

# Preservation Virginia

Consolidated Financial Statements

June 30, 2016 and 2015



4401 Dominion Boulevard  
Glen Allen, Virginia 23060  
Tel: 804.747.0000  
[www.keitercpa.com](http://www.keitercpa.com)

# PRESERVATION VIRGINIA

## Table of Contents

	<u>Page</u>
Report of Independent Accountants	1
Consolidated Financial Statements:	
Consolidated Statements of Financial Position	3
Consolidated Statements of Activities	5
Consolidated Statements of Cash Flows	9
Notes to Consolidated Financial Statements	11
Supplemental Information:	
Statements of Financial Position for the Revolving Fund	29
Statements of Activities for the Revolving Fund	30
Consolidating Statement of Activities	31

## REPORT OF INDEPENDENT ACCOUNTANTS

To the Board of Trustees of  
Preservation Virginia  
Richmond, Virginia

### Report on the Consolidated Financial Statements

We have audited the accompanying consolidated financial statements of Preservation Virginia and Subsidiaries (collectively, the "Organization"), which comprise the consolidated statements of financial position as of June 30, 2016 and 2015, and the related consolidated statements of activities and cash flows for the years then ended, and the related notes to the consolidated financial statements.

### Management's Responsibility for the Consolidated Financial Statements

Management is responsible for the preparation and fair presentation of these consolidated financial statements in accordance with accounting principles generally accepted in the United States; this includes the design, implementation, and maintenance of internal control relevant to the preparation and fair presentation of consolidated 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 consolidated financial statements based on our audits. We conducted our audits in accordance with auditing standards generally accepted in the United States. Those standards require that we plan and perform the audits to obtain reasonable assurance about whether the consolidated financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the consolidated financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the consolidated 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 consolidated 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 consolidated 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 consolidated financial statements referred to above present fairly, in all material respects, the financial position of Preservation Virginia and Subsidiaries as of June 30, 2016, and 2015, and the changes in their net assets and their cash flows for the years then ended in accordance with accounting principles generally accepted in the United States.

## Supplemental Information

Our audits were conducted for the purpose of forming an opinion on the consolidated financial statements as a whole. The supplemental information as detailed in the Table of Contents is presented for purposes of additional analysis and is not a required part of the consolidated financial statements. Such information is the responsibility of management and was derived from and relates directly to the underlying accounting and other records used to prepare the consolidated financial statements. The information has been subjected to the auditing procedures applied in the audits of the consolidated financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the consolidated financial statements or to the consolidated financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States. In our opinion, the information is fairly stated in all material respects in relation to the consolidated financial statements as a whole.

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

December 2, 2016  
Glen Allen, Virginia

**PRESERVATION VIRGINIA**

Consolidated Statements of Financial Position  
June 30, 2016 and 2015

<u>Assets</u>	<u>2016</u>	<u>2015</u>
Current assets:		
Cash and cash equivalents	\$ 936,257	\$ 1,400,384
Accounts receivable	131,550	67,798
Contributions receivable (Note 2)	15,000	-
Museum shop inventory, net	562,859	561,502
Prepaid expenses and other assets	14,777	42,624
Revolving fund held in trust for the Commonwealth of Virginia	<u>736,327</u>	<u>733,675</u>
Total current assets	<u>2,396,770</u>	<u>2,805,983</u>
Investments (Note 3)	<u>11,159,916</u>	<u>10,823,590</u>
Property and equipment:		
Property and equipment, net of accumulated depreciation (Note 5)	6,447,000	6,731,949
Historic properties	<u>3,393,635</u>	<u>3,800,542</u>
Property and equipment, net	<u>9,840,635</u>	<u>10,532,491</u>
Contributions receivable, long-term (Note 2)	<u>30,000</u>	<u>-</u>
Total assets	<u><u>\$ 23,427,321</u></u>	<u><u>\$ 24,162,064</u></u>

See accompanying notes to consolidated financial statements.

**PRESERVATION VIRGINIA**

Consolidated Statement of Financial Position, Continued  
June 30, 2016 and 2015

<u>Liabilities and Net Assets</u>	<u>2016</u>	<u>2015</u>
Current liabilities:		
Loan payable (Note 6)	\$ 72,255	\$ 70,023
Accounts payable	211,567	266,415
Accrued expenses	89,253	93,065
Annuity liabilities on split-interest agreements (Note 10)	18,100	18,100
Liability under revolving fund held in trust for the Commonwealth of Virginia	<u>730,809</u>	<u>731,003</u>
Total current liabilities	1,121,984	1,178,606
Annuity liabilities on split-interest agreements, long-term (Note 10)	87,208	92,670
Loan payable, long-term (Note 6)	<u>445,705</u>	<u>539,612</u>
Total liabilities	<u>1,654,897</u>	<u>1,810,888</u>
Net assets:		
Unrestricted:		
Board designated	109,460	-
Undesignated	<u>13,318,105</u>	<u>13,680,396</u>
Total unrestricted	13,427,565	13,680,396
Temporarily restricted (Note 7)	5,953,530	6,559,951
Permanently restricted (Note 8)	<u>2,391,329</u>	<u>2,110,829</u>
Total net assets	<u>21,772,424</u>	<u>22,351,176</u>
Total liabilities and net assets	<u>\$ 23,427,321</u>	<u>\$ 24,162,064</u>

See accompanying notes to consolidated financial statements.

