



**VERMONT HISTORICAL SOCIETY, INC.**

**FINANCIAL STATEMENTS**

**JUNE 30, 2017 AND 2016**

**JMM & ASSOCIATES  
CERTIFIED PUBLIC ACCOUNTANTS**

**VERMONT HISTORICAL SOCIETY, INC.**

**FINANCIAL STATEMENTS**

**JUNE 30, 2017 AND 2016**

VERMONT HISTORICAL SOCIETY, INC.

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VT License #92-0000171

## INDEPENDENT AUDITOR'S REPORT

To the Board of Trustees 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, 2017 and 2016, the related statements of activities and cash flows for the years then ended, the statement of functional expenses for the year ended June 30, 2017 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 audits. We conducted our audits in accordance with auditing standards generally accepted in the United States of America. 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.

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, 2017 and 2016 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 of America.

*Jmm & Associates*

October 13, 2017

**VERMONT HISTORICAL SOCIETY, INC.**  
**STATEMENTS OF FINANCIAL POSITION**

**JUNE 30, 2017 AND 2016**

**ASSETS**

	<b>2017</b>	<b>2016 (As restated)</b>
<b>CURRENT ASSETS</b>		
Cash	\$ 229,750	\$ 334,170
Accounts receivable	20,775	3,778
Pledges receivable - current portion	55,151	31,050
Inventory, net	37,812	35,758
Prepaid expenses	19,562	16,024
<b>TOTAL CURRENT ASSETS</b>	<b>363,050</b>	<b>420,780</b>
 <b>PROPERTY AND EQUIPMENT</b>		
Buildings	7,023,959	7,023,959
Equipment and software	549,817	535,483
Land	80,000	80,000
	7,653,776	7,639,442
Less accumulated depreciation	(2,372,379)	(2,198,759)
<b>TOTAL PROPERTY AND EQUIPMENT</b>	<b>5,281,397</b>	<b>5,440,683</b>
 <b>OTHER ASSETS</b>		
Investments	2,208,324	2,037,439
Pledges receivable - noncurrent portion	40,000	-
Bequests receivable	80,128	87,215
Beneficial interest in assets held by others	148,741	147,285
<b>TOTAL OTHER ASSETS</b>	<b>2,477,193</b>	<b>2,271,939</b>
 <b>TOTAL ASSETS</b>	<b>\$ 8,121,640</b>	<b>\$ 8,133,402</b>

See accompanying notes.

**LIABILITIES AND NET ASSETS**

	<b>2017</b>	<b>2016 (As restated)</b>
<b>CURRENT LIABILITIES</b>		
Accounts payable	\$ 82,640	\$ 76,520
Current portion of long-term debt	41,000	41,000
Accrued payroll	33,884	31,788
Accrued vacation	40,786	51,801
Accrued expenses	3,135	16,113
	<b>201,445</b>	<b>217,222</b>
<b>LONG-TERM LIABILITIES</b>		
Note payable, net of current portion	663,653	754,545
	<b>663,653</b>	<b>754,545</b>
<b>TOTAL LIABILITIES</b>	<b>865,098</b>	<b>971,767</b>
<b>NET ASSETS</b>		
Unrestricted:		
Net investment in property and equipment	4,576,744	4,645,138
Board-designated	1,732,291	1,592,950
Undesignated	35,988	95,190
Subtotal - unrestricted net assets	6,345,023	6,333,278
Temporarily restricted	653,804	568,682
Permanently restricted	257,715	259,675
	<b>7,256,542</b>	<b>7,161,635</b>
<b>TOTAL LIABILITIES AND NET ASSETS</b>	<b>\$ 8,121,640</b>	<b>\$ 8,133,402</b>

See accompanying notes.

VERMONT HISTORICAL SOCIETY, INC.

STATEMENTS OF ACTIVITIES

FOR THE YEARS ENDED JUNE 30, 2017 AND 2016

	<u>2017</u>	<u>2016</u> <u>(As restated)</u>
<b>CHANGE IN UNRESTRICTED NET ASSETS</b>		
<b>SUPPORT AND REVENUE</b>		
Contributions	\$ 642,447	\$ 297,046
Grants	86,726	68,633
State appropriations	997,214	980,802
Fees and admissions	54,578	78,135
Museum shop sales	32,793	40,831
Investment income (loss)	188,410	(43,597)
Other income	36,682	636
Subtotal - support and revenue	<u>2,038,850</u>	<u>1,422,486</u>
Net assets released from restrictions	<u>137,494</u>	<u>94,179</u>
<b>TOTAL SUPPORT AND REVENUE</b>	<u>2,176,344</u>	<u>1,516,665</u>
<b>EXPENSES</b>		
Program services:		
Education	514,309	588,635
Library	307,630	364,110
Museum	595,344	331,532
Vermont History Bookstore	99,159	128,604
Total program services	<u>1,516,442</u>	<u>1,412,881</u>
Support services:		
General and administrative	212,466	168,997
Community relations	166,873	181,693
Fundraising	268,818	189,907
Total support services	<u>648,157</u>	<u>540,597</u>
<b>TOTAL EXPENSES</b>	<u>2,164,599</u>	<u>1,953,478</u>
<b>CHANGE IN UNRESTRICTED NET ASSETS</b>	11,745	(436,813)
<b>BEGINNING UNRESTRICTED NET ASSETS - AS PREVIOUSLY REPORTED</b>		6,768,776
Prior period restatement - correct restricted funds		(78,685)
Prior period restatement - record donated land		<u>80,000</u>
<b>BEGINNING UNRESTRICTED NET ASSETS - AS RESTATED</b>	<u>6,333,278</u>	<u>6,770,091</u>
<b>ENDING UNRESTRICTED NET ASSETS</b>	<u>\$ 6,345,023</u>	<u>\$ 6,333,278</u>

See accompanying notes.



VERMONT HISTORICAL SOCIETY, INC.

STATEMENTS OF ACTIVITIES (CONTINUED)

FOR THE YEARS ENDED JUNE 30, 2017 AND 2016

	<u>2017</u>	<u>2016</u> (As restated)
<b>CHANGE IN TEMPORARILY RESTRICTED NET ASSETS SUPPORT AND REVENUE</b>		
Contributions	\$ 182,974	\$ 186,035
Investment income	39,642	522
Subtotal - support and revenue	<u>222,616</u>	<u>186,557</u>
Net assets released from restrictions	<u>(137,494)</u>	<u>(94,179)</u>
<b>TOTAL SUPPORT AND REVENUE</b>	<u>85,122</u>	<u>92,378</u>
<b>CHANGE IN TEMPORARILY RESTRICTED NET ASSETS</b>	85,122	92,378
<b>BEGINNING TEMPORARILY RESTRICTED NET ASSETS - AS PREVIOUSLY REPORTED</b>		397,619
Prior period restatement - correct restricted funds		<u>78,685</u>
<b>BEGINNING TEMPORARILY RESTRICTED NET ASSETS - AS RESTATED</b>	<u>568,682</u>	<u>476,304</u>
<b>ENDING TEMPORARILY RESTRICTED NET ASSETS</b>	<u>\$ 653,804</u>	<u>\$ 568,682</u>
<b>CHANGE IN PERMANENTLY RESTRICTED NET ASSETS SUPPORT AND REVENUE</b>		
Change in beneficial interest	<u>\$ (1,960)</u>	<u>\$ -</u>
<b>CHANGE IN PERMANENTLY RESTRICTED NET ASSETS</b>	(1,960)	-
<b>BEGINNING PERMANENTLY RESTRICTED NET ASSETS - AS PREVIOUSLY REPORTED</b>		223,433
Prior period restatement - record restricted funds		<u>36,242</u>
<b>BEGINNING PERMANENTLY RESTRICTED NET ASSETS - AS RESTATED</b>	<u>259,675</u>	<u>259,675</u>
<b>ENDING PERMANENTLY RESTRICTED NET ASSETS</b>	<u>\$ 257,715</u>	<u>\$ 259,675</u>
<b>TOTAL CHANGE IN NET ASSETS</b>		
Unrestricted	\$ 11,745	\$ (436,813)
Temporarily restricted	85,122	92,378
Permanently restricted	<u>(1,960)</u>	<u>-</u>
	<u>\$ 94,907</u>	<u>\$ (344,435)</u>

See accompanying notes.

VERMONT HISTORICAL SOCIETY, INC.

STATEMENT OF FUNCTIONAL EXPENSES

FOR THE YEAR ENDED JUNE 30, 2017  
(WITH COMPARATIVE TOTALS FOR 2016)

	<u>Education</u>	<u>Library</u>	<u>Museum</u>	<u>Vermont History Bookstore</u>	<u>Total Program Services</u>
Salaries	\$ 188,360	\$ 112,666	\$ 218,038	\$ 36,316	\$ 555,380
Payroll taxes	14,464	8,651	16,743	2,789	42,647
Employee benefits	38,195	22,846	44,213	7,364	112,618
	<hr/>	<hr/>	<hr/>	<hr/>	<hr/>
Subtotal - personnel costs	241,019	144,163	278,994	46,469	710,645
Professional services	94,860	56,740	109,806	18,289	279,695
Occupancy	87,492	52,333	101,278	16,868	257,971
Depreciation	44,624	26,692	51,655	8,604	131,575
Office expenses	17,972	10,750	20,804	3,465	52,991
Insurance	5,671	3,392	6,564	1,093	16,720
Information technology	4,710	2,817	5,453	908	13,888
Interest	4,303	2,574	4,981	830	12,688
Conferences and meetings	3,675	2,198	4,254	708	10,835
Advertising and promotion	3,448	2,062	3,991	665	10,166
Cost of goods sold	2,364	1,414	2,736	456	6,970
Miscellaneous	2,215	1,325	2,564	427	6,531
Travel and training	1,956	1,170	2,264	377	5,767
	<hr/>	<hr/>	<hr/>	<hr/>	<hr/>
<b>TOTAL EXPENSES</b>	<u>\$ 514,309</u>	<u>\$ 307,630</u>	<u>\$ 595,344</u>	<u>\$ 99,159</u>	<u>\$ 1,516,442</u>

See accompanying notes.

	<u>General and Administrative</u>	<u>Community Relations</u>	<u>Fundraising</u>	<u>Total Support Services</u>	<u>2017 Total</u>	<u>2016 Total</u>
Salaries	\$ 77,816	\$ 61,115	\$ 98,451	\$ 237,382	\$ 792,762	\$ 802,611
Payroll taxes	5,975	4,693	7,560	18,228	60,875	63,120
Employee benefits	15,779	12,393	19,964	48,136	160,754	216,905
Subtotal - personnel costs	99,570	78,201	125,975	303,746	1,014,391	1,082,636
Professional services	39,189	30,778	49,581	119,548	399,243	88,249
Occupancy	36,145	28,388	45,730	110,263	368,234	370,084
Depreciation	18,435	14,479	23,324	56,238	187,813	195,450
Office expenses	7,425	5,831	9,394	22,650	75,641	81,481
Insurance	2,343	1,840	2,964	7,147	23,867	30,322
Information technology	1,946	1,528	2,462	5,936	19,824	18,792
Interest	1,778	1,396	2,249	5,423	18,111	15,520
Conferences and meetings	1,518	1,192	1,921	4,631	15,466	7,613
Advertising and promotion	1,424	1,119	1,802	4,345	14,511	16,911
Cost of goods sold	977	767	1,236	2,980	9,950	27,200
Miscellaneous	915	719	1,158	2,792	9,323	11,418
Travel and training	801	635	1,022	2,458	8,225	7,802
<b>TOTAL EXPENSES</b>	<u>\$ 212,466</u>	<u>\$ 166,873</u>	<u>\$ 268,818</u>	<u>\$ 648,157</u>	<u>\$ 2,164,599</u>	<u>\$ 1,953,478</u>

See accompanying notes.

VERMONT HISTORICAL SOCIETY, INC.

STATEMENTS OF CASH FLOWS

FOR THE YEARS ENDED JUNE 30, 2017 AND 2016

	<u>2017</u>	<u>2016</u>
<b>CASH FLOWS FROM OPERATING ACTIVITIES</b>		
Cash received from contributions	\$ 775,494	\$ 637,769
Cash received from grants	1,083,940	1,040,634
Cash from sales and other sources	107,056	130,464
Interest and dividends received	53,686	87,037
Cash paid for personnel	(1,023,310)	(1,087,479)
Cash paid for goods and services	(956,734)	(628,924)
Cash paid for interest	(18,111)	(15,520)
	<u>22,021</u>	<u>163,981</u>
<b>NET CASH PROVIDED BY OPERATING ACTIVITIES</b>		
<b>CASH FLOWS FROM INVESTING ACTIVITIES</b>		
Proceeds from sales of investments	57,167	2,673,171
Purchases of investments	(64,129)	(2,639,828)
Purchases of property and equipment	(28,587)	(44,952)
	<u>(35,549)</u>	<u>(11,609)</u>
<b>NET CASH USED BY INVESTING ACTIVITIES</b>		
<b>CASH FLOWS FROM FINANCING ACTIVITIES</b>		
Principal payments on long-term debt	(90,892)	(44,564)
	<u>(90,892)</u>	<u>(44,564)</u>
<b>NET CASH USED BY FINANCING ACTIVITIES</b>		
<b>INCREASE (DECREASE) IN CASH</b>	(104,420)	107,808
<b>BEGINNING CASH</b>	<u>334,170</u>	<u>226,362</u>
<b>ENDING CASH</b>	<u>\$ 229,750</u>	<u>\$ 334,170</u>

See accompanying notes.

VERMONT HISTORICAL SOCIETY, INC.

STATEMENTS OF CASH FLOWS (CONTINUED)

FOR THE YEARS ENDED JUNE 30, 2017 AND 2016

	<u>2017</u>	<u>2016</u>
<b>RECONCILIATION OF CHANGE IN NET ASSETS TO NET CASH PROVIDED BY OPERATING ACTIVITIES</b>		
Change in net assets	\$ 94,907	\$ (344,435)
Adjustments to reconcile change in net assets to net cash provided by operating activities:		
Depreciation	187,813	195,450
Realized (gain) loss on investments	447	(275,430)
Unrealized (gain) loss on investments	(174,813)	405,542
Change in beneficial interest	1,960	5,737
Loss on disposal of fixed assets	-	7,578
(Increase) decrease in:		
Accounts receivable	(16,997)	3,284
Pledges receivable	(57,014)	161,546
Inventory	(2,054)	3,616
Prepaid expenses	(3,538)	9,044
Bequests receivable	7,087	(12,595)
Increase (decrease) in:		
Accounts payable	6,120	7,678
Accrued payroll	2,096	13,958
Accrued vacation	(11,015)	(18,801)
Accrued expenses	(12,978)	10,610
Deferred revenue	-	(8,801)
Total adjustments	<u>(72,886)</u>	<u>508,416</u>
<b>NET CASH PROVIDED BY OPERATING ACTIVITIES</b>	<u>\$ 22,021</u>	<u>\$ 163,981</u>

See accompanying notes.

VERMONT HISTORICAL SOCIETY, INC.

NOTES TO FINANCIAL STATEMENTS

JUNE 30, 2017 AND 2016

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. The Society's Board has suspended, indefinitely, the Vermont History Expo and replaced it with other programming.

*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, 2017 AND 2016

**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 \$0 and \$101,000 as of June 30, 2017 and 2016, 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 Statements of Financial Position. Unrealized gain and loss are included in the change in net assets in the accompanying Statements 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 Statements of Activities as net assets released from restrictions.

Advertising

Advertising costs are charged to expense when incurred. Advertising expenses were \$14,511 and \$16,911 for the years ended June 30, 2017 and 2016, respectively.

VERMONT HISTORICAL SOCIETY, INC.

NOTES TO FINANCIAL STATEMENTS

JUNE 30, 2017 AND 2016

**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 \$5,000 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, 2017 AND 2016

**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. The allowances for obsolete and slow-moving inventory were \$8,000 and \$7,000 as of June 30, 2017 and 2016, respectively.

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. Distributions of income from the trust and the net change in the beneficial interest are included in contributions in the Statements 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 Statements 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, 2017 AND 2016

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, 2016, 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:

	<u>2017</u>	<u>2016</u>
Less than one year	\$ 55,151	\$ 31,050
One to five years	40,000	-
	<u>\$ 95,151</u>	<u>\$ 31,050</u>

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.

VERMONT HISTORICAL SOCIETY, INC.

NOTES TO FINANCIAL STATEMENTS

JUNE 30, 2017 AND 2016

3) INVESTMENTS (continued)

*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, 2017 and 2016.

*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.'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, 2017:</b>			
Mutual funds	\$ 807,993	\$ 821,987	\$ (13,994)
Equity securities	1,400,331	1,215,219	185,112
	<u>\$ 2,208,324</u>	<u>\$ 2,037,206</u>	<u>\$ 171,118</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>

VERMONT HISTORICAL SOCIETY, INC.

NOTES TO FINANCIAL STATEMENTS

JUNE 30, 2017 AND 2016

3) INVESTMENTS (continued)

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

	<u>2017</u>	<u>2016</u>
Interest and dividends	\$ 53,686	\$ 87,037
Realized gain (loss)	(447)	275,430
Unrealized gain (loss)	174,813	(405,542)
	<u>\$ 228,052</u>	<u>\$ (43,075)</u>

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

	<u>2017</u>	<u>2016</u>
Unrestricted	\$ 188,410	\$ (43,597)
Temporarily restricted	39,642	522
	<u>\$ 228,052</u>	<u>\$ (43,075)</u>

4) BEQUESTS RECEIVABLE

In 2010, the Society was designated a 10% beneficiary of an estate whose initial funding was in excess of \$800,000. As a beneficiary, the Society has the unconditional right to receive estimated annual distributions of \$8,900 through 2022 and an estimated single payment of \$40,600 in 2023. Distributions beyond one year are discounted to present value at 4.5%. The Society has estimated the net present values of its portion of this bequest to be \$77,000 and \$84,000 as of June 30, 2017 and 2016, respectively.

In addition, the Society has other bequests receivable of \$3,128 and \$3,215 as of June 30, 2017 and 2016, respectively. Total bequests receivable were \$80,128 and \$87,215 as of June 30, 2017 and 2016, respectively.

5) BENEFICIAL INTEREST IN ASSETS HELD BY OTHERS

Vermont Historical Society, Inc. is the beneficiary of three 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 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 Kent Trust is a perpetual trust held by a third party that distributes annual income to the Society. The Society has recorded beneficial interests in assets held by others of \$148,741 and \$147,285 as of June 30, 2017 and 2016, 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 2" - observable inputs.

VERMONT HISTORICAL SOCIETY, INC.

NOTES TO FINANCIAL STATEMENTS

JUNE 30, 2017 AND 2016

6) LINE OF CREDIT

Effective September 1, 2016, the Society renewed its note payable with KeyBank National Association. Under the new agreement, the Society secured additional borrowing capacity in the form of a short-term line of credit for \$100,000 to support capital improvements. Under the agreement, the Society was allowed to draw advances against the note during the period September 16, 2016 until September 15, 2017 (the "availability period") in minimum amounts of \$10,000 bearing interest at the Prime Rate (4.25% at June 30, 2017). Effective, at the end of the availability period, the Society was no longer allowed to borrow additional funds and the outstanding balance was converted to a five-year term loan, bearing interest at the Bank's cost of funds plus 0.7% (2.63% at June 30, 2017). The Society borrowed \$50,434 under this agreement subsequent to June 30, 2017 and converted that amount to a five-year term loan.

7) NOTES PAYABLE

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% at June 30, 2017 and 2016). Debt payments are based on a 15-year amortization schedule, with a balloon payment due after 60 months.

Notes payable consist of the following at June 30:

	<u>2017</u>	<u>2016</u>
Principal outstanding	\$ 704,653	\$ 795,545
Less current portion	<u>(41,000)</u>	<u>(41,000)</u>
	<u>\$ 663,653</u>	<u>\$ 754,545</u>

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

2018	\$ 41,000
2019	46,000
2020	47,000
2021	48,000
2022	<u>522,653</u>
	<u>\$ 704,653</u>

VERMONT HISTORICAL SOCIETY, INC.

NOTES TO FINANCIAL STATEMENTS

JUNE 30, 2017 AND 2016

8) 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 \$997,214 and \$980,802 for the years ended June 30, 2017 and 2016, respectively. This support comprised 47% and 66% of the Society's unrestricted support and revenue for the years ended June 30, 2017 and 2016, 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 \$42,860 and \$33,182 in additional support for the years ended June 30, 2017 and 2016, respectively, toward the additional compensation expense.

9) 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>2017</u>	<u>2016</u> <u>(As restated)</u>
Restricted by donors:		
Tuttle Endowment Fund	\$ 21,694	\$ 16,511
Vermont History Center Building Fund	20,111	66,967
Museum Special Fund	41,762	14,992
Local Historical Societies	110,215	-
	<u>193,782</u>	<u>98,470</u>
Restricted by trust agreements:		
Fowle Fund Endowment earnings (for Library)	3,399	2,961
Johnson Fund Endowment earnings (for Library)	5,912	5,468
Clifford Fund Endowment earnings	35,262	25,890
Hoyt Fund (for Library)	15,399	15,328
Edmunds Fund earnings	86,505	78,407
Kent Fund	170,935	154,898
Muller Fund	40,000	40,000
Capital - for debt reduction	50,227	99,696
Library Acquisition Fund	11,294	9,427
Library Special Fund	22,451	22,644
Museum Acquisition Fund	16,493	15,493
Hathaway Fund	2,145	-
	<u>460,022</u>	<u>470,212</u>
	<u>\$ 653,804</u>	<u>\$ 568,682</u>

VERMONT HISTORICAL SOCIETY, INC.

NOTES TO FINANCIAL STATEMENTS

JUNE 30, 2017 AND 2016

10) PERMANENTLY RESTRICTED NET ASSETS

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

	<u>2017</u>	<u>2016</u> <u>(As restated)</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
Kent Fund	34,282	36,242
	<u>\$ 257,715</u>	<u>\$ 259,675</u>

11) BOARD-DESIGNATED NET ASSETS

Board-designated net assets consist of unrestricted investments designated for various program purposes.

12) 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 \$116,992 and \$124,721 for the years ended June 30, 2017 and 2016, respectively.

13) 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.

**VERMONT HISTORICAL SOCIETY, INC.**

**NOTES TO FINANCIAL STATEMENTS**

**JUNE 30, 2017 AND 2016**

**13) ENDOWMENT FUNDS (continued)**

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, 2017 and 2016.

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 not to exceed 5%, 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.



VERMONT HISTORICAL SOCIETY, INC.

NOTES TO FINANCIAL STATEMENTS

JUNE 30, 2017 AND 2016

13) ENDOWMENT FUNDS (continued)

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, 2017:</b>				
Board-designated endowment funds	\$ 1,660,786	\$ -	\$ -	\$ 1,660,786
Donor-restricted endowment funds	-	339,105	208,433	547,538
	<u>\$ 1,660,786</u>	<u>\$ 339,105</u>	<u>\$ 208,433</u>	<u>\$ 2,208,324</u>
<b>June 30, 2016 (As restated):</b>				
Board-designated endowment funds	\$ 1,529,543	\$ -	\$ -	\$ 1,529,543
Donor-restricted endowment funds	-	299,463	208,433	507,896
	<u>\$ 1,529,543</u>	<u>\$ 299,463</u>	<u>\$ 208,433</u>	<u>\$ 2,037,439</u>

A summary of the changes in the Society's endowment funds is as follows for the years ended June 30, 2017 and 2016:

<b>Balance - July 1, 2015 (As restated)</b>	\$ 1,678,345	\$ 314,117	\$ 208,433	\$ 2,200,895
Additional contributions	-	-	-	-
Investment return (loss)	(43,597)	522	-	(43,075)
Appropriated for expenditure	(105,205)	(15,176)	-	(120,381)
<b>Balance - June 30, 2016</b>	<u>\$ 1,529,543</u>	<u>\$ 299,463</u>	<u>\$ 208,433</u>	<u>\$ 2,037,439</u>
<b>Balance - July 1, 2016</b>	\$ 1,529,543	\$ 299,463	\$ 208,433	\$ 2,037,439
Additional contributions	-	-	-	-
Investment return	188,410	39,642	-	228,052
Appropriated for expenditure	(57,167)	-	-	(57,167)
<b>Balance - June 30, 2017</b>	<u>\$ 1,660,786</u>	<u>\$ 339,105</u>	<u>\$ 208,433</u>	<u>\$ 2,208,324</u>

**VERMONT HISTORICAL SOCIETY, INC.**

**NOTES TO FINANCIAL STATEMENTS**

**JUNE 30, 2017 AND 2016**

**14) 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.

**15) PRIOR PERIOD RESTATEMENTS**

In 2002, the City of Barre sold the land and building which now contains the Vermont History Center to Vermont Historical Society, Inc. for \$1. During 2017, the Society determined that it had not recorded an in-kind donation in 2002 to reflect the fair value of the land at the time of donation. Based on research conducted, the Society determined the value of the land donation was \$80,000 in 2002. As a result, the Society has restated the prior year financial statements by increasing property and equipment and unrestricted net assets by \$80,000 as of June 30, 2015, the earliest period presented in the accompanying financial statements. The restatement had no effect on the change in net assets for the years ended June 30, 2017 or 2016.

In 2017, the Society discovered errors in the reporting of certain restricted funds. As a result, unrestricted net assets as of June 30, 2015 were decreased by \$78,685, and temporarily restricted net assets as of June 30, 2015 were increased by \$78,685. Effects on the changes in net assets for the year ended June 30, 2016 were immaterial. The restatement had no effect on the change in net assets for the year ended June 30, 2017.

In 2017, the Society discovered an omission in recording a contribution of a beneficial interest in assets held by others. As a result, the Society restated the prior year financial statements by increasing beneficial interest in assets held by others and permanently restricted net assets by \$36,242 as of June 30, 2015, the earliest period presented in the accompanying financial statements. The restatement had no effect on the change in net assets for the years ended June 30, 2017 or 2016.

**16) SUBSEQUENT EVENTS**

As disclosed in Note 6, the Society borrowed \$50,434 against the capital improvements line of credit subsequent to June 30, 2017.

Vermont Historical Society, Inc. has evaluated events and transactions for potential recognition or disclosure through October 13, 2017, the date the financial statements were available to be issued.