705	25,588,481
Total assets	\$ 103,532,095	\$ 97,166,968
<u>Liabilities and Net Assets</u>		
Current liabilities:		
Accounts payable	\$ 2,657,870	\$ 852,910
Accrued expenses and other liabilities	381,804	327,156
Current portion of bonds payable (Note 6)	181,881	176,953
Deferred revenue (Note 9)	359,951	344,298
Total current liabilities	3,581,506	1,701,317
Bonds payable, less current portion (Note 6)	11,879,239	4,660,525
Total liabilities	15,460,745	6,361,842
Net assets:		
Unrestricted	33,575,693	27,319,758
Temporarily restricted (Note 13)	16,649,320	25,915,048
Permanently restricted	37,846,337	37,570,320
Total net assets	88,071,350	90,805,126
Total liabilities and net assets	\$ 103,532,095	\$ 97,166,968

See accompanying notes to financial statements.

VIRGINIA HISTORICAL SOCIETY

Statements of Activities
Year Ended June 30, 2015 with Comparative Totals for 2014

	2015			2014	
	Unrestricted	Temporarily Restricted	Permanently Restricted	Total	Total
Support and revenue:					
Membership dues	\$ 238,941	\$ -	\$ -	\$ 238,941	\$ 256,855
Annual giving	1,100,875	-	-	1,100,875	1,065,157
Investment return (Note 2)	1,169,593	812,872	-	1,982,465	6,444,544
Contributions	52,301	1,198,231	276,017	1,526,549	9,415,564
Grants	34,535	2,098,405	-	2,132,940	617,554
Publications and merchandise sales	114,201	-	-	114,201	171,958
Royalties	6,735	-	-	6,735	8,757
Rental income (Note 9)	308,888	-	-	308,888	302,318
Fees and admissions	136,417	-	-	136,417	175,450
Other	12,832	-	-	12,832	25,500
Total support and revenue	<u>3,175,318</u>	<u>4,109,508</u>	<u>276,017</u>	<u>7,560,843</u>	<u>18,483,657</u>
Net assets released from restriction	<u>13,375,236</u>	<u>(13,375,236)</u>	<u>-</u>	<u>-</u>	<u>-</u>
Expenditures:					
Program services:					
Collections	1,611,185	-	-	1,611,185	1,675,687
Programs	5,379,623	-	-	5,379,623	3,555,788
Research	953,738	-	-	953,738	824,050
Supporting services:					
Operations	1,521,286	-	-	1,521,286	1,236,147
Advancement	828,787	-	-	828,787	784,493
Total expenditures	<u>10,294,619</u>	<u>-</u>	<u>-</u>	<u>10,294,619</u>	<u>8,076,165</u>
Change in net assets	6,255,935	(9,265,728)	276,017	(2,733,776)	10,407,492
Net assets, beginning 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>
Net assets, end of year	<u>\$ 33,575,693</u>	<u>\$ 16,649,320</u>	<u>\$ 37,846,337</u>	<u>\$ 88,071,350</u>	<u>\$ 90,805,126</u>

See accompanying notes to financial statements.

VIRGINIA HISTORICAL SOCIETY

Statements of Activities
Year Ended June 30, 2014

	Unrestricted	Temporarily Restricted	Permanently Restricted	Total
Support and revenue:				
Membership dues	\$ 256,855	\$ -	\$ -	\$ 256,855
Annual giving	1,065,157	-	-	1,065,157
Investment return (Note 2)	3,832,851	2,611,693	-	6,444,544
Contributions	2,565	9,334,525	78,474	9,415,564
Grants	35,560	581,994	-	617,554
Publications and merchandise sales	171,958	-	-	171,958
Royalties	8,757	-	-	8,757
Rental income (Note 9)	302,318	-	-	302,318
Fees and admissions	175,450	-	-	175,450
Other	26,256	(756)	-	25,500
	<u>5,877,727</u>	<u>12,527,456</u>	<u>78,474</u>	<u>18,483,657</u>
Total support and revenue				
Net assets released from restriction	<u>3,823,768</u>	<u>(3,823,768)</u>	<u>-</u>	<u>-</u>
Expenditures:				
Program services:				
Collections	1,675,687	-	-	1,675,687
Programs	3,555,788	-	-	3,555,788
Research	824,050	-	-	824,050
Supporting services:				
Operations	1,236,147	-	-	1,236,147
Advancement	784,493	-	-	784,493
	<u>8,076,165</u>	<u>-</u>	<u>-</u>	<u>8,076,165</u>
Total expenditures				
Change in net assets	1,625,330	8,703,688	78,474	10,407,492
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>
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>

See accompanying notes to financial statements.

