



VERMONT HISTORICAL SOCIETY, INC.

FINANCIAL STATEMENTS

JUNE 30, 2018 AND 2017

**JMIM & ASSOCIATES
CERTIFIED PUBLIC ACCOUNTANTS**

VERMONT HISTORICAL SOCIETY, INC.

FINANCIAL STATEMENTS

JUNE 30, 2018 AND 2017

VERMONT HISTORICAL SOCIETY, INC.

TABLE OF CONTENTS

JUNE 30, 2018 AND 2017

	<u>Page</u>
Independent Auditor's Report	1 - 2
Financial Statements:	
Statements of Financial Position	3 - 4
Statements of Activities	5 - 6
Statement of Functional Expenses	7 - 8
Statements of Cash Flows	9 - 10
Notes to Financial Statements	11 - 24



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, 2018 and 2017, the related statements of activities and cash flows for the years then ended, the statement of functional expenses for the year ended June 30, 2018, 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.

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, 2018 and 2017 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 11, 2018

VERMONT HISTORICAL SOCIETY, INC.
STATEMENTS OF FINANCIAL POSITION
JUNE 30, 2018 AND 2017

A S S E T S

	2018	2017
CURRENT ASSETS		
Cash	\$ 239,025	\$ 229,750
Accounts receivable	20,311	20,775
Pledges receivable - current portion	58,000	55,000
Inventory, net	24,769	37,812
Prepaid expenses	5,625	19,562
 TOTAL CURRENT ASSETS	 347,730	 362,899
 PROPERTY AND EQUIPMENT		
Buildings	8,595,687	7,023,959
Equipment and software	693,529	549,817
Land	80,000	80,000
	9,369,216	7,653,776
Less accumulated depreciation	(2,492,640)	(2,372,379)
 TOTAL PROPERTY AND EQUIPMENT	 6,876,576	 5,281,397
 OTHER ASSETS		
Investments	2,181,608	2,208,324
Pledges receivable - noncurrent portion	71,301	40,151
Bequests receivable	72,000	80,128
Beneficial interest in assets held by others	151,506	148,741
 TOTAL OTHER ASSETS	 2,476,415	 2,477,344
 TOTAL ASSETS	 \$ 9,700,721	 \$ 8,121,640

See accompanying notes.

LIABILITIES AND NET ASSETS

	2018	2017
CURRENT LIABILITIES		
Accounts payable	\$ 126,685	\$ 83,572
Current portion of long-term debt	33,000	41,000
Accrued payroll	33,127	36,087
Accrued vacation	46,328	40,786
Deferred revenue	5,000	-
	244,140	201,445
TOTAL CURRENT LIABILITIES		
LONG-TERM LIABILITIES		
Note payable, net of current portion	885,086	663,653
	885,086	663,653
TOTAL LONG-TERM LIABILITIES		
	1,129,226	865,098
TOTAL LIABILITIES		
NET ASSETS		
Unrestricted:		
Net investment in property and equipment	5,958,490	4,576,744
Board-designated	1,547,487	1,609,231
Undesignated	144,623	157,088
Subtotal - unrestricted net assets	7,650,600	6,343,063
Temporarily restricted	661,220	653,804
Permanently restricted	259,675	259,675
	8,571,495	7,256,542
TOTAL NET ASSETS		
	8,571,495	7,256,542
TOTAL LIABILITIES AND NET ASSETS	\$ 9,700,721	\$ 8,121,640

See accompanying notes.

VERMONT HISTORICAL SOCIETY, INC.