## PRESERVATION VIRGINIA

### Consolidated Statement of Activities Year Ended June 30, 2016 with Comparative Totals for 2015

	Unrestricted	Temporarily Restricted	Permanently Restricted	2016 Total	2015 Total
Revenues, gains (losses), and other support:					
Admissions	\$ 1,236,482	\$ -	\$ -	\$ 1,236,482	\$ 1,165,140
Museum shop sales, shown net of cost of sales of \$475,813	524,504	-	-	524,504	446,671
Contributions	400,484	837,173	280,500	1,518,157	1,958,363
Grants and appropriations	100,000	-	-	100,000	-
Property rentals	65,375	-	-	65,375	80,921
Change in value of split-interest agreements (Note 10)	(12,638)	-	-	(12,638)	(12,323)
Interest and dividends	212,029	77,245	-	289,274	318,856
Unrealized loss on investments, net	(228,736)	(44,698)	-	(273,434)	(914,290)
Realized gain on investments, net	59,432	-	-	59,432	770,350
Earned income	184,814	-	-	184,814	232,694
Loss on sale of historic properties	(29,938)	-	-	(29,938)	-
Miscellaneous	8,351	-	-	8,351	7,879
 Total revenues, gains (losses), and other support	 2,520,159	 869,720	 280,500	 3,670,379	 4,054,261
 Net assets released from restriction	 1,476,141	 (1,476,141)	 -	 -	 -

See accompanying notes to consolidated financial statements.

## PRESERVATION VIRGINIA

### Consolidated Statement of Activities, Continued Year Ended June 30, 2016 with Comparative Totals for 2015

	Unrestricted	Temporarily Restricted	Permanently Restricted	2016 Total	2015 Total
Expenses:					
Program services:					
Historic Jamestowne	\$ 2,265,939	\$ -	\$ -	\$ 2,265,939	\$ 2,349,144
Programs	541,095	-	-	541,095	509,667
Other properties	918,329	-	-	918,329	1,001,515
Total program services	<u>3,725,363</u>	<u>-</u>	<u>-</u>	<u>3,725,363</u>	<u>3,860,326</u>
Support services:					
Administration	310,255	-	-	310,255	294,302
Fundraising	213,513	-	-	213,513	204,206
Total support services	<u>523,768</u>	<u>-</u>	<u>-</u>	<u>523,768</u>	<u>498,508</u>
Total expenses	<u>4,249,131</u>	<u>-</u>	<u>-</u>	<u>4,249,131</u>	<u>4,358,834</u>
Change in net assets	(252,831)	(606,421)	280,500	(578,752)	(304,573)
Net assets, beginning of year	<u>13,680,396</u>	<u>6,559,951</u>	<u>2,110,829</u>	<u>22,351,176</u>	<u>22,655,749</u>
Net assets, end of year	<u>\$ 13,427,565</u>	<u>\$ 5,953,530</u>	<u>\$ 2,391,329</u>	<u>\$ 21,772,424</u>	<u>\$ 22,351,176</u>

See accompanying notes to consolidated financial statements.



## PRESERVATION VIRGINIA

### Consolidated Statement of Activities Year Ended June 30, 2015

	Unrestricted	Temporarily Restricted	Permanently Restricted	Total
Revenues, gains (losses), and other support:				
Admissions	\$ 1,165,140	\$ -	\$ -	\$ 1,165,140
Museum shop sales, shown net of cost of sales of \$496,918	446,671	-	-	446,671
Contributions	712,804	1,244,059	1,500	1,958,363
Property rentals	80,921	-	-	80,921
Change in value of split-interest agreements (Note 10)	(12,323)	-	-	(12,323)
Interest and dividends	246,570	72,286	-	318,856
Unrealized loss on investments, net	(883,869)	(30,421)	-	(914,290)
Realized gain on investments, net	770,350	-	-	770,350
Earned income	232,694	-	-	232,694
Miscellaneous	7,879	-	-	7,879
 Total revenues, gains (losses), and other support	 2,766,837	 1,285,924	 1,500	 4,054,261
 Net assets released from restriction	 706,031	 (706,031)	 -	 -

See accompanying notes to consolidated financial statements.

**PRESERVATION VIRGINIA**

Consolidated Statement of Activities, Continued  
Year Ended June 30, 2015

	<u>Unrestricted</u>	<u>Temporarily Restricted</u>	<u>Permanently Restricted</u>	<u>Total</u>
Expenses:				
Program services:				
Historic Jamestowne	\$ 2,349,144	\$ -	\$ -	\$ 2,349,144
Programs	353,768	-	-	353,768
Other properties	<u>1,001,515</u>	<u>-</u>	<u>-</u>	<u>1,001,515</u>
Total program services	<u>3,704,427</u>	<u>-</u>	<u>-</u>	<u>3,704,427</u>
Support services:				
Administration	450,201	-	-	450,201
Fundraising	<u>204,206</u>	<u>-</u>	<u>-</u>	<u>204,206</u>
Total support services	<u>654,407</u>	<u>-</u>	<u>-</u>	<u>654,407</u>
Total expenses	<u>4,358,834</u>	<u>-</u>	<u>-</u>	<u>4,358,834</u>
Change in net assets	(885,966)	579,893	1,500	(304,573)
Net assets, beginning of year	<u>14,566,362</u>	<u>5,980,058</u>	<u>2,109,329</u>	<u>22,655,749</u>
Net assets, end of year	<u>\$13,680,396</u>	<u>\$ 6,559,951</u>	<u>\$ 2,110,829</u>	<u>\$22,351,176</u>

See accompanying notes to consolidated financial statements.

## PRESERVATION VIRGINIA

### Consolidated Statements of Cash Flows Years Ended June 30, 2016 and 2015

	2016	2015
Cash flows from operating activities:		
Change in net assets	\$ (578,752)	\$ (304,573)
Adjustments to reconcile change in net assets to net cash from operating activities:		
Depreciation and amortization	329,460	409,881
Loss on sale of historic properties	29,938	-
Contribution of historic properties	4,576	-
Contributions restricted for endowment	(280,500)	(1,500)
Investment income reinvested	(289,374)	(318,856)
Net unrealized and realized loss on investments	214,002	143,940
Change in value of split-interest agreements	12,638	12,323
Changes in operating assets and liabilities:		
Accounts receivable	(63,752)	(16,009)
Contributions receivable	(45,000)	-
Museum shop inventory, net	(1,357)	842
Prepaid expenses	27,847	(15,040)
Due from revolving fund held in trust for the Commonwealth of Virginia	(2,846)	11,966
Accounts payable	(54,848)	42,311
Accrued expenses	(3,812)	(16,931)
	(701,780)	(51,646)
Net cash used in operating activities	(701,780)	(51,646)
Cash flows from investing activities:		
Purchases of property and equipment	(44,513)	(45,643)
Proceeds from sale of historic properties	372,395	-
Purchases of investments	(972,027)	(3,187,030)
Proceeds from sale of investments	711,073	4,084,308
	66,928	851,635
Net cash provided by investing activities	66,928	851,635

See accompanying notes to consolidated financial statements.