VIRGINIA HISTORICAL SOCIETY

Statements of Cash Flows Years Ended June 30, 2015 and 2014

	2015	2014
Cash flows from operating activities:		
Change in net assets	\$ (2,733,776)	\$ 10,407,492
Adjustments to reconcile change in net assets to net cash from operating activities:		
Depreciation	963,407	912,343
Amortization of bond issuance costs	9,498	9,498
Permanently restricted contributions, including changes in present value of contributions receivable	(276,017)	(78,474)
Contributed property held for sale	(355,207)	-
Investment income, net of fees	(1,757,224)	(6,035,284)
Change in assets and liabilities:		
Accrued interest and dividends	10,583	(812)
Contributions and grants receivable	3,969,521	(4,837,276)
Beneficial interest in a trust	10,111	3,222
Other current assets	(17,770)	58,539
Accounts payable	1,804,960	783,074
Deferred revenue	15,653	9,379
Accrued expenses and other liabilities	54,648	(148,678)
Net cash provided by operating activities	1,698,387	1,083,023
Cash flows from investing activities:		
Purchase of property and equipment, net	(10,171,631)	(3,606,008)
Purchase of investments	(453,918)	(629,211)
Proceeds from sale of investments	3,563,409	4,312,888
Net cash (used in) provided by investing activities	(7,062,140)	77,669
Cash flow from financing activities:		
Payment on bonds payable	(193,262)	(186,522)
Proceeds from issuance of Series 2013 bonds	7,416,904	-
Payment on note payable	-	(9,372)
Permanently restricted contributions, including changes in present value of contributions receivable	276,017	78,474
Net cash provided by (used in) financing activities	7,499,659	(117,420)
Net change in cash and cash equivalents	2,135,906	1,043,272
Cash and cash equivalents, beginning of year	2,505,025	1,461,753
Cash and cash equivalents, end of year	\$ 4,640,931	\$ 2,505,025
Supplemental disclosure of cash flow information:		
Cash paid during the year for interest, including amount capitalized	\$ 242,723	\$ 139,531

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, 2015 and 2014, three donors accounted for 64% and 65% 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.

Property Held for Sale: Property held for sale is recorded at fair value.

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 2015 and 2014. 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 years ended June 30, 2015 and 2014.

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 Society is not currently under audit by any jurisdiction.

Adoption of New Accounting Standard: In May 2015, the FASB issued Accounting Standards Update (ASU) No. 2015-07, *Disclosures for Investments in Certain Entities That Calculate Net Asset Value per Share (or Its Equivalent)*, which eliminates the requirement to categorize investments in the fair value hierarchy if their fair value is measured using NAV per share (or its equivalent) using the practical expedient under FASB ASC Topic 820, *Fair Value Measurement*. The amendments in this ASU are effective for the Society for its fiscal years beginning after December 15, 2016, with early application permitted. The Society has elected to early adopt this ASU and the adoption of this ASU is reflected in the fair value hierarchy table in Note 8 where the investments in private equity and hedge funds reported at net asset value per share as a practical expedient of fair value are not categorized in the fair value hierarchy.

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

Subsequent Events: Management has evaluated subsequent events through January 21, 2016, 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, except as described below.

On August 10, 2015, Story of Virginia, LLC ("SOV") was established to own and manage real estate. During fiscal year 2016, SOV will raise capital from investors who will in turn receive historic rehabilitation tax credits. The capital raised from investors will be used to assist in the payment of the renovations to the Virginia Historical Society facility. Virginia Historical Society is the general partner and will be required to consolidate SOV's future financial statements.

VIRGINIA HISTORICAL SOCIETY

Notes to Financial Statements, Continued

2. Investments:

Investments at June 30, 2015 and 2014 are comprised of the following:

	2015		2014	
	Market	Cost	Market	Cost
Cash and cash equivalents	\$ 2,379,601	\$ 2,379,601	\$ 4,630,874	\$ 4,630,874
Equities	8,366,216	6,520,894	11,431,118	7,838,239
Fixed income	2,570,211	2,561,204	3,455,364	3,446,258
Alternative investments	42,565,994	35,634,914	37,716,933	30,831,130
	<u>\$ 55,882,022</u>	<u>\$ 47,096,613</u>	<u>\$ 57,234,289</u>	<u>\$ 46,746,501</u>

Investment returns for the years ended June 30, 2015 and 2014 are as follows:

	2015	2014
Interest and dividends, net	\$ 422,137	\$ 408,449
Unrealized (losses) gains, net	(1,427,121)	702,734
Realized gains, net	<u>2,987,449</u>	<u>5,333,361</u>
	<u>\$ 1,982,465</u>	<u>\$ 6,444,544</u>

The Society paid management fees to fund managers and investment advisors totaling \$225,241 in 2015 and \$214,132 in 2014.