STATEMENTS OF ACTIVITIES

FOR THE YEARS ENDED JUNE 30, 2018 AND 2017

	<u>2018</u>	<u>2017</u>
CHANGE IN UNRESTRICTED NET ASSETS		
SUPPORT AND REVENUE		
Contributions	\$ 446,309	\$ 640,487
Grants	1,420,152	86,726
State appropriations	1,033,043	997,214
Fees and admissions	46,411	54,578
Museum shop sales	29,905	32,793
Investment income	125,996	188,410
Other income	17,898	36,682
Subtotal - support and revenue	<u>3,119,714</u>	<u>2,036,890</u>
Net assets released from restrictions	<u>81,391</u>	<u>137,494</u>
TOTAL SUPPORT AND REVENUE	<u>3,201,105</u>	<u>2,174,384</u>
EXPENSES		
Program services:		
Education	519,646	500,973
Library	313,117	307,630
Museum	269,723	595,344
Vermont History Bookstore	85,343	99,159
Publications	21,108	13,336
Total program services	<u>1,208,937</u>	<u>1,516,442</u>
Support services:		
General and administrative	233,045	212,466
Community relations	308,424	166,873
Fundraising	143,162	268,818
Total support services	<u>684,631</u>	<u>648,157</u>
TOTAL EXPENSES	<u>1,893,568</u>	<u>2,164,599</u>
CHANGE IN UNRESTRICTED NET ASSETS	1,307,537	9,785
BEGINNING UNRESTRICTED NET ASSETS	<u>6,343,063</u>	<u>6,333,278</u>
ENDING UNRESTRICTED NET ASSETS	<u>\$ 7,650,600</u>	<u>\$ 6,343,063</u>

See accompanying notes.

VERMONT HISTORICAL SOCIETY, INC.

STATEMENTS OF ACTIVITIES (CONTINUED)

FOR THE YEARS ENDED JUNE 30, 2018 AND 2017

	<u>2018</u>	<u>2017</u>
CHANGE IN TEMPORARILY RESTRICTED NET ASSETS SUPPORT AND REVENUE		
Contributions	\$ 42,684	\$ 182,974
Investment income	46,123	39,642
Subtotal - support and revenue	88,807	222,616
Net assets released from restrictions	(81,391)	(137,494)
TOTAL SUPPORT AND REVENUE	<u>7,416</u>	<u>85,122</u>
CHANGE IN TEMPORARILY RESTRICTED NET ASSETS	7,416	85,122
BEGINNING TEMPORARILY RESTRICTED NET ASSETS	<u>653,804</u>	<u>568,682</u>
ENDING TEMPORARILY RESTRICTED NET ASSETS	<u>\$ 661,220</u>	<u>\$ 653,804</u>
 CHANGE IN PERMANENTLY RESTRICTED NET ASSETS SUPPORT AND REVENUE		
Contributions	<u>\$ -</u>	<u>\$ -</u>
CHANGE IN PERMANENTLY RESTRICTED NET ASSETS	-	-
BEGINNING PERMANENTLY RESTRICTED NET ASSETS	<u>259,675</u>	<u>259,675</u>
ENDING PERMANENTLY RESTRICTED NET ASSETS	<u>\$ 259,675</u>	<u>\$ 259,675</u>
 TOTAL CHANGE IN NET ASSETS		
Unrestricted	\$ 1,307,537	\$ 9,785
Temporarily restricted	7,416	85,122
Permanently restricted	-	-
	<u>\$ 1,314,953</u>	<u>\$ 94,907</u>

See accompanying notes.

VERMONT HISTORICAL SOCIETY, INC.
STATEMENT OF FUNCTIONAL EXPENSES
FOR THE YEAR ENDED JUNE 30, 2018
(WITH COMPARATIVE TOTALS FOR 2017)

	<u>Education</u>	<u>Library</u>	<u>Museum</u>	<u>Vermont History Bookstore</u>	<u>Publications</u>	<u>Total Program Services</u>
Salaries	\$ 216,899	\$ 130,695	\$ 112,582	\$ 35,622	\$ 8,811	\$ 504,609
Payroll taxes	16,867	10,163	8,755	2,770	685	39,240
Employee benefits	43,324	26,105	22,487	7,115	1,760	100,791
Subtotal - personnel costs	277,090	166,963	143,824	45,507	11,256	644,640
Occupancy	107,575	64,820	55,837	17,668	4,370	250,270
Depreciation	52,614	31,703	27,309	8,641	2,137	122,404
Office expenses	20,014	12,060	10,389	3,287	813	46,563
Professional services	18,950	11,418	9,836	3,112	770	44,086
Cost of goods sold	7,813	4,708	4,055	1,283	317	18,176
Information technology	7,120	4,290	3,696	1,169	289	16,564
Interest	6,110	3,682	3,172	1,004	248	14,216
Collections expense	5,874	3,539	3,049	360	239	13,061
Insurance	5,622	3,388	2,918	923	228	13,079
Miscellaneous	3,449	2,078	1,790	566	140	8,023
Bad debt expense	2,744	1,654	1,424	451	111	6,384
Travel and training	2,193	1,322	1,138	965	89	5,707
Conferences and meetings	1,272	766	660	198	52	2,948
Advertising and promotion	1,206	726	626	209	49	2,816
TOTAL EXPENSES	<u>\$ 519,646</u>	<u>\$ 313,117</u>	<u>\$ 269,723</u>	<u>\$ 85,343</u>	<u>\$ 21,108</u>	<u>\$ 1,208,937</u>

See accompanying notes.