## PRESERVATION VIRGINIA

### Consolidated Statements of Cash Flows, Continued Years Ended June 30, 2016 and 2015

	<u>2016</u>	<u>2015</u>
Cash flows from financing activities:		
Payments on bond payable	\$ -	\$ (2,215,000)
Payments on loan payable	(91,675)	(90,365)
Contributions restricted for endowment	280,500	1,500
Payments on split-interest agreements	<u>(18,100)</u>	<u>(18,100)</u>
Net cash used in financing activities	<u>170,725</u>	<u>(2,321,965)</u>
Net change in cash and cash equivalents	(464,127)	(1,521,976)
Cash and cash equivalents, beginning of year	<u>1,400,384</u>	<u>2,922,360</u>
Cash and cash equivalents, end of year	<u>\$ 936,257</u>	<u>\$ 1,400,384</u>
Supplemental disclosure of cash flow information:		
Cash paid during the year for interest	<u>\$ 20,147</u>	<u>\$ 23,260</u>

See accompanying notes to consolidated financial statements.

## PRESERVATION VIRGINIA

### Notes to Consolidated Financial Statements

#### 1. Nature of Activities and Significant Accounting Policies:

**Nature of Activities:** The Association for the Preservation of Virginia Antiquities, doing business as Preservation Virginia, (the "Association") is a non-profit organization involved in preserving and restoring historic real and personal property within the Commonwealth of Virginia (the "Commonwealth"). In re-engineering this century old organization, resources and attention are being focused in two areas—1) serving as a statewide resource to local organizations for strategies, best practices and networking and 2) concentration of five core properties—Historic Jamestowne, Cape Henry Lighthouse, Bacon's Castle, Patrick Henry's Scotchtown and John Marshall House. Expanding the participation with all types of local organizations will help Preservation Virginia be more effective in achieving its mission and in partnerships across the Commonwealth.

Tucker Brothers Store, LLC ("Tucker Brothers") was established to own, develop, redevelop, lease, operate and sell real estate in Charlotte Court House, Virginia. The Association is the controlling member of Tucker Brothers, whose primary asset is the building and related improvements commonly known as Tucker Brothers Store.

Jamestown Rediscovery Foundation (the "Foundation") was established during 2015 to raise support for the ongoing success of archaeological projects, collections and educational programs at Historic Jamestowne. The Association controls the Foundation through appointments to its Board of Directors.

**Basis of Accounting:** The accompanying consolidated financial statements have been prepared on the accrual basis of accounting in accordance with accounting principles generally accepted in the United States ("GAAP") as determined by the Financial Accounting Standards Board ("FASB") Accounting Standards Codification ("ASC").

**Principles of Consolidation:** The consolidated financial statements include the accounts of the Association, Tucker Brothers, and the Foundation (collectively, the "Organization"). All significant intercompany accounts and transactions have been eliminated in consolidation.

**Estimates:** The preparation of consolidated financial statements in conformity with accounting principles generally accepted in the United States requires management to make estimates and assumptions that affect reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the consolidated financial statements and the reported amounts of public support and revenue, and expenses during the reported period. Actual results could differ from those estimates.

**Cash and Cash Equivalents:** For the purposes of cash flows, cash equivalents include two certificates of deposit with a total value of approximately \$6,000 at June 30, 2016 and 2015. The certificates are redeemable on demand and are subject to certain early withdrawal penalties based on simple interest calculations.

## PRESERVATION VIRGINIA

### Notes to Consolidated Financial Statements, Continued

#### 1. Nature of Activities and Significant Accounting Policies, Continued:

**Accounts Receivable:** Accounts receivable are reported net of an allowance for doubtful accounts. The allowance is based on management's estimate of the amounts that will actually be collected. At June 30, 2016 and 2015, management determined that accounts receivable was fully collectible and that no allowance was necessary.

**Contributions Receivable:** Promises to give are recognized by the Organization when a donor makes a promise to give that is in substance, unconditional. Unconditional promises to give due in subsequent years are recorded at the present value of their net realizable value, using interest rates applicable to the years in which the promises are to be received. The Organization considers whether an allowance for promises to give is necessary based management's estimate of the amount that will actually be collected. At June 30, 2016, management determined the promises to give were fully collectible and that no allowance was necessary.

Conditional promises to give are recognized only when the conditions on which they depend are substantially met and the promises become unconditional. During 2016, the Organization received a pledge of \$125,000 to be received in five annual donations of \$25,000, subject to annual approval of the donor as a condition. Management is uncertain as to the annual approval of this pledge, and in accordance with GAAP, this pledge is not recorded in the consolidated financial statements.

**Museum Shop Inventory:** Museum shops are located at various historical properties. Inventories are stated at the lower of cost or market value, with cost determined on an average cost basis. Management evaluates inventory levels and expected usage on a periodic basis and has recorded an inventory reserve of \$54,247 as of June 30, 2016 and 2015.

**Investments:** Investments in equity securities with readily determinable fair values and all investments in debt securities are measured at fair value with gains and losses included in operations (see Note 3). Unrealized gains and losses are included in the consolidated statements of activities.

