



**VERMONT HISTORICAL SOCIETY, INC.**

**FINANCIAL STATEMENTS**

**JUNE 30, 2016**

**JMM & ASSOCIATES  
CERTIFIED PUBLIC ACCOUNTANTS**

**VERMONT HISTORICAL SOCIETY, INC.**

**FINANCIAL STATEMENTS**

**JUNE 30, 2016**

VERMONT HISTORICAL SOCIETY, INC.

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VT License #92-0000171

## INDEPENDENT AUDITOR'S REPORT

To the Board of Directors of  
Vermont Historical Society, Inc.  
Barre, Vermont

We have audited the accompanying financial statements of Vermont Historical Society, Inc. a nonprofit organization, which comprise the statements of financial position as of June 30, 2016, and the related statements of activities, functional expenses and cash flows for the year 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 of America; 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 audit. We conducted our audit in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audit 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.

JMM & ASSOCIATES ■ CERTIFIED PUBLIC ACCOUNTANTS

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## **Opinion**

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of Vermont Historical Society, Inc. as of June 30, 2016 and the changes in its net assets and its cash flows for the year then ended, in accordance with accounting principles generally accepted in the United States of America.

## **Prior Period Financial Statements**

The financial statements of Vermont Historical Society, Inc. as of June 30, 2015 were audited by other auditors whose report dated January 6, 2016 expressed an unmodified opinion on those statements.

*Jmm & Associates*

October 15, 2016

VERMONT HISTORICAL SOCIETY, INC.  
STATEMENT OF FINANCIAL POSITION  
JUNE 30, 2016  
(WITH COMPARATIVE TOTALS FOR 2015)

A S S E T S

	2016	2015
<b>CURRENT ASSETS</b>		
Cash	\$ 334,170	\$ 226,362
Accounts receivable	3,778	7,062
Pledges receivable - current portion	31,050	137,850
Inventory, net	35,758	39,374
Prepaid expenses	16,024	25,068
 <b>TOTAL CURRENT ASSETS</b>	 420,780	 435,716
 <b>PROPERTY AND EQUIPMENT</b>		
Buildings	7,023,959	7,017,239
Equipment and software	535,483	545,735
	7,559,442	7,562,974
Less accumulated depreciation	(2,198,759)	(2,044,216)
 <b>TOTAL PROPERTY AND EQUIPMENT</b>	 5,360,683	 5,518,758
 <b>OTHER ASSETS</b>		
Investments	2,037,439	2,200,895
Pledges receivable, net of current portion	-	54,746
Bequest receivable	87,215	74,620
Beneficial interest in assets held by others	111,043	116,780
 <b>TOTAL OTHER ASSETS</b>	 2,235,697	 2,447,041
 <b>TOTAL ASSETS</b>	 \$ 8,017,160	 \$ 8,401,515

See accompanying notes.

## LIABILITIES AND NET ASSETS

	2016	2015
<b>CURRENT LIABILITIES</b>		
Accounts payable	\$ 76,520	\$ 68,842
Current portion of long-term debt	41,000	44,594
Accrued payroll	31,788	17,830
Accrued vacation	51,801	70,602
Accrued expenses	16,113	5,503
Deferred revenue	-	8,801
	217,222	216,172
<b>TOTAL CURRENT LIABILITIES</b>		
 <b>LONG-TERM LIABILITIES</b>		
Note payable, net of current portion	754,545	795,515
<b>TOTAL LONG-TERM LIABILITIES</b>	754,545	795,515
<b>TOTAL LIABILITIES</b>	971,767	1,011,687
 <b>NET ASSETS</b>		
Unrestricted:		
Net investment in property and equipment	4,565,138	4,678,649
Board-designated	1,595,033	1,915,512
Undesignated	144,984	174,615
Subtotal - unrestricted net assets	6,305,155	6,768,776
Temporarily restricted	516,805	397,619
Permanently restricted	223,433	223,433
<b>TOTAL NET ASSETS</b>	7,045,393	7,389,828
 <b>TOTAL LIABILITIES AND NET ASSETS</b>	\$ 8,017,160	\$ 8,401,515

See accompanying notes.

VERMONT HISTORICAL SOCIETY, INC.

STATEMENT OF ACTIVITIES

FOR THE YEAR ENDED JUNE 30, 2016  
(WITH COMPARATIVE TOTALS FOR 2015)

	<u>2016</u>	<u>2015</u>
<b>CHANGE IN UNRESTRICTED NET ASSETS</b>		
<b>SUPPORT AND REVENUE</b>		
Contributions	\$ 285,789	\$ 514,015
Grants	68,633	17,039
State appropriations	980,802	909,996
Fees and admissions	78,135	48,057
Museum shop sales	40,831	49,287
Investment income (loss)	(43,591)	25,322
Other income	636	2,418
Subtotal - support and revenue	<u>1,411,235</u>	<u>1,566,134</u>
Net assets released from restrictions	<u>78,622</u>	<u>18,820</u>
<b>TOTAL SUPPORT AND REVENUE</b>	<u>1,489,857</u>	<u>1,584,954</u>
 <b>EXPENSES</b>		
Program services:		
Education	588,635	482,604
Library	364,110	374,764
Museum	331,532	451,924
Vermont History Bookstore	128,604	80,713
Total program services	<u>1,412,881</u>	<u>1,390,005</u>
Support services:		
General and administrative	168,997	323,070
Community relations	181,693	59,980
Fundraising	189,907	181,872
Total support services	<u>540,597</u>	<u>564,922</u>
<b>TOTAL EXPENSES</b>	<u>1,953,478</u>	<u>1,954,927</u>
 <b>CHANGE IN UNRESTRICTED NET ASSETS</b>	 (463,621)	 (369,973)
 <b>BEGINNING UNRESTRICTED NET ASSETS</b>	 <u>6,768,776</u>	 <u>7,138,749</u>
 <b>ENDING UNRESTRICTED NET ASSETS</b>	 <u>\$ 6,305,155</u>	 <u>\$ 6,768,776</u>

See accompanying notes.



**VERMONT HISTORICAL SOCIETY, INC.**  
**STATEMENT OF ACTIVITIES (CONTINUED)**  
**FOR THE YEAR ENDED JUNE 30, 2016**  
**(WITH COMPARATIVE TOTALS FOR 2015)**

	<b>2016</b>	<b>2015</b>
<b>CHANGE IN TEMPORARILY RESTRICTED NET ASSETS</b>		
<b>SUPPORT AND REVENUE</b>		
Contributions	\$ 197,292	\$ 9,225
Investment income	516	4,334
Other income	-	5,796
Subtotal - support and revenue	197,808	19,355
Net assets released from restrictions	(78,622)	(18,820)
<b>TOTAL SUPPORT AND REVENUE</b>	<b>119,186</b>	<b>535</b>
 <b>CHANGE IN TEMPORARILY RESTRICTED NET ASSETS</b>	 119,186	 535
 <b>BEGINNING TEMPORARILY RESTRICTED NET ASSETS</b>	 397,619	 397,084
 <b>ENDING TEMPORARILY RESTRICTED NET ASSETS</b>	 <b>\$ 516,805</b>	 <b>\$ 397,619</b>
 <b>CHANGE IN PERMANENTLY RESTRICTED NET ASSETS</b>		
<b>SUPPORT AND REVENUE</b>		
Contributions	\$ -	\$ 5,800
<b>TOTAL SUPPORT AND REVENUE</b>	<b>-</b>	<b>5,800</b>
 <b>CHANGE IN PERMANENTLY RESTRICTED NET ASSETS</b>	 -	 5,800
 <b>BEGINNING PERMANENTLY RESTRICTED NET ASSETS</b>	 223,433	 217,633
 <b>ENDING PERMANENTLY RESTRICTED NET ASSETS</b>	 <b>\$ 223,433</b>	 <b>\$ 223,433</b>
 <b>TOTAL CHANGE IN NET ASSETS</b>		
Unrestricted	\$ (463,621)	\$ (369,973)
Temporarily restricted	119,186	535
Permanently restricted	-	5,800
	<b>\$ (344,435)</b>	<b>\$ (363,638)</b>

See accompanying notes.

VERMONT HISTORICAL SOCIETY, INC.

STATEMENT OF FUNCTIONAL EXPENSES

FOR THE YEAR ENDED JUNE 30, 2016  
(WITH COMPARATIVE TOTALS FOR 2015)

	Education	Library	Museum	Vermont History Bookstore	Total Program Services
Salaries	\$ 241,848	\$ 149,598	\$ 136,214	\$ 52,839	\$ 580,499
Payroll taxes	19,020	11,765	10,712	4,155	45,652
Employee benefits	65,359	40,429	36,812	14,280	156,880
Subtotal - personnel costs	326,227	201,792	183,738	71,274	783,031
Occupancy	107,415	66,443	60,498	23,468	257,824
Depreciation	58,894	36,430	33,170	12,867	141,361
Professional services	26,883	16,629	15,141	5,873	64,526
Office expenses	19,205	11,880	10,817	4,196	46,098
Information technology	9,622	5,952	5,419	2,102	23,095
Insurance	9,137	5,652	5,146	1,996	21,931
Miscellaneous	8,879	5,492	5,001	1,940	21,312
Cost of goods sold	8,196	5,070	4,616	1,791	19,673
Advertising and promotion	5,096	3,152	2,870	1,113	12,231
Interest	4,676	2,893	2,634	1,022	11,225
Conferences and meetings	2,295	1,420	1,293	501	5,509
Travel and training	2,110	1,305	1,189	461	5,065
<b>TOTAL EXPENSES</b>	<b>\$ 588,635</b>	<b>\$ 364,110</b>	<b>\$ 331,532</b>	<b>\$ 128,604</b>	<b>\$ 1,412,881</b>

See accompanying notes.

	General and Administrative	Community Relations	Fundraising	Total Support Services	2016 Total	2015 Total
Salaries	\$ 69,435	\$ 74,651	\$ 78,026	\$ 222,112	\$ 802,611	\$ 777,597
Payroll taxes	5,461	5,871	6,136	17,468	63,120	57,865
Employee benefits	18,765	20,174	21,086	60,025	216,905	240,908
Subtotal - personnel costs	93,661	100,696	105,248	299,605	1,082,636	1,076,370
Occupancy	30,839	33,156	34,655	98,650	356,474	382,567
Depreciation	16,909	18,179	19,001	54,089	195,450	180,009
Professional services	7,718	8,298	8,673	24,689	89,215	52,829
Office expenses	5,514	5,928	6,196	17,638	63,736	94,024
Information technology	2,763	2,970	3,104	8,837	31,932	30,876
Insurance	2,623	2,820	2,948	8,391	30,322	33,358
Miscellaneous	2,549	2,741	2,864	8,154	29,466	15,707
Cost of goods sold	2,353	2,530	2,644	7,527	27,200	40,737
Advertising and promotion	1,463	1,573	1,644	4,680	16,911	16,949
Interest	1,343	1,443	1,509	4,295	15,520	16,335
Conferences and meetings	656	708	740	2,104	7,613	6,545
Travel and training	606	651	681	1,938	7,003	8,621
<b>TOTAL EXPENSES</b>	<b>\$ 168,997</b>	<b>\$ 181,693</b>	<b>\$ 189,907</b>	<b>\$ 540,597</b>	<b>\$ 1,953,478</b>	<b>\$ 1,954,927</b>

See accompanying notes.

VERMONT HISTORICAL SOCIETY, INC.

STATEMENT OF CASH FLOWS

FOR THE YEAR ENDED JUNE 30, 2016  
(WITH COMPARATIVE TOTALS FOR 2015)

	<u>2016</u>	<u>2015</u>
<b>CASH FLOWS FROM OPERATING ACTIVITIES</b>		
Change in net assets	\$ (344,435)	\$ (363,638)
Adjustments to reconcile change in net assets to net cash provided (used) by operating activities:		
Depreciation	195,450	180,009
Realized gain on investments	(275,430)	(13,994)
Unrealized loss on investments	405,542	50,851
Change in beneficial interest in assets held by others	5,737	2,179
Provision for uncollectible amounts or obsolete inventory	-	3,256
Loss on disposals of fixed assets	7,578	-
(Increase) decrease in:		
Accounts receivable	3,284	(4,187)
Pledges receivable	161,546	(20,245)
Inventory	3,616	14,740
Prepaid expenses	9,044	16,020
Bequest receivable	(12,595)	4,605
Increase (decrease) in:		
Accounts payable	7,678	(39,019)
Accrued payroll	13,958	(51)
Accrued vacation	(18,801)	1,937
Accrued expenses	10,610	5,503
Deferred revenue	(8,801)	-
Total adjustments	<u>508,416</u>	<u>201,604</u>
<b>NET CASH PROVIDED (USED) BY OPERATING ACTIVITIES</b>	<u>163,981</u>	<u>(162,034)</u>
<b>CASH FLOWS FROM INVESTING ACTIVITIES</b>		
Proceeds from sales of investments	2,673,171	648,863
Purchases of investments	(2,639,828)	(514,444)
Purchases of property and equipment	(44,952)	(27,130)
<b>NET CASH PROVIDED (USED) BY INVESTING ACTIVITIES</b>	<u>(11,609)</u>	<u>107,289</u>
<b>CASH FLOWS FROM FINANCING ACTIVITIES</b>		
Principal payments on notes payable	(44,564)	(43,755)
<b>NET CASH USED BY FINANCING ACTIVITIES</b>	<u>(44,564)</u>	<u>(43,755)</u>
<b>INCREASE (DECREASE) IN CASH</b>	107,808	(98,500)
<b>BEGINNING CASH</b>	<u>226,362</u>	<u>324,862</u>
<b>ENDING CASH</b>	<u>\$ 334,170</u>	<u>\$ 226,362</u>

See accompanying notes.

VERMONT HISTORICAL SOCIETY, INC.

NOTES TO FINANCIAL STATEMENTS

JUNE 30, 2016

(WITH COMPARATIVE TOTALS FOR 2015)

1) SUMMARY OF OPERATIONS AND SIGNIFICANT ACCOUNTING POLICIES

Operations

Vermont Historical Society, Inc. (Society) was chartered by the State of Vermont in 1838 and operates as an independent nonprofit organization governed by a Board of Trustees. Vermont statutes regulate certain aspects of the Society's operations. The Society is an organization that exists to discover, collect, preserve, and exhibit, under proper regulations, whatever relates to the history of the State of Vermont and to foster and promote interest and constructive effort and research in Vermont by all suitable means. The Society receives support and revenue primarily from private contributions, governmental support, admissions, and bookstore sales.

The Society's programs are as follows:

*Education* - The education program provides materials to Vermont schools for teaching students Vermont history. Materials include artifact kits, curriculum guides, a time line, and a lending library of books related to Vermont history. Tours of the history museum are conducted for students visiting the museum. Several public programs and seminars are conducted each year to educate the public about Vermont's past, its people and the preservation of history. The Society publishes and sells a scholarly journal and periodic books on aspects of Vermont history.

*Library* - The library collects Vermont books, magazines, manuscripts, maps, broadsides, photographs, and ephemera. It also contains a genealogical collection related to Vermont and New England families as well as local history for other New England states, New York and lower Canada. The library collections are preserved for future generations and are made available to the public for research. The library personnel provide research assistance and advise the public on caring for collections and preserving the State's history. The staff also speaks to local, professional and special interest groups on genealogical, bibliographical and historical topics.

*Museum* - The museum collects items made in Vermont or by Vermonters or those with a long history of use by people living here. The Society preserves these collections for future generations. The information contained in the collections is disseminated through long-term and temporary exhibits to educate Vermonters and visitors about the history of the State of Vermont. The museum collections are also made available for research. Museum personnel provide technical assistance to other organizations and individuals regarding the care of collections, exhibit installation, identification of objects, and speaking to local groups on Vermont history.

*Vermont History Expo* - The Society sponsors an exposition every two years at the Tunbridge World's Fairgrounds in Tunbridge, Vermont. The purpose of this event is to bring different historical exhibits from around Vermont to one common place for the public to view.

*Vermont History Bookstore* - In the Vermont History Bookstore, the Society sells books about Vermont, Vermont history and the people, towns and communities of Vermont. The purpose of the bookstore is to educate people around the world on the State of Vermont and its history.

VERMONT HISTORICAL SOCIETY, INC.

NOTES TO FINANCIAL STATEMENTS

JUNE 30, 2016

(WITH COMPARATIVE TOTALS FOR 2015)

1) SUMMARY OF OPERATIONS AND SIGNIFICANT ACCOUNTING POLICIES (continued)

Basis of accounting

Vermont Historical Society, Inc. prepares its financial statements on the accrual basis of accounting in accordance with U.S. generally accepted accounting principles. Under the accrual basis of accounting, revenue is recognized when earned and expenses are recognized when incurred.

Income taxes

Vermont Historical Society, Inc. is a nonprofit organization as described in Section 501(c)(3) of the Internal Revenue Code and is exempt from federal income taxes on income related to its exempt purpose as a public charity pursuant to Section 501(a) of the Code.

Vermont Historical Society, Inc. does not believe there are any material uncertain tax positions and, accordingly, it will not recognize any liability for unrecognized tax benefits.

Cash and cash equivalents

For the purpose of reporting cash flows, cash and cash equivalents include cash on hand, amounts on deposit in financial institutions and other short-term investments with original maturities of three months or less. Cash and cash equivalents are stated at cost, which approximates market value. Amounts on deposit are insured by the Federal Deposit Insurance Corporation (FDIC) up to a maximum amount of \$250,000 per bank per depositor. Amounts on deposit in excess of the FDIC limit were \$101,000 and \$0 as of June 30, 2016 and 2015, respectively.

Investments

Vermont Historical Society, Inc. reports investments in equity securities with readily determinable fair values and all investments in debt securities at their fair values in the Statement of Financial Position. Unrealized gain and loss are included in the change in net assets in the accompanying Statement of Activities.

Contributions

Contributions that are restricted by the donor are reported as increases in unrestricted net assets if the restrictions expire (that is, when a stipulated time restriction ends or purpose restriction is accomplished) in the reporting period in which the revenue is recognized. All other donor-restricted contributions are reported as increases in temporarily or permanently restricted net assets, depending on the nature of the restrictions. When a restriction expires, temporarily restricted net assets are reclassified to unrestricted net assets in the Statement of Activities as net assets released from restrictions.

Advertising

Advertising costs are charged to expense when incurred. Advertising expenses were \$16,911 and \$16,949 for the years ended June 30, 2016 and 2015, respectively.

VERMONT HISTORICAL SOCIETY, INC.

NOTES TO FINANCIAL STATEMENTS

JUNE 30, 2016

(WITH COMPARATIVE TOTALS FOR 2015)

**1) SUMMARY OF OPERATIONS AND SIGNIFICANT ACCOUNTING POLICIES (continued)**

Financial statement presentation

Vermont Historical Society, Inc. is required to report information regarding its financial position and activities according to three classes of net assets: unrestricted net assets, temporarily restricted net assets and permanently restricted net assets.

Estimates

The preparation of financial statements in conformity with accounting principles generally accepted in the U.S. requires management to make estimates and assumptions that affect certain reported amounts and disclosures. Accordingly, actual results could differ from those estimates.

Donated services

Vermont Historical Society, Inc. receives noncash contributions in the form of volunteers performing various clerical functions to support various program and support activities. Contributed professional services are recognized at fair market value if the services rendered (a) create or enhance long-lived assets or (b) require specialized skills, and would typically need to be purchased if not provided by donation. No amounts have been reflected in the statements.

Property and equipment

It is the policy of Vermont Historical Society, Inc. to capitalize items with a value of \$500 or more. Property and equipment are stated at cost if purchased. Donations of property and equipment are recorded as support at their estimated market value. Such donations are reported as unrestricted support unless the donor has restricted the donated asset to a specific purpose. Assets donated with explicit restrictions regarding their use and contributions of cash that must be used to acquire property and equipment are reported as restricted support. Absent donor stipulations regarding how long those donated assets must be maintained, Vermont Historical Society, Inc. reports expirations of donor restrictions when the donated or acquired assets are placed in service as instructed by the donor. The Society reclasses temporarily restricted net assets to unrestricted net assets at that time. Depreciation is computed using the straight-line method over the estimated useful lives.

Functional allocation of expenses

Vermont Historical Society, Inc.'s expenses are presented on a functional basis, showing basic program activities and support services. The Society allocates expenses based on the organizational cost centers in which the expenses are incurred. In certain instances, expenses are allocated between support functions and program services based on an analysis of personnel time.

VERMONT HISTORICAL SOCIETY, INC.

NOTES TO FINANCIAL STATEMENTS

JUNE 30, 2016  
(WITH COMPARATIVE TOTALS FOR 2015)

**1) SUMMARY OF OPERATIONS AND SIGNIFICANT ACCOUNTING POLICIES (continued)**

Accounts receivable

Accounts receivable are stated at unpaid balances, less an allowance for doubtful accounts. The Society provides for losses on accounts receivable using the allowance method. The allowance method is based on experience, third-party contracts and other circumstances which may affect the ability of third parties to meet their obligations. Receivables are considered impaired if full principal payments are not received in accordance with contractual terms. It is the Society's policy to charge off uncollectible accounts receivable when management determines the receivable will not be collected.

Pledges receivable

Unconditional promises to give (pledges receivable) are recognized as revenue in the period received and as assets, decreases of liabilities or expenses depending on the form of benefits received. Conditional promises to give are recognized only when the conditions on which they depend are substantially met and the promises become unconditional.

Inventory

The Society uses the FIFO (first-in, first-out) method for determining inventory and related cost of sales. Inventory consists of museum store inventory and publications. The Society has created an allowance for slow-moving inventory based on management's analysis of sales trends.

Beneficial interest in assets held by others

The Society is a beneficiary of irrevocable trusts held and administered by independent trustees. The fair value of the beneficial interest is recognized as an asset and as either temporarily or permanently restricted support at the date the trust is established. The Society's estimate of the fair value of the beneficial interest is based on information received from the trustee. Assets owned by the trust include cash and cash equivalents, corporate and government bonds, mutual funds, and equity securities. These assets are not subject to the Society's control or direction. Distributions of income from the trust are reported as investment income. Gain and loss, which are not distributed by the trust, are reflected as the change in beneficial interests held by others in the Statement of Activities.

Collections

The Society's collections, which were acquired through purchases and contributions since the Society's inception are not recognized as assets on the Statement of Financial Position. Purchases of collection items are recorded as non-operating expenses in the year in which the items are acquired.

The Society's collections include fine arts (painting and sculpture), decorative arts (furniture, costumes, textiles, and ceramics), and the useful arts (tools and equipment). The museum specializes in items made in Vermont or with a long history of use by the people living in Vermont. Major concentrations in the collections are Vermont pottery, tools, 18th and 19th century coin and paper currency, costumes, textiles, and the works of Vermont artists.



VERMONT HISTORICAL SOCIETY, INC.  
 NOTES TO FINANCIAL STATEMENTS  
 JUNE 30, 2016  
 (WITH COMPARATIVE TOTALS FOR 2015)

**1) SUMMARY OF OPERATIONS AND SIGNIFICANT ACCOUNTING POLICIES (continued)**

Reclassifications

Certain amounts in the prior year financial statements have been reclassified for comparative purposes to conform with the presentation in the current year financial statements.

Comparative financial information

The financial statements include certain prior year, summarized comparative information in total, but not by function. Accordingly, such information should be read in conjunction with Vermont Historical Society, Inc.'s financial statements for the year ended June 30, 2015, from which the summarized information was derived.

**2) PLEDGES RECEIVABLE**

Pledges receivable consist of unconditional promises to give to support various operating and capital purposes. Promises to give are expected to be received as follows as of June 30:

	<b>2016</b>	<b>2015</b>
Less than one year	\$ 31,050	\$ 137,850
One to five years	-	54,746
	31,050	192,596
Less allowance for uncollectible pledges	-	-
	\$ 31,050	\$ 192,596

Pledges receivable are reported in the Statement of Financial Position as follows as of June 30:

	<b>2016</b>	<b>2015</b>
Current	\$ 31,050	\$ 137,850
Noncurrent	-	54,746
	\$ 31,050	\$ 192,596

VERMONT HISTORICAL SOCIETY, INC.

NOTES TO FINANCIAL STATEMENTS

JUNE 30, 2016  
(WITH COMPARATIVE TOTALS FOR 2015)

**3) INVESTMENTS**

Accounting principles generally accepted in the United States of America establish a framework for measuring fair value. That framework provides a fair value hierarchy that prioritizes the inputs to valuation techniques used to measure fair value. The hierarchy gives the highest priority to unadjusted quoted prices in active markets for identical assets or liabilities (Level 1 measurements), and the lowest priority to unobservable inputs (Level 3 measurements). The three levels of the fair value hierarchy are described below:

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

*Level 2* - Inputs to the valuation methodology include:

- a) quoted prices for similar assets or liabilities in active markets;
- b) quoted prices for identical or similar assets or liabilities in inactive markets;
- c) inputs other than quoted prices that are observable for the asset or liability;
- d) inputs that are derived principally from or corroborated by observable market data by correlation or by other means.

*Level 3* - Inputs to the valuation methodology are unobservable and significant to the fair value measurement.

The asset or liability's fair value measurement level within the fair value hierarchy is based on the lowest level of any input that is significant to the fair value measurement. Valuation techniques used need to maximize the use of observable inputs and minimize the use of unobservable inputs.

Following is a description of the valuation methodologies used for assets measured at fair value on a recurring basis. There have been no changes to the methodologies used at June 30, 2016 and 2015.

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

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

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

The preceding method described may produce a fair value calculation that may not be indicative of net realizable value or reflective of future fair values. Furthermore, although the Society believes its valuation methods are appropriate and consistent with other market participants, the use of different methodologies or assumptions to determine the fair value of certain financial instruments could result in a different fair value measurement at the reporting date.

VERMONT HISTORICAL SOCIETY, INC.

NOTES TO FINANCIAL STATEMENTS

JUNE 30, 2016  
(WITH COMPARATIVE TOTALS FOR 2015)

3) INVESTMENTS (continued)

Vermont Historical Society, Inc.'s investments are Level 1 and consist of the following at:

	<u>Fair Value</u>	<u>Cost</u>	<u>Unrealized Appreciation (Depreciation)</u>
<b>June 30, 2016:</b>			
Mutual funds	\$ 71,549	\$ 71,549	\$ -
Equity securities	1,175,759	1,184,662	(8,903)
Corporate bonds	790,131	784,923	5,208
	<u>\$ 2,037,439</u>	<u>\$ 2,041,134</u>	<u>\$ (3,695)</u>
<b>June 30, 2015:</b>			
Mutual funds	\$ 20,077	\$ 20,077	\$ -
Equity securities	1,452,852	1,089,703	363,149
Corporate bonds and fixed income	637,547	607,949	29,598
Other assets	90,419	81,319	9,100
	<u>\$ 2,200,895</u>	<u>\$ 1,799,048</u>	<u>\$ 401,847</u>

Investment return was as follows for the years ended June 30:

	<u>2016</u>	<u>2015</u>
Interest and dividends	\$ 92,774	\$ 68,692
Realized gain	275,430	13,994
Unrealized loss	(405,542)	(50,851)
Change in beneficial interest	(5,737)	(2,179)
	<u>\$ (43,075)</u>	<u>\$ 29,656</u>

Investment income is reported as follows in the Statement of Activities for the years ended June 30:

	<u>2016</u>	<u>2015</u>
Unrestricted	\$ (43,591)	\$ 25,322
Temporarily restricted	516	4,334
	<u>\$ (43,075)</u>	<u>\$ 29,656</u>

VERMONT HISTORICAL SOCIETY, INC.

NOTES TO FINANCIAL STATEMENTS

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(WITH COMPARATIVE TOTALS FOR 2015)

**4) BENEFICIAL INTEREST IN ASSETS HELD BY OTHERS**

Vermont Historical Society, Inc. is the beneficiary of two separate trusts, which provide current and future cash flows. The Edmunds Trust is a perpetual trust held by a third party, which makes annual distributions to the Society restricted to prizes for historical contests. The Muller Trust distributes annual income to the Society and four unrelated beneficiaries. The Society's interest in the Muller Trust is approximately 22% of the Trust's total assets. Upon the death of the beneficiaries, the Society will receive its portion of the Muller Trust's assets, net of related costs, estimated to be \$40,000. The Society has recorded a beneficial interest in assets held by others of \$111,043 and \$116,780 as of June 30, 2016 and 2015, respectively.

The fair value of the beneficial interests in assets held by others were obtained from independent trustees and are deemed to be valued at "Level 1" - references to quoted prices in an active market.

**5) NOTES PAYABLE**

Notes payable consist of a promissory note with KeyBank National Association payable in monthly installments of \$5,007, including interest at 1.89%. The promissory note matured on September 1, 2016 and was renewed. The note is secured by the Society's gross receipts.

Notes payable consist of the following at June 30:

	<u>2016</u>	<u>2015</u>
Principal outstanding	\$ 795,545	\$ 840,109
Less current portion	(41,000)	(44,594)
	<u>\$ 754,545</u>	<u>\$ 795,515</u>

Future maturities of notes payable are as follows for the years ending June 30:

2017	\$ 41,000
2018	41,000
2019	46,000
2020	47,000
2021	48,000
Thereafter	<u>572,545</u>
	<u>\$ 795,545</u>

Cash paid for interest was \$15,520 and \$16,335 for the years ended June 30, 2016 and 2015, respectively.

**VERMONT HISTORICAL SOCIETY, INC.**

**NOTES TO FINANCIAL STATEMENTS**

**JUNE 30, 2016**

**(WITH COMPARATIVE TOTALS FOR 2015)**

**5) NOTES PAYABLE (continued)**

Effective September 1, 2016, the Society renewed its note payable with KeyBank National Association. Under the new agreement, the Society refinanced the outstanding principal balance on the existing loan and secured an additional borrowing capacity of \$100,000 to support capital improvements. The loan bears interest at KeyBank's cost of funds plus 0.7% (2.63% on September 1, 2016). Debt payments will be based on a 15-year amortization schedule, with a balloon payment due after 60 months.

**6) CONCENTRATION OF REVENUE**

Vermont Historical Society, Inc. receives a significant amount of annual support from the State of Vermont consisting of an unrestricted appropriation and passthrough funds to offset the rental of the Vermont History Museum in Montpelier. Total support and grants received from the State of Vermont were \$980,802 and \$909,996 for the years ended June 30, 2016 and 2015, respectively. This support comprised 65% and 57% of the Society's unrestricted support and revenue for the years ended June 30, 2016 and 2015, respectively. Any significant decrease in that funding could have a severe negative impact on the Society.

Employees of Vermont Historical Society, Inc. are classified by the State of Vermont as if they were State employees. As a result, employees are entitled to receive all general pay increases granted to State employees. The annual State appropriation does not take into consideration the financial burden of the State-mandated pay increases. As the State appropriation does not cover all operating expenses, this mandate may put an unfunded financial burden on the Society. The State provided \$33,182 and \$0 in additional support for the years ended June 30, 2016 and 2015, respectively, toward the additional compensation expense.

**7) RETIREMENT PLAN**

The Vermont State Retirement System (VSRS), a defined benefit plan, covers substantially all of the Society's employees except for those hired in a temporary or part-time capacity. Membership in the system is a condition of employment. Employee and Society contributions are based on rates set by VSRS. Amounts contributed by the Society were \$124,721 and \$120,287 for the years ended June 30, 2016 and 2015, respectively.

VERMONT HISTORICAL SOCIETY, INC.

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(WITH COMPARATIVE TOTALS FOR 2015)

8) TEMPORARILY RESTRICTED NET ASSETS

Temporarily restricted net assets are available to support a future period or a specific activity not completed by the Society. Temporarily restricted net assets are as follows as of June 30:

	<u>2016</u>	<u>2015</u>
Restricted by donors:		
Tuttle Endowment Fund	\$ 16,511	\$ 21,353
Vermont History Center Building Fund	66,967	59,226
Museum Special Fund	6,278	5,425
	<u>89,756</u>	<u>86,004</u>
Restricted by trust agreements:		
Fowle Fund Endowment earnings (for Library)	2,961	4,150
Johnson Fund Endowment earnings (for Library)	5,468	5,603
Hoyt Fund (for Library)	15,328	15,151
Special Fund (for Library)	16,485	6,487
Edmunds Fund earnings	86,018	82,983
Kent Fund	154,898	157,241
Muller Fund	40,000	40,000
Publication Fund	6,395	-
Capital - for debt reduction	99,496	-
	<u>427,049</u>	<u>311,615</u>
	<u>\$ 516,805</u>	<u>\$ 397,619</u>

9) PERMANENTLY RESTRICTED NET ASSETS

Permanently restricted net assets consist of the following at June 30:

	<u>2016</u>	<u>2015</u>
Restricted by trust agreements:		
Library Acquisition Fund	\$ 2,500	\$ 2,500
Fowle Fund	5,280	5,280
Johnson Fund	1,000	1,000
Tuttle Endowment Fund	50,400	50,400
Edmunds Fund	15,000	15,000
Hathaway Fund	20,900	20,900
Clifford Legacy Fund	69,365	69,365
Museum Acquisition Fund	2,500	2,500
Donor Restricted Endowment Fund	56,488	56,488
	<u>\$ 223,433</u>	<u>\$ 223,433</u>

VERMONT HISTORICAL SOCIETY, INC.

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**10) ENDOWMENT FUNDS**

The Society's endowment funds consist of funds established for a variety of purposes, some of which are donor-restricted funds and some of which are funds designated by the Board of Trustees to function as endowment funds.

FASB Staff Position

In August 2008, the Financial Accounting Standards Board issued FASB Staff Position "Endowments of Not-for-Profit Organizations Net Asset Classification of Funds Subject to an Enacted Version of the Uniform Prudent Management of Institutional Funds Act, and Enhanced Disclosures for All Endowment Funds." The Staff Position provides guidance on the net asset classification of donor-restricted endowment funds for a nonprofit organization that is subject to an enacted version of the Uniform Prudent Management of Institutional Funds Act of 2006 (UPMIFA). The Staff Position also requires additional disclosures about an organization's endowment funds (both donor-restricted endowment funds and board-designated endowment funds) whether or not the organization is subject to UPMIFA.

Interpretation of Relevant Law

The Board of Trustees of the Society has interpreted State of Vermont law as requiring the preservation of the fair value of the original gift as of the gift date 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, and (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 fund that is not classified in permanently restricted net assets is classified as temporarily restricted net assets until those amounts are appropriated for expenditure by the Society in a manner consistent with the standard of prudence prescribed by that standard. In accordance with that standard, the Society considers the following factors in making a determination to appropriate or accumulate donor-restricted endowment funds: (a) the duration and preservation of the various funds, (b) the purposes of the donor-restricted endowment funds, (c) general economic conditions, (d) the possible effect of inflation or deflation, (e) the expected total return from income and the appreciation of investments, (f) other resources of the Society, and (g) the general investment policies of the Society.

Funds with Deficiencies

From time to time, the fair value of assets associated with individual donor-restricted endowment funds may fall below the level the donor or UPMIFA requires the organization to retain as permanently restricted. Deficiencies of this nature result from unfavorable market fluctuations and would be included in unrestricted net assets. There were no such deficiencies at June 30, 2016 and 2015.

VERMONT HISTORICAL SOCIETY, INC.

NOTES TO FINANCIAL STATEMENTS

JUNE 30, 2016

(WITH COMPARATIVE TOTALS FOR 2015)

10) ENDOWMENT FUNDS (continued)

Investment Return Objectives, Risk Parameters and Strategies

The Society has adopted investment and spending policies, approved by the Board of Trustees, for endowment assets. Those policies attempt to provide a predictable stream of funding to programs supported by its endowment funds while also maintaining the purchasing power of those endowment assets over the long-term. Accordingly, the investment process seeks to achieve an after-cost, total real rate of return, including investment income as well as capital appreciation, which exceeds the annual distribution with acceptable levels of risk. Endowment assets are invested in a well diversified asset mix, which includes equity and debt securities that is intended to result in a consistent inflation-protected rate of return that has sufficient liquidity to make an annual distribution of 5% to 6%, while growing the funds, if possible. The Society expects its endowment assets, over time, to produce an average rate of return which is sufficient to maintain the purchasing power of the endowment assets, as measured over rolling three-year periods. Actual returns in any given year may vary from this amount. Investment risk is measured in terms of the total endowment fund; investment assets and allocation between asset classes and strategies are managed to prevent exposing the funds to unacceptable levels of risk.

Spending Policy

The Society has a policy of appropriating for distribution each year 5% and no more than 6% of the endowment portion of the funds, unless otherwise authorized by the Trustees, calculated on the average fair value on a 12-quarter trailing average. In establishing this policy, the Society considered the long-term expected return on its endowment assets, the nature and duration of the individual endowment funds, many of which must be maintained in perpetuity because of donor restrictions, and the possible effects of inflation. The Society expects the current spending policy to allow its endowment funds to grow at a rate which is consistent with the Society's objective to maintain the purchasing power of the endowment assets as well as to provide additional real growth through new gifts and investment return.

The fair value of the Society's endowment net assets was as follows at:

	<u>Unrestricted</u>	<u>Temporarily Restricted</u>	<u>Permanently Restricted</u>	<u>Total</u>
<b>June 30, 2016:</b>				
Board-designated endowment funds	\$ 1,595,033	\$ -	\$ -	\$ 1,595,033
Donor-restricted endowment funds	-	233,973	208,433	442,406
	<u>\$ 1,595,033</u>	<u>\$ 233,973</u>	<u>\$ 208,433</u>	<u>\$ 2,037,439</u>
<b>June 30, 2015:</b>				
Board-designated endowment funds	\$ 1,711,623	\$ -	\$ -	\$ 1,711,623
Donor-restricted endowment funds	-	280,839	208,433	489,272
	<u>\$ 1,711,623</u>	<u>\$ 280,839</u>	<u>\$ 208,433</u>	<u>\$ 2,200,895</u>



VERMONT HISTORICAL SOCIETY, INC.

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10) ENDOWMENT FUNDS (continued)

A summary of the changes in the Society's endowment funds is as follows for the years ended June 30, 2016 and 2015:

	<u>Unrestricted</u>	<u>Temporarily Restricted</u>	<u>Permanently Restricted</u>	<u>Total</u>
<b>Balance - July 1, 2014</b>	\$ 1,971,310	\$ 278,125	\$ 202,633	\$ 2,452,068
Additional contributions	84,485	9,225	5,800	99,510
Investment return	25,322	4,334	-	29,656
Appropriated for expenditure	(369,494)	(10,845)	-	(380,339)
<b>Balance - June 30, 2015</b>	<u>\$ 1,711,623</u>	<u>\$ 280,839</u>	<u>\$ 208,433</u>	<u>\$ 2,200,895</u>
<b>Balance - July 1, 2015</b>	\$ 1,711,623	\$ 280,839	\$ 208,433	\$ 2,200,895
Additional contributions	104,580	-	-	104,580
Investment return	(43,591)	516	-	(43,075)
Appropriated for expenditure	(177,579)	(47,382)	-	(224,961)
<b>Balance - June 30, 2016</b>	<u>\$ 1,595,033</u>	<u>\$ 233,973</u>	<u>\$ 208,433</u>	<u>\$ 2,037,439</u>

11) COMMITMENTS AND CONTINGENCIES

Grants and contracts require the fulfillment of certain conditions as set forth in the instrument of the grant or contract. Failure to fulfill the conditions could result in the return of the funds to grantors. Although that is a possibility, management deems the contingency remote, since by accepting the awards and the terms, it has accommodated the objectives of the Society to the provisions of the grant or contract.

12) SUBSEQUENT EVENTS

As disclosed in Note 5, the Society refinanced its outstanding notes payable and borrowed an additional \$100,000.

Vermont Historical Society, Inc. has evaluated events and transactions for potential recognition or disclosure through October 15, 2016, the date the financial statements were available to be issued.