	General and Administrative	Community Relations	Fundraising	Total Support Services	2018 Total	2017 Total
Salaries	\$ 97,273	\$ 128,735	\$ 59,756	\$ 285,764	\$ 790,373	\$ 792,762
Payroll taxes	7,564	10,011	4,647	22,222	61,462	60,875
Employee benefits	19,429	25,714	11,936	57,079	157,870	160,754
Subtotal - personnel costs	124,266	164,460	76,339	365,065	1,009,705	1,014,391
Occupancy	48,244	63,848	29,637	141,729	391,999	368,234
Depreciation	23,596	31,228	14,495	69,319	191,723	187,813
Office expenses	8,976	11,879	5,514	26,369	72,932	75,641
Professional services	8,498	11,247	5,221	24,966	69,052	399,243
Cost of goods sold	3,504	4,637	2,152	10,293	28,469	9,950
Information technology	3,193	4,226	1,962	9,381	25,945	19,824
Interest	2,740	3,627	1,683	8,050	22,266	18,111
Collections expense	2,634	3,486	1,618	7,738	20,799	8,756
Insurance	2,521	3,337	1,549	7,407	20,486	23,867
Miscellaneous	1,547	2,047	950	4,544	12,567	567
Bad debt expense	1,231	1,629	756	3,616	10,000	-
Travel and training	984	1,302	604	2,890	8,597	8,225
Conferences and meetings	570	755	350	1,675	4,623	15,466
Advertising and promotion	541	716	332	1,589	4,405	14,511
TOTAL EXPENSES	\$ 233,045	\$ 308,424	\$ 143,162	\$ 684,631	\$ 1,893,568	\$ 2,164,599

See accompanying notes.

VERMONT HISTORICAL SOCIETY, INC.

STATEMENTS OF CASH FLOWS

FOR THE YEARS ENDED JUNE 30, 2018 AND 2017

	<u>2018</u>	<u>2017</u>
CASH FLOWS FROM OPERATING ACTIVITIES		
Cash received from contributions	\$ 460,206	\$ 775,494
Cash received from grants	2,458,195	1,083,940
Cash from sales and other sources	94,678	107,056
Interest and dividends received	55,695	53,686
Cash paid for personnel	(1,007,123)	(1,023,310)
Cash paid for goods and services	(599,781)	(956,734)
Cash paid for interest	(22,266)	(18,111)
NET CASH PROVIDED BY OPERATING ACTIVITIES	<u>1,439,604</u>	<u>22,021</u>
CASH FLOWS FROM INVESTING ACTIVITIES		
Proceeds from sales of investments	198,835	57,167
Purchases of investments	(55,693)	(64,129)
Purchases of property and equipment	(1,786,904)	(28,587)
NET CASH USED BY INVESTING ACTIVITIES	<u>(1,643,762)</u>	<u>(35,549)</u>
CASH FLOWS FROM FINANCING ACTIVITIES		
Proceeds from issuance of long-term debt	289,786	-
Principal payments on long-term debt	(76,353)	(90,892)
NET CASH PROVIDED (USED) BY FINANCING ACTIVITIES	<u>213,433</u>	<u>(90,892)</u>
INCREASE (DECREASE) IN CASH	9,275	(104,420)
BEGINNING CASH	<u>229,750</u>	<u>334,170</u>
ENDING CASH	<u>\$ 239,025</u>	<u>\$ 229,750</u>

See accompanying notes.

VERMONT HISTORICAL SOCIETY, INC.