VIRGINIA HISTORICAL SOCIETY

Notes to Financial Statements, Continued

3. Contributions and Grants Receivable:

Contributions Receivable

As of June 30, 2015 and 2014, contributors to the Society have made unconditional written and oral promises to give that relate to the following purposes:

	2015	2014
Unrestricted - split interest agreements	\$ 391,301	\$ 397,540
Temporarily restricted:		
Story of Virginia Campaign	5,837,287	9,249,063
New wing	371,099	428,952
Education	428,839	425,286
Split interest agreements	131,278	132,038
Total temporarily restricted	6,768,503	10,235,339
Permanently restricted	51,537	322,534
Total contributions receivable	\$ 7,211,341	\$ 10,955,413

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

	2015	2014
Year ending June 30:		
Less than one year	\$ 2,565,304	\$ 3,034,724
One year to five years	3,942,288	6,481,313
Thereafter	1,154,665	2,213,334
Gross contributions receivable	7,662,257	11,729,371
Less discount to present value, discount rate 2.186% and 2.152%	450,916	773,958
	\$ 7,211,341	\$ 10,955,413

VIRGINIA HISTORICAL SOCIETY

Notes to Financial Statements, Continued

3. Contributions and Grants Receivable, Continued:

At June 30, 2015, 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

The Society has received grants primarily for the Story of Virginia Campaign. The Society projects to receive these grants as follows:

	2015	2014
Year ending June 30:		
Less than one year	\$ 182,644	\$ 375,183
One year to five years	15,000	50,000
Gross grants receivable	197,644	425,183
Less discount to present value, discount rate 2.186% and 2.152%	1,047	3,137
	\$ 196,597	\$ 422,046

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.

VIRGINIA HISTORICAL SOCIETY

Notes to Financial Statements, Continued

4. 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.

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, 2015 and 2014 is as follows:

	<u>2015</u>	<u>2014</u>
Land	\$ 436,301	\$ 436,301
Buildings and improvements	29,951,034	29,513,682
Equipment and furnishings	9,052,607	9,020,784
Construction in progress	<u>13,600,643</u>	<u>3,909,650</u>
Total	53,040,585	42,880,417
Less accumulated depreciation	<u>18,243,880</u>	<u>17,291,936</u>
Property and equipment, net	<u>\$ 34,796,705</u>	<u>\$ 25,588,481</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 \$4,534,216 as of June 30, 2015 and \$4,727,478 as of June 30, 2014.

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 \$7,526,904 as of June 30, 2015 and \$110,000 as of June 30, 2014. 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>
2016	\$ 181,881
2017	549,276
2018	565,352
2019	1,112,048
2020	1,143,845
Thereafter	<u>8,508,718</u>
	<u>\$ 12,061,120</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, 2015.

VIRGINIA HISTORICAL SOCIETY

Notes to Financial Statements, Continued

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.

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 \$6,951,749 and \$6,352,428 as of June 30, 2015 and 2014. 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.

VIRGINIA HISTORICAL SOCIETY

Notes to Financial Statements, Continued

7. Endowment Funds, Continued:

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

The Society expects its endowment funds over time to provide an average rate of return of approximately 5 percent annually. Actual returns in any given year may vary from this amount.

Strategies Employed for Achieving Objectives: To satisfy its long-term rate-of-return objectives, the Society relies on a total return strategy in which investment returns are achieved through both capital appreciation (realized and unrealized) and current yield (interest and dividends). The Society targets a diversified asset allocation that places a greater emphasis on equity-based investments to achieve its long-term return objectives within prudent risk constraints.

Spending Policy and How the Investment Objectives Relate to Spending Policy: The long-term objective of the spending policy is to maintain the purchasing power of the Society endowment with the goal of providing a predictable and sustainable level of income to support current operations. Spending for any given year should not exceed 5% of the 12 quarter rolling average of assets under management excluding any physical assets. The formula or percentage may be modified by the Board or its designated committee. This policy is consistent with the objectives of maintaining the purchasing power of the endowment assets held either in perpetuity or for a specific term, which also should experience additional real growth through gifts, bequests and other new capital infusions.