**Revolving Fund Held in Trust for the Commonwealth of Virginia:** As a result of the privatization of the Virginia Historic Preservation Trust Fund (the "Revolving Fund"), the Organization is the trustee and maintains a revolving fund for the purchase, restoration, and sale of properties. Costs of restoration, as well as costs of ownership while properties are held, are included in the carrying value of the properties. The properties are not subject to depreciation. The corresponding asset and liability, for the Organization's role as trustee, are shown on the consolidated statements of financial position. The activities of the revolving fund are not included on the Organization's consolidated statements of activities.

## PRESERVATION VIRGINIA

### Notes to Consolidated Financial Statements, Continued

#### 1. Nature of Activities and Significant Accounting Policies, Continued:

**Property and Equipment:** Property and equipment are recorded at cost. Depreciation is recorded using the straight-line method over the estimated useful lives of the respective assets, generally three to 39 years. The cost of routine maintenance and repairs is expensed when incurred.

**Historic Properties:** Historic properties donated to the Organization are recorded at the fair value established by the donee at the date of the deed of gift. All subsequent restoration costs are capitalized and added to the cost of the historic property. Historic properties are not subject to provisions for depreciation. Improvements (such as modernized mechanical systems) and additions to historic properties are recorded as building improvements in property and equipment, and are subject to depreciation. Repairs and maintenance costs related to historic properties are expensed as incurred. The Organization classifies historic properties as temporarily restricted net assets as the properties are subject to legal and functional restrictions, and classifies any sales proceeds as unrestricted net assets as the restriction is satisfied upon sale.

**Collections, Furnishings, and Artifacts:** The Organization does not capitalize collection items. However, the Organization has a policy whereby any de-accessioning proceeds may only be spent on the acquisition of collection items. The collection is insured by an all-risk fine arts policy for an approximate value of \$3,500,000.

**Bond Issuance Costs:** Bond issuance costs are amortized over the period from the year of issuance to the original stated maturity date using the straight-line method, which approximates the interest method. On July 1, 2014, the bond was paid in full and the associated unamortized bond issuance costs of \$83,175 were charged to amortization expense.

**Financial Statement Presentation:** Net assets of the Organization and changes thereto are classified as follows:

Unrestricted net assets include funds that impose no restrictions on the Organization as to their use or purpose. Such funds are expended for charitable purposes as deemed appropriate by the Board of Trustees and for operating purposes. If the Board of Trustees specifies a purpose where none has been stated by the original donor, such assets are classified as Board designated within unrestricted net assets. Board designated assets totaled \$109,460 at June 30, 2016 to be used as an operating reserve at Historic Jamestowne.

Temporarily restricted net assets are net assets subject to donor-imposed stipulations that may or will be met, either by actions of the Organization and/or the passage of time. When a restriction expires, temporarily restricted net assets are reclassified to unrestricted net assets and reported in the consolidated statements of activities as net assets released from restrictions.

## PRESERVATION VIRGINIA

### Notes to Consolidated Financial Statements, Continued

#### 1. Nature of Activities and Significant Accounting Policies, Continued:

##### Financial Statement Presentation, Continued:

Permanently restricted net assets are subject to donor-imposed stipulations that they be maintained permanently by the Organization to use all or part of the income earned on any related investments for general or specific purposes.

**Contributions:** All contributions are considered to be available for unrestricted use unless specifically restricted by the donor. Contributions are recorded once an unconditional promise to give has been received by the Organization. Amounts received that are designated for future periods or temporarily restricted by the donor for specific purposes are reported as temporarily restricted support, which increases that net asset class. When a donor restriction expires, that is, when a stipulated time restriction ends or purpose restriction is accomplished, temporarily restricted net assets are reclassified to unrestricted net assets and reported in the statements of activities as net assets released from restriction. Amounts received that are restricted for perpetuity are reported as permanently restricted support, which increases that net asset class. The donor can permanently restrict endowment contributions.

Gifts of property and equipment are reported as unrestricted support, unless donor stipulations specify how the donated assets must be used, and are recorded at fair value. Contributions of donated services that create or enhance non-financial assets or that require specialized skills, are provided by individuals possessing those skills, and would typically need to be purchased if not provided by donation, are recorded at their fair market value in the period received.

The Organization receives a significant amount of contributed services from unpaid volunteers who assist the Organization on many projects. No amounts have been recognized in the statement of activities because the criteria for accounting recognition have not been satisfied.

**Beneficial Interest in Assets Held in Trust:** The Organization receives contributions in which it is the trustee of the irrevocable trusts. For the charitable gift annuities and charitable unitrusts, the assets are recorded at fair value on the date of gift and a liability is recorded equal to the amount of the expected future distributions. The difference between the assets received and the liability recorded is the amount of contributions revenue recognized. These values are re-evaluated annually using appropriate discount rates and actuarial assumptions.



## PRESERVATION VIRGINIA

### Notes to Consolidated Financial Statements, Continued

#### 1. Nature of Activities and Significant Accounting Policies, Continued:

##### Beneficial Interest in Assets Held in Trust, Continued:

The Organization has been named as the beneficiary in several trusts in which the Organization is not the trustee. When the Organization is notified of the existence of the trust, asset and contribution revenue are recorded at the fair market value of the contributed assets. In some cases, the Organization has been unable to obtain certain information from the trustee in order to reasonably estimate the present value of the accounts. Should the Organization obtain such information, the present value of the accounts will be recognized in the consolidated financial statements.

**Earned Revenue:** The Organization generates its revenues from its historic properties through admissions, rentals, and museum shop sales. Program fees are recognized as revenue when earned.

**Income Taxes:** The Association and the Foundation are not-for-profit corporations exempt from income taxes under Section 501(c)(3) of the Internal Revenue Code.

Management has evaluated the effect of guidance surrounding uncertain income tax positions and concluded that the Organization has no significant financial statement exposure to uncertain income tax positions at June 30, 2016 and 2015. The Organization is not currently under audit by any tax jurisdiction.

**Reclassifications:** During 2016, the Organization elected to present museum shop sales net of cost of sales on the consolidated statements of activities. Prior year museum shop sales revenue and cost of sales have been reclassified to conform with the current year presentation. The Organization also changed its method for allocating functional expenses between program and support services. Prior year programs and administration expenses have been reclassified to conform with the current year presentation.