STATEMENTS OF CASH FLOWS (CONTINUED)

FOR THE YEARS ENDED JUNE 30, 2018 AND 2017

	<u>2018</u>	<u>2017</u>
RECONCILIATION OF CHANGE IN NET ASSETS TO NET CASH PROVIDED BY OPERATING ACTIVITIES		
Change in net assets	<u>\$ 1,314,953</u>	<u>\$ 94,907</u>
Adjustments to reconcile change in net assets to net cash provided by operating activities:		
Depreciation	191,723	187,813
Realized (gain) loss on investments	(57,163)	447
Unrealized gain on investments	(59,261)	(174,813)
Change in beneficial interest	(2,765)	1,960
(Increase) decrease in:		
Accounts receivable	464	(16,997)
Pledges receivable	(34,150)	(57,014)
Inventory	13,043	(2,054)
Prepaid expenses	13,937	(3,538)
Bequests receivable	8,128	7,087
Increase (decrease) in:		
Accounts payable	43,113	(6,858)
Accrued payroll	(2,960)	2,096
Accrued vacation	5,542	(11,015)
Deferred revenue	5,000	-
Total adjustments	<u>124,651</u>	<u>(72,886)</u>
NET CASH PROVIDED BY OPERATING ACTIVITIES	<u><u>\$ 1,439,604</u></u>	<u><u>\$ 22,021</u></u>

See accompanying notes.

VERMONT HISTORICAL SOCIETY, INC.

NOTES TO FINANCIAL STATEMENTS

JUNE 30, 2018 AND 2017

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 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.

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.

VERMONT HISTORICAL SOCIETY, INC.

NOTES TO FINANCIAL STATEMENTS

JUNE 30, 2018 AND 2017

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

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 \$18,715 and \$0 as of June 30, 2018 and 2017, 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 \$4,405 and \$14,511 for the years ended June 30, 2018 and 2017, respectively.

VERMONT HISTORICAL SOCIETY, INC.

NOTES TO FINANCIAL STATEMENTS

JUNE 30, 2018 AND 2017

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, 2018 AND 2017

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. The allowance for doubtful accounts was \$0 at June 30, 2018 and 2017.

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 \$15,000 and \$8,000 as of June 30, 2018 and 2017, 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 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, 2018 AND 2017

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. Specifically, amounts in Note 14, endowment funds, have been restated.

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, 2017, 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>2018</u>	<u>2017</u>
Less than one year	\$ 58,000	\$ 55,000
One to five years	81,301	40,151
	<u>139,301</u>	<u>95,151</u>
Less allowance for uncollectible pledges	(10,000)	-
	<u>\$ 129,301</u>	<u>\$ 95,151</u>

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

	<u>2018</u>	<u>2017</u>
Current	\$ 58,000	\$ 55,000
Long-term	71,301	40,151
	<u>\$ 129,301</u>	<u>\$ 95,151</u>

Management has deemed any discount on pledges receivable would not be material.

VERMONT HISTORICAL SOCIETY, INC.

NOTES TO FINANCIAL STATEMENTS

JUNE 30, 2018 AND 2017

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, 2018 and 2017.

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, 2018 AND 2017

3) INVESTMENTS (continued)

Vermont Historical Society, Inc.'s investments (Level 1) consisted of the following at:

	<u>Fair Value</u>	<u>Cost</u>	<u>Unrealized Appreciation (Depreciation)</u>
June 30, 2018:			
Mutual funds	\$ 887,186	\$ 917,929	\$ (30,743)
Equity securities	1,294,422	1,033,300	261,122
	<u>\$ 2,181,608</u>	<u>\$ 1,951,229</u>	<u>\$ 230,379</u>
June 30, 2017:			
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>

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

	<u>2018</u>	<u>2017</u>
Interest and dividends	\$ 55,695	\$ 53,686
Realized gain (loss)	57,163	(447)
Unrealized gain	59,261	174,813
	<u>\$ 172,119</u>	<u>\$ 228,052</u>

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

	<u>2018</u>	<u>2017</u>
Unrestricted	\$ 125,996	\$ 188,410
Temporarily restricted	46,123	39,642
	<u>\$ 172,119</u>	<u>\$ 228,052</u>

VERMONT HISTORICAL SOCIETY, INC.

NOTES TO FINANCIAL STATEMENTS

JUNE 30, 2018 AND 2017

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 December 2022 and an estimated single payment of \$40,600 in December 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 \$72,000 and \$77,000 as of June 30, 2018 and 2017, respectively.

In addition, the Society has other bequests receivable of \$0 and \$3,128 as of June 30, 2018 and 2017, respectively. Total bequests receivable were \$72,000 and \$80,128 as of June 30, 2018 and 2017, 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 \$151,506 and \$148,741 as of June 30, 2018 and 2017, 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.

6) BUILDING IMPROVEMENTS

During FY2018, the Society completed a major renovation project at the Vermont History Center in Barre, which enabled the Society to lease a significant portion of the building to the State of Vermont Department of Libraries. The Society paid approximately \$1.641 million for these renovations in FY2018, which was funded by a \$241,000 increase in the Society's long-term debt, \$600,000 contribution from the Department of Libraries and \$800,000 through a capital grant from the State of Vermont.

7) LINE OF CREDIT

Effective September 1, 2016, the Society renewed its note payable with KeyBank National Association (KeyBank). 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 in September 2017 and converted that amount to a five-year term loan. In fiscal year 2018, the term loan was paid in full according to the debt reduction agreement with the State of Vermont.

VERMONT HISTORICAL SOCIETY, INC.

NOTES TO FINANCIAL STATEMENTS

JUNE 30, 2018 AND 2017

8) NOTES PAYABLE

At June 30, 2017, the Society had an outstanding loan with KeyBank National Association, bearing interest at KeyBank's cost of funds plus 0.7% (2.63% at June 30, 2017). Debt payments were based on a 15-year amortization schedule, with a balloon payment due after 60 months.

In January 2018, the Society refinanced the loan with KeyBank and obtained authorization to borrow an additional \$500,000 to support the building renovations at the Vermont History Center to accommodate the State of Vermont Department of Libraries. The new agreement matures in 2028 and bears fixed-rate interest at KeyBank's cost of funds plus 0.7% (3.98% at June 30, 2018). The agreement is collateralized by all of the Society's business assets. Notes payable consisted of the following at June 30:

	<u>2018</u>	<u>2017</u>
Principal outstanding	\$ 918,086	\$ 704,653
Less current portion	(33,000)	(41,000)
	<u>\$ 885,086</u>	<u>\$ 663,653</u>

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

2019	\$ 33,000
2020	40,000
2021	42,000
2022	44,000
2023	46,000
Thereafter	713,086
	<u>\$ 918,086</u>

Subsequent to June 30, 2018, the Society borrowed approximately \$259,000 under the agreement, increasing the total principal balance to \$1,177,471.

9) 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 \$1,033,043 and \$997,214 for the years ended June 30, 2018 and 2017, respectively. The base appropriation was \$742,885 for the years ended June 30, 2018 and 2017, while the rent passthrough was \$254,060 and \$211,469, and the Pay Act appropriation was \$36,098 and \$42,860, for the years ended June 30, 2018 and 2017, respectively. This support comprised 32% and 46% of the Society's unrestricted support and revenue for the years ended June 30, 2018 and 2017, respectively. Any significant decrease in that funding could have a severe negative impact on the Society.

VERMONT HISTORICAL SOCIETY, INC.

NOTES TO FINANCIAL STATEMENTS

JUNE 30, 2018 AND 2017

10) 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 consisted of the following at June 30:

	2018	2017
Tuttle Endowment Fund	\$ 26,439	\$ 21,694
Vermont History Center Building Fund	23,111	20,111
Museum Special Fund	36,684	41,762
Local Historical Societies	114,811	110,215
Fowle Fund Endowment earnings (for Library)	3,372	3,399
Johnson Fund Endowment earnings (for Library)	6,319	5,912
Clifford Fund Endowment earnings	43,864	35,262
Hoyt Fund (for Library)	14,799	15,399
Edmunds Fund earnings	96,047	86,505
Kent Fund	185,804	170,935
Muller Fund	40,000	40,000
Capital - for debt reduction	394	50,227
Library Acquisition Fund	11,438	11,294
Library Special Fund	24,791	22,451
Museum Acquisition Fund	30,355	16,493
Hathaway Fund	2,992	2,145
	\$ 661,220	\$ 653,804

11) PERMANENTLY RESTRICTED NET ASSETS

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

	2018	2017
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	36,242	36,242
	\$ 259,675	\$ 259,675

VERMONT HISTORICAL SOCIETY, INC.

NOTES TO FINANCIAL STATEMENTS

JUNE 30, 2018 AND 2017

12) BOARD-DESIGNATED NET ASSETS

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

13) 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 \$121,840 and \$116,992 for the years ended June 30, 2018 and 2017, respectively.

14) 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.

VERMONT HISTORICAL SOCIETY, INC.

NOTES TO FINANCIAL STATEMENTS

JUNE 30, 2018 AND 2017

14) ENDOWMENT FUNDS (continued)

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, 2018 or 2017.

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 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 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>
June 30, 2018:				
Board-designated endowment funds	\$ 1,547,487	\$ -	\$ -	\$ 1,547,487
Donor-restricted endowment funds	-	376,644	208,433	585,077
	<u>\$ 1,547,487</u>	<u>\$ 376,644</u>	<u>\$ 208,433</u>	<u>\$ 2,132,564</u>

VERMONT HISTORICAL SOCIETY, INC.

NOTES TO FINANCIAL STATEMENTS

JUNE 30, 2018 AND 2017

14) ENDOWMENT FUNDS (continued)

	<u>Unrestricted</u>	<u>Temporarily Restricted</u>	<u>Permanently Restricted</u>	<u>Total</u>
June 30, 2017:				
Board-designated endowment funds	\$ 1,609,231	\$ -	\$ -	\$ 1,609,231
Donor-restricted endowment funds	-	339,105	208,433	547,538
	<u>\$ 1,609,231</u>	<u>\$ 339,105</u>	<u>\$ 208,433</u>	<u>\$ 2,156,769</u>

A summary of the changes in the Society's endowment funds is as follows for the years ended June 30, 2018 and 2017:

Balance - July 1, 2016	\$ 1,529,543	\$ 299,463	\$ 208,433	\$ 2,037,439
Additional contributions	-	-	-	-
Investment return	188,410	39,642	-	228,052
Appropriated for expenditure	(108,722)	-	-	(108,722)
Balance - June 30, 2017	<u>\$ 1,609,231</u>	<u>\$ 339,105</u>	<u>\$ 208,433</u>	<u>\$ 2,156,769</u>
Balance - July 1, 2017	\$ 1,609,231	\$ 339,105	\$ 208,433	\$ 2,156,769
Additional contributions	-	6,846	-	6,846
Investment return	125,785	32,213	-	157,998
Appropriated for expenditure	(187,529)	(1,520)	-	(189,049)
Balance - June 30, 2018	<u>\$ 1,547,487</u>	<u>\$ 376,644</u>	<u>\$ 208,433</u>	<u>\$ 2,132,564</u>

Certain amounts in the activity for the year ended June 30, 2017 have been corrected.

15) COMMITMENTS AND CONTINGENCIES

In June 2018, the Society signed an agreement with a contractor to repair the roof at the Vermont History Center for a total of \$55,000.

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 \$36,098 and \$42,860 in additional support for the years ended June 30, 2018 and 2017, respectively, toward the additional compensation expense.

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.

VERMONT HISTORICAL SOCIETY, INC.

NOTES TO FINANCIAL STATEMENTS

JUNE 30, 2018 AND 2017

16) SUBLEASE

In FY2018, the Society executed a long-term sublease agreement with the State of Vermont Department of Libraries under which the Department of Libraries will lease 14,664 square feet in the Society's Vermont History Center in Barre, Vermont. The lease requires annual rent based on \$12.25 per square foot and expires in June 2028. In addition, the Society leases space to the Vermont Archaeology Heritage Center on a monthly basis. Rental income was \$17,898 and \$11,473 for the years ended June 30, 2018 and 2017, respectively. Future sublease income is expected to be as follows for the years ending June 30:

2019	\$ 180,000
2020	180,000
2021	180,000
2022	180,000
2023	180,000
Thereafter	<u>900,000</u>
	<u>\$ 1,800,000</u>

17) SUBSEQUENT EVENTS

As disclosed in Note 8, the Society borrowed approximately \$259,000 on the KeyBank note payable.

Vermont Historical Society, Inc. has evaluated events and transactions for potential recognition or disclosure through October 11, 2018, the date the financial statements were available to be issued.