Endowment net asset composition by type of fund was as follows as of June 30, 2015:

	Unrestricted	Temporarily Restricted	Permanently Restricted	Total
Donor-restricted endowment funds	\$ (6,951,749)	\$ 8,074,891	\$ 37,846,337	\$ 38,969,479
Board-designated funds	384,929	-	-	384,929
 Total funds	 \$ (6,566,820)	 \$ 8,074,891	 \$ 37,846,337	 \$ 39,354,408

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, 2014:

	<u>Unrestricted</u>	<u>Temporarily Restricted</u>	<u>Permanently Restricted</u>	<u>Total</u>
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>

Changes in endowment net assets were as follows for the year ended June 30, 2015:

	<u>Unrestricted</u>	<u>Temporarily Restricted</u>	<u>Permanently Restricted</u>	<u>Total</u>
Net assets (deficit), beginning of year	\$ (5,961,056)	\$ 8,617,802	\$ 37,570,320	\$ 40,227,066
Investment gain, net	835,493	812,872	-	1,648,365
New gifts, net of uncollectible pledges	-	-	276,017	276,017
Appropriation of endowment assets for expenditure	<u>(1,441,257)</u>	<u>(1,355,783)</u>	<u>-</u>	<u>(2,797,040)</u>
Net assets (deficit), end of year	<u>\$ (6,566,820)</u>	<u>\$ 8,074,891</u>	<u>\$ 37,846,337</u>	<u>\$ 39,354,408</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, 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	2,649,103	2,611,693	-	5,260,796
New gifts, net of uncollectible pledges	-	-	78,474	78,474
Appropriation of endowment assets for expenditure	<u>(1,963,700)</u>	<u>(1,484,753)</u>	<u>-</u>	<u>(3,448,453)</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>

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.

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:

VIRGINIA HISTORICAL SOCIETY

Notes to Financial Statements, Continued

8. Fair Value Measurements, Continued:

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.

Property held for sale: Valued based on the sales price of the property subsequent to year end.

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 Financial Statements, Continued

8. Fair Value Measurements, Continued:

Assets and liabilities measured at fair value on a recurring basis at June 30, 2015, include the following:

	Fair Value Using			Asset/Liabilities at Fair Value
	Level 1	Level 2	Level 3	
Assets:				
Contributions and grants receivable, net	\$ -	\$ -	\$ 7,407,938	\$ 7,407,938
Property held for sale	355,207	-	-	355,207
Investments:				
Cash and cash equivalents	2,379,601	-	-	2,379,601
Equities:				
Common stock	5,565,151	-	-	5,565,151
Foreign stock	766,592	-	-	766,592
Mutual funds	2,034,473	-	-	2,034,473
Total equities	8,366,216	-	-	8,366,216
Fixed income:				
US government and municipal bonds	-	311,806	-	311,806
Mortgage backed securities and CMO's	-	882,807	-	882,807
Corporate bonds	-	1,375,598	-	1,375,598
Total fixed income	-	2,570,211	-	2,570,211
Alternative investments measured at NAV ^(d)	-	-	-	42,565,994
Total investments	10,745,817	2,570,211	-	55,882,022
Total assets	\$ 11,101,024	\$ 2,570,211	\$ 7,407,938	\$ 63,645,167
Liabilities:				
Annuity obligations	\$ -	\$ 294,675	\$ -	\$ 294,675
Total liabilities	\$ -	\$ 294,675	\$ -	\$ 294,675

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	4,485,932	-	-	4,485,932
Total equities	11,431,118	-	-	11,431,118
Fixed income:				
US government and municipal bonds	-	575,609	-	575,609
Mortgage backed securities and CMO's	-	1,087,191	-	1,087,191
Corporate bonds	-	1,792,564	-	1,792,564
Total fixed income	-	3,455,364	-	3,455,364
Alternative investments measured at NAV ^(a)	-	-	-	37,716,933
Total investments	16,061,992	3,455,364	-	57,234,289
Beneficial interest	-	10,111	-	10,111
Total assets	\$ 16,061,992	\$ 3,465,475	\$ 11,377,459	\$ 68,621,859
Liabilities:				
Annuity obligations	\$ -	\$ 304,894	\$ -	\$ 304,894
Total liabilities	\$ -	\$ 304,894	\$ -	\$ 304,894

(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 statement of net assets available for benefits.

VIRGINIA HISTORICAL SOCIETY

Notes to Financial Statements, Continued

8. 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 Receivable, Net
Balance at July 1, 2013	\$ 6,540,183
New pledges and grants	7,467,171
Pledge and grants payments received	(2,224,712)
Write off of deferred gifts	(105,397)
Change in pledges and grants discount	(299,786)
Balance at June 30, 2014	11,377,459
New pledges and grants	934,644
Pledge and grant payments received	(5,229,398)
Change in pledges and grants discount	325,233
Balance at June 30, 2015	\$ 7,407,938

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, 2015 and 2014, the redemption limits and related amounts were as follows:

Redemption Limit	2015	2014
Monthly	\$ 7,648,560	\$ 9,198,296
Monthly (beginning 12 months after initial purchase)	3,757,366	4,107,743
Quarterly	5,438,892	4,611,829
Quarterly (beginning 12 months after initial purchase)	13,253,268	10,381,355
Semi-annually	4,769,518	2,403,759
Annually (beginning 24 months after initial purchase)	4,351,766	4,187,246
Upon sale of underlying investments	3,346,624	2,826,705
	\$ 42,565,994	\$ 37,716,933

The Society had unfunded alternative investment commitments of \$2,805,806 as of June 30, 2015.

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 \$308,888 and \$302,318 for the years ended June 30, 2015 and 2014.

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 \$33,313 and \$33,909 for the years ended June 30, 2015 and 2014.

Minimum future payments under non-cancellable operating leases at June 30, 2015 are as follows:

2016	\$ 29,767
2017	16,267
2018	10,737
2019	7,905
2020	<u>6,503</u>
Future minimum lease payments	<u>\$ 71,179</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. The Society makes an employer matching contribution of 6%. Employees are vested in employer contributions as follows:

<u>Years of service</u>	<u>Vesting percentage</u>
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 \$141,585 and \$137,334 for the years ended June 30, 2015 and 2014.

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, 2015 and 2014.

13. Temporarily Restricted Net Assets:

Temporarily restricted net assets available were \$16,649,320 and \$25,915,048 at June 30, 2015 and 2014, including:

	2015	2014
Time restricted	\$ 2,137,102	\$ 2,534,373
Campaign funds	6,437,327	14,762,873
Unapproved or unspent appreciation	8,074,891	8,617,802
Total temporarily restricted net assets	\$ 16,649,320	\$ 25,915,048

Net assets released for expenses satisfying the restricted purposes of contributions and grants during 2015 and 2014 were related to meeting time and purpose 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 \$13,608,148 as of June 30, 2015 and \$3,909,650 as of June 30, 2014. These amounts are recorded as construction in progress and buildings and improvements as part of property and equipment (See Note 5). The Society is committed to pay approximately \$1 million during 2016 in connection with 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 ON SUPPLEMENTAL INFORMATION

To the Board of Trustees
Virginia Historical Society

We have audited the financial statements of the Virginia Historical Society as of June 30, 2015 and 2014 and for the years then ended and our report thereon dated January 21, 2016, which expressed an unqualified opinion on those financial statements appears on page 1. Our audits were conducted for the purpose of forming an 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 21, 2016
Glen Allen, Virginia

VIRGINIA HISTORICAL SOCIETY

Schedule of Functional Expenses
Year Ended June 30, 2015 with Comparative Totals for 2014

	Program services			Supporting services		2015 Total	2014 Total
	Collections	Programs	Research	Operations	Advancement		
Salaries	\$ 779,469	\$ 1,103,170	\$ 340,425	\$ 524,514	\$ 352,647	\$ 3,100,225	\$ 3,056,708
Pension contributions	-	-	-	144,235	-	144,235	139,984
Employee benefits	127,790	167,391	47,304	70,206	37,634	450,325	444,899
Payroll taxes	54,980	80,384	25,292	52,645	23,983	237,284	241,380
Accounting fees	-	-	-	50,336	-	50,336	44,240
Legal fees	-	-	-	-	-	-	3,863
Exhibit costs	-	2,621,058	-	-	-	2,621,058	543,315
Supplies	59,171	119,738	19,947	31,775	10,463	241,094	197,771
Telephone	19,126	26,936	4,026	6,040	8,052	64,180	65,932
Postage	4,485	57,818	541	811	73,695	137,350	120,668
Occupancy	101,930	210,218	166,487	106,964	14,581	600,180	619,840
Equipment rental	12,483	14,982	3,340	58,739	4,763	94,307	33,909
Printing & publications	3,455	88,092	24	980	151,641	244,192	214,770
Travel	4,250	136,128	1,861	32,682	3,501	178,422	148,872
Interest	27,737	43,584	43,458	24,254	4,329	143,362	154,054
Depreciation	186,395	292,883	292,042	162,993	29,094	963,407	912,343
Other	229,914	417,241	8,991	254,112	114,404	1,024,662	1,133,617
Total expenses	\$ 1,611,185	\$ 5,379,623	\$ 953,738	\$ 1,521,286	\$ 828,787	\$ 10,294,619	\$ 8,076,165

See independent accountants' report on supplemental information.