**Subsequent Events:** Management has evaluated subsequent events for potential recognition and/or other disclosure through December 2, 2016, the date the consolidated financial statements were available to be issued, and has determined there are no subsequent events to be reported in the accompanying consolidated financial statements.

#### 2. Contributions Receivable:

Contributions receivable consisted of unconditional promises to give at June 30, 2016. The Organization expects to receive payments on these contributions receivable as follows: \$15,000 in 2017 and \$30,000 in 2018 or beyond. At June 30, 2016, the Organization determined a discount on unconditional promises to give was not necessary.

## PRESERVATION VIRGINIA

### Notes to Consolidated Financial Statements, Continued

#### 3. Investments:

As of June 30, 2016 and 2015, the cost of investments and their fair values were as follows:

	2016		
	Cost	Fair Value	Unrealized Gain (Loss), Net
Money market funds	\$ 1,225,545	\$ 1,228,090	\$ 2,545
Corporate bonds	819,205	825,960	6,755
Mutual funds	1,030,452	998,402	(32,050)
Equities	7,681,518	8,107,464	425,946
	<u>\$ 10,756,720</u>	<u>\$ 11,159,916</u>	<u>\$ 403,196</u>
	2015		
	Cost	Fair Value	Unrealized Gain (Loss), Net
Money market funds	\$ 845,198	\$ 847,723	\$ 2,525
Corporate bonds	594,768	596,271	1,503
Mutual funds	812,601	805,261	(7,340)
Equities	7,894,393	8,574,335	679,942
	<u>\$ 10,146,960</u>	<u>\$ 10,823,590</u>	<u>\$ 676,630</u>

## PRESERVATION VIRGINIA

### Notes to Consolidated Financial Statements, Continued

#### 4. Fair Value Measurements:

The FASB has issued guidance for measurement and disclosure of fair value and establishes a three-tier fair value hierarchy, which prioritizes the inputs used in measuring fair value as follows:

- Level 1 Inputs to the valuation methodology are unadjusted quoted prices for identical assets or liabilities in active markets that the Organization has the ability to access.
- Level 2 Quoted prices for similar instruments in active and inactive markets; and model driven valuations with significant inputs and drivers derived from observable active markets.
- Level 3 Inputs to the valuation methodology are unobservable for the instrument and significant to the fair value measurement. The Organization did not have any assets or liabilities valued using Level 3 criteria at June 30, 2016 and 2015.

Valuation techniques used should maximize the use of observable inputs and minimize the use of unobservable inputs. The following is a description of the valuation methodologies used for investments carried or disclosed at fair value:

**Money market funds:** Valued at the realizable cash value equivalent to the specific sum of money held by the Organization at year end.

**Corporate bonds:** Valued at original cost adjusted for any premium or coupon.

**Mutual funds:** Valued at the net asset value ("NAV") of shares held by the Organization at year end.

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

**Annuity liabilities on split-interest agreements:** Valued at present value of the future payment obligations under the annuity agreement.

## PRESERVATION VIRGINIA

### Notes to Consolidated Financial Statements, Continued

#### 4. Fair Value Measurements, Continued:

Assets and liabilities measured at fair value on a recurring basis at June 30, 2016, include the following:

	Fair Value Using			Assets/ Liabilities at
	Level 1	Level 2	Level 3	Fair Value
<b>Assets:</b>				
Money market funds	\$ 1,228,090	\$ -	\$ -	\$ 1,228,090
Corporate bonds	-	825,960	-	825,960
Mutual funds	998,402	-	-	998,402
<b>Equities:</b>				
Energy	694,424	-	-	694,424
Consumer staples	869,441	-	-	869,441
Financials	2,256,497	-	-	2,256,497
Healthcare	967,666	-	-	967,666
Consumer discretionary	951,567	-	-	951,567
Materials	145,124	-	-	145,124
Industrials	602,828	-	-	602,828
Information technology	537,594	-	-	537,594
Real estate investment trusts	546,241	-	-	546,241
Other	536,082	-	-	536,082
Total equities	<u>8,107,464</u>	<u>-</u>	<u>-</u>	<u>8,107,464</u>
Total assets	<u>\$10,333,956</u>	<u>\$ 825,960</u>	<u>\$ -</u>	<u>\$11,159,916</u>
<b>Liabilities:</b>				
Annuity liabilities on split-interest agreements	<u>\$ -</u>	<u>\$ 105,308</u>	<u>\$ -</u>	<u>\$ 105,308</u>

## PRESERVATION VIRGINIA

### Notes to Consolidated Financial Statements, Continued

#### 4. Fair Value Measurements, Continued:

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

	Fair Value Using			Assets/ liabilities at Fair Value
	Level 1	Level 2	Level 3	
Assets:				
Money market funds	\$ 847,723	\$ -	\$ -	\$ 847,723
Corporate bonds	-	596,271		596,271
Mutual funds	805,261	-	-	805,261
Equities:			-	-
Energy	796,891	-	-	796,891
Consumer staples	1,026,205	-	-	1,026,205
Financials	2,634,844	-	-	2,634,844
Healthcare	780,337	-	-	780,337
Consumer discretionary	895,863	-	-	895,863
Materials	218,185	-	-	218,185
Industrials	512,100	-	-	512,100
Information technology	705,175	-	-	705,175
Real estate investment trusts	611,314	-	-	611,314
Other	393,421	-	-	393,421
Total equities	<u>8,574,335</u>	<u>-</u>	<u>-</u>	<u>8,574,335</u>
 Total assets	 <u>\$10,227,319</u>	 <u>\$ 596,271</u>	 <u>\$ -</u>	 <u>\$10,823,590</u>
Liabilities:				
Annuity liabilities on split-interest agreements	<u>\$ -</u>	<u>\$ 110,770</u>	<u>\$ -</u>	<u>\$ 110,770</u>

## PRESERVATION VIRGINIA

### Notes to Consolidated Financial Statements, Continued

#### 4. Fair Value Measurements, Continued:

The Organization's investments in corporate bonds are subject to restrictions on the frequency of redemptions without penalty. At June 30, 2016, the redemption periods and related amounts were as follows:

Year Ended June 30:	Corporate Bonds
2017	\$ 115,636
2018	568,116
2019	114,326
2020	<u>27,882</u>
	<u>\$ 825,960</u>

The Organization has no unfunded commitments at June 30, 2016 and 2015.

#### 5. Property and Equipment:

Property and equipment at June 30, 2016 and 2015 consisted of:

	<u>2016</u>	<u>2015</u>
Buildings and improvements	\$ 8,481,300	\$ 8,481,301
Furniture and equipment	506,842	677,971
Vehicles	<u>31,574</u>	<u>31,574</u>
	9,019,716	9,190,846
Less accumulated depreciation	<u>2,572,716</u>	<u>2,458,897</u>
	<u>\$ 6,447,000</u>	<u>\$ 6,731,949</u>

The Organization recorded depreciation expense of \$329,460 for 2016 and \$326,706 for 2015.

## PRESERVATION VIRGINIA

### Notes to Consolidated Financial Statements, Continued

#### 6. Bond and Loan Payable:

In 2004, the Organization entered into an agreement with Wells Fargo Bank (the "Bank") and the Economic Development Authority of James City County, Virginia (the "Issuer") to issue \$6,000,000 of Variable Rate Demand Revenue Bonds, Series 2004 ("Series 2004 Bonds"). The Series 2004 Bonds were issued for the (1) construction, equipping and development of a 7,500 square foot building to be called the "Archaearium," (2) the renovation, equipping and development of an existing building known as the "Dale House," and (3) the acquisition, construction and equipping of mobile units for exhibit space and other improvements at Historic Jamestowne.

On July 1, 2014, the Organization repaid the remaining balance on Series 2004 Bonds amounting to \$2,215,000 using the proceeds received from a term loan and proceeds from the sale of investments.

On May 21, 2014, the Organization entered into a term loan agreement with the Bank for \$700,000. The term loan bears interest at a fixed rate of 3.15% and payments of principal and interest totaling \$27,955, due quarterly through July 1, 2021.

Scheduled maturities of the loan payable at June 30, 2016 are as follows:

Year Ended	Amount
June 30:	
2017	\$ 72,255
2018	99,024
2019	102,180
2020	105,437
2021	108,797
Thereafter	30,267
	<u>\$ 517,960</u>

Interest expense and fees on the term loan amounted to \$20,147 for 2016 and \$23,260 for 2015.

## PRESERVATION VIRGINIA

### Notes to Consolidated Financial Statements, Continued

#### 7. Temporarily Restricted Net Assets:

Temporarily restricted net assets are available for the following purposes as of June 30:

	2016		
	Cash and Investments	Property and Other Assets	Total
Historic Properties	\$ -	\$ 3,393,635	\$ 3,393,635
Endowment Income	722,042	-	722,042
Historic Jamestowne Grants	362,166	-	362,166
Collections Fund	364,191	-	364,191
Murphy Fund	276,035	-	276,035
Preservation Initiatives & Engagement	56,460	-	56,460
Other	238,735	-	238,735
Preservation Services Grants	211,557	-	211,557
Seawall Fund	87,452	-	87,452
Bacon's Castle Capitol Project	133,241	-	133,241
Tobacco Barn Project	108,016	-	108,016
	<u>\$ 2,559,895</u>	<u>\$ 3,393,635</u>	<u>\$ 5,953,530</u>
	2015		
	Cash and	Property and	
	Investments	Other Assets	Total
Historic Properties	\$ -	\$ 3,800,542	\$ 3,800,542
Endowment Income	816,392	-	816,392
Historic Jamestowne Grants	631,037	-	631,037
Collections Fund	363,798	-	363,798
Murphy Fund	276,035	-	276,035
Preservation Initiatives & Engagement	163,316	-	163,316
Other	128,531	-	128,531
Preservation Services Grants	93,680	-	93,680
Seawall Fund	91,046	-	91,046
Lych Gate Project	75,000	-	75,000
Tobacco Barn Project	71,273	-	71,273
Scotchtown Grants	49,301	-	49,301
	<u>\$ 2,759,409</u>	<u>\$ 3,800,542</u>	<u>\$ 6,559,951</u>



## PRESERVATION VIRGINIA

### Notes to Consolidated Financial Statements, Continued

#### 7. Temporarily Restricted Net Assets, Continued:

Other temporarily restricted funds consist of net assets held for subsequent years' activities or for a specific purpose. The Organization released \$1,476,141 and \$706,031 from temporarily restricted net assets during 2016 and 2015, respectively.

#### 8. Permanently Restricted Net Assets:

Permanently restricted net assets were restricted to investment in perpetuity, income from which is expendable for general support or restricted to a particular use (see Note 13). The permanently restricted net assets were as follows at June 30:

	<u>2016</u>	<u>2015</u>
Cash and cash equivalents and investments:		
Hopkins Bros.	\$ 50,000	\$ 50,000
General endowment	296,411	15,911
Beville endowment for Bacon's Castle	10,000	10,000
Bacon's Castle Garden endowment	75,658	75,658
Historic Jamestowne endowment	1,617,130	1,617,130
Property:		
Historic property - Hollybrook	<u>342,130</u>	<u>342,130</u>
	<u>\$ 2,391,329</u>	<u>\$ 2,110,829</u>

#### 9. Commitments and Contingencies:

The Organization leases office equipment under month-to-month agreements. Rent expense was \$9,012 for 2016 and \$7,511 for 2015.

#### 10. Irrevocable Split-Interest Agreements:

The Organization is the trustee for three charitable gift annuity agreements with donors. Under the gift annuity agreements, the Organization pays a benefit to the beneficiaries throughout their lives based on a fixed amount defined in the gift annuity agreement. The present value of the annuity obligation is recorded as a liability on the consolidated statement of financial position. The fair market value of the gift annuities is included in investments in the consolidated statement of financial position. Changes in the value of the annuity obligation are recorded on the consolidated statements of activities.

The present value of the future payments to the annuity beneficiaries is based on expected life span, actuarial factors derived from IRS Publication 1458, and a discount rate of 1.8% and 2.0% as of June 30, 2016 and 2015, respectively, per Internal Revenue Code Section 7520(a).

## PRESERVATION VIRGINIA

### Notes to Consolidated Financial Statements, Continued

#### 11. Pension Plan:

The Organization established a 403(b) retirement plan in 1990. The Organization suspended the employer match in 2010 and there were no employer contributions to the plan during 2016 and 2015.

#### 12. Indemnification:

The Organization has certain obligations to indemnify its current and former officers and trustees for certain events or occurrences while the officer or trustee is, or was serving, at the Organization's request in such capacities. The maximum liability under these obligations is limited by the Code of Virginia. The Organization's insurance policies serve to limit its exposure. The Organization believes that the estimated fair value of these indemnification obligations is minimal.

#### 13. Endowment Funds:

The Organization's endowment consists of seven individual funds and one property established for a variety of purposes. The endowment funds include both donor restricted endowment funds and funds designated by the Board of Directors to function as endowments. As required by GAAP, net assets associated with endowment funds, including funds designated by the Board of Directors to function as endowments, are classified and reported based on the existence or absence of donor-imposed restrictions.

The Board of Trustees of the Organization has interpreted Uniform Prudent Management of Institutional Funds Act ("UPMIFA") 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 Organization classifies as permanently restricted net assets (a) the original value of gifts donated to the permanent endowment, (b) the original value of subsequent gifts to the permanent endowment, and (c) accumulations to the permanent endowment made in accordance with the direction of the applicable donor gift instrument at the time the accumulation is added to the fund. The remaining portion of the donor-restricted endowment 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 Organization in a manner consistent with the standard of prudence prescribed by UPMIFA

## PRESERVATION VIRGINIA

### Notes to Consolidated Financial Statements, Continued

#### 13. Endowment Funds, Continued:

In accordance with UPMIFA, the Organization considers the following factors in making a determination to appropriate or accumulate donor-restricted endowment funds:

- The duration and preservation of the fund
- The purposes of the organization and the donor-restricted endowment fund
- General economic conditions
- The possible effect of inflation and deflation
- The expected total return from income and the appreciation of investments
- Other resources of the organization
- The investment policies of the organization

**Endowment Investing and Spending Policies:** The Organization has adopted investment and spending policies for endowment assets that attempt to provide a predictable stream of funding to programs supported by its endowment while seeking to maintain the purchasing power of the endowment assets. Under this policy, as approved by the Board of Trustees, the endowment funds are invested in a manner that is intended to produce stated investment results while assuming a moderate level of investment risk. The Organization's spending and investment policies work together to achieve this objective. The investment policy establishes an achievable return objective return through diversification of asset classes. The current long-term return objective is to earn a total investment return in excess of inflation over five-year periods. Additionally, the overall returns should be comparable to other professionally managed endowments with diversified endowments and similar objectives. Actual returns in any given year may vary from this amount.

To satisfy its long-term rate of return objectives, the Organization relies on a total return strategy in which investment returns are achieved through both capital appreciation (realized and unrealized) and current yield (interest and dividends). The Organization targets a diversified asset allocation of equity securities, fixed-income securities, and short-term investments to achieve its long-term return objectives within prudent risk parameters. The spending policy calculates the amount of money annually distributed from the Organization's various endowed funds for support. The current spending policy is to distribute an amount up to 5% of a moving three-year average. This is consistent with the Organization's objective to maintain the purchasing power of endowment assets as well as to provide additional real growth through new gifts and investment return.

**Funds with Deficits:** From time to time, the fair value of assets associated with individual donor-restricted endowment funds may fall below the level that the donor or UPMIFA requires the Organization to retain as a fund of perpetual duration. There were no funds with deficits as of June 30, 2016 and 2015.

**PRESERVATION VIRGINIA**

Notes to Consolidated Financial Statements, Continued

**13. Endowment Funds, Continued:**

Endowment net asset composition by type of fund was as follows as of June 30, 2016:

	<u>Unrestricted</u>	<u>Temporarily Restricted</u>	<u>Permanently Restricted</u>	<u>Total</u>
Donor-restricted endowment funds	<u>\$ -</u>	<u>\$ 722,042</u>	<u>\$2,391,329</u>	<u>\$ 3,113,371</u>

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

	<u>Unrestricted</u>	<u>Temporarily Restricted</u>	<u>Permanently Restricted</u>	<u>Total</u>
Donor-restricted endowment funds	<u>\$ -</u>	<u>\$ 816,392</u>	<u>\$2,110,829</u>	<u>\$ 2,927,221</u>

Changes in endowment net assets were as follows for the year ended June 30, 2016:

	<u>Unrestricted</u>	<u>Temporarily Restricted</u>	<u>Permanently Restricted</u>	<u>Total</u>
Net assets, beginning of year	\$ -	\$ 816,392	\$2,110,829	\$ 2,927,221
Investment return:				
Investment income	-	77,245	-	77,245
Unrealized loss on investments, net	<u>-</u>	<u>(44,698)</u>	<u>-</u>	<u>(44,698)</u>
Total investment return	-	32,547	-	32,547
New gifts	-	-	280,500	280,500
Appropriation of endowment assets for expenditure	<u>-</u>	<u>(126,897)</u>	<u>-</u>	<u>(126,897)</u>
Net assets, end of year	<u>\$ -</u>	<u>\$ 722,042</u>	<u>\$2,391,329</u>	<u>\$ 3,113,371</u>

## PRESERVATION VIRGINIA

### Notes to Consolidated Financial Statements, Continued

#### 13. Endowment Funds, Continued:

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

	Unrestricted	Temporarily Restricted	Permanently Restricted	Total
Net assets, beginning of year	\$ -	\$ 888,151	\$2,109,329	\$ 2,997,480
Investment return:				
Investment income	-	74,641	-	74,641
Unrealized loss on investments, net	-	(30,421)	-	(30,421)
Total investment return	-	44,220	-	44,220
 New gifts	 -	 -	 1,500	 1,500
 Appropriation of endowment assets for expenditure	 -	 (115,979)	 -	 (115,979)
 Net assets, end of year	 \$ -	 \$ 816,392	 \$2,110,829	 \$ 2,927,221

#### 14. New Accounting Guidance:

In August 2016, FASB issued ASU No. 2016-14, "Not-For-Profit Entities (Topic 958): Presentation of Financial Statements of Not-For-Profit Entities", which both simplifies certain aspects of reporting required by not-for-profit organizations and increases disclosures with a goal to improve the usefulness of not-for-profit financial statements to the various stakeholders, including management, directors, lenders, and donors. Key changes include the following:

- Replaces the existing three classes of net assets (unrestricted, temporarily restricted, and permanently restricted) with two new classes of net assets—net assets with donor restrictions and net assets without donor restrictions
- Changes the net asset classification of the underwater amounts of donor-restricted endowment funds to be shown as a component of *net assets with donor restrictions* and requires additional disclosures for underwater endowment funds
- Requires all not-for-profits to provide expenses by nature and function

## PRESERVATION VIRGINIA

### Notes to Consolidated Financial Statements, Continued

#### **14. New Accounting Guidance, Continued:**

- Requires expansive disclosures (both quantitative and qualitative) of information about liquidity and availability of resources

The amendments in this ASU are effective for fiscal years beginning after December 15, 2017 with early adoption permitted. The Organization has elected not to early adopt this ASU and intends to adopt it prior to the required transition date.

**SUPPLEMENTAL INFORMATION**

**PRESERVATION VIRGINIA**

Statements of Financial Position for the Revolving Fund  
June 30, 2016 and 2015

<u>Assets</u>	<u>2016</u>	<u>2015</u>
Cash and cash equivalents	\$ 255,919	\$ 238,749
Investments	370,264	371,031
Note receivable	<u>110,144</u>	<u>123,895</u>
 Total assets	 <u>\$ 736,327</u>	 <u>\$ 733,675</u>
 <u>Liabilities and Net Assets</u>		
 Due to Preservation Virginia	 <u>\$ 5,518</u>	 <u>\$ 2,672</u>
 Total liabilities	 5,518	 2,672
 Temporarily restricted net assets	 <u>730,809</u>	 <u>731,003</u>
 Total liabilities and net assets	 <u>\$ 736,327</u>	 <u>\$ 733,675</u>

See report of independent accountants.



## PRESERVATION VIRGINIA

### Statements of Activities for the Revolving Fund Years Ended June 30, 2016 and 2015

	<u>2016</u>	<u>2015</u>
Revenues, gains (losses) and other support:		
Interest and dividends	\$ 14,588	\$ 12,749
Unrealized loss on investments	(6,970)	(14,740)
Realized gains on investments	-	6,606
Other investment loss	<u>(833)</u>	<u>(864)</u>
Total revenues, gains (losses), and other support	<u>6,785</u>	<u>3,751</u>
Expenses:		
Maintenance and restoration	<u>6,979</u>	<u>100</u>
Total expenses	<u>6,979</u>	<u>100</u>
Change in net assets	(194)	3,651
Temporarily restricted net assets, beginning of year	<u>731,003</u>	<u>727,352</u>
Temporarily restricted net assets, end of year	<u><u>\$ 730,809</u></u>	<u><u>\$ 731,003</u></u>

See report of independent accountants.

## PRESERVATION VIRGINIA

### Consolidating Statement of Activities Year Ended June 30, 2016

	Preservation Virginia	Jamestown Rediscovery Foundation	Total
Revenues, gains (losses), and other support:			
Admissions	\$ 1,236,482	\$ -	\$ 1,236,482
Museum shop sales, shown net of cost of sales of \$475,813	524,504	-	524,504
Contributions	954,485	563,672	1,518,157
Grants and appropriations	100,000	-	100,000
Property rentals	65,375	-	65,375
Change in value of split-interest agreements (Note 10)	(12,638)	-	(12,638)
Interest and dividends	289,103	171	289,274
Unrealized loss on investments, net	(273,434)	-	(273,434)
Realized gain on investments, net	59,432	-	59,432
Earned income	184,814	-	184,814
Loss on sale of historic properties	(29,938)	-	(29,938)
Miscellaneous	8,351	-	8,351
	<u>3,106,536</u>	<u>563,843</u>	<u>3,670,379</u>
Total revenues, gains (losses), and other support	<u>3,106,536</u>	<u>563,843</u>	<u>3,670,379</u>

See report of independent accountants.

**PRESERVATION VIRGINIA**

Consolidating Statement of Activities, Continued  
Year Ended June 30, 2016

	Preservation Virginia	Jamestown Rediscovery Foundation	Total
Expenses:			
Program services:			
Historic Jamestowne	\$ 2,173,747	\$ 92,192	\$ 2,265,939
Programs	541,095	-	541,095
Other properties	<u>918,329</u>	<u>-</u>	<u>918,329</u>
Total program services	<u>3,633,171</u>	<u>92,192</u>	<u>3,725,363</u>
Support services:			
Administration	298,093	12,162	310,255
Fundraising	<u>116,190</u>	<u>97,323</u>	<u>213,513</u>
Total support services	<u>414,283</u>	<u>109,485</u>	<u>523,768</u>
Total expenses	<u>4,047,454</u>	<u>201,677</u>	<u>4,249,131</u>
Change in net assets	(940,918)	362,166	(578,752)
Net assets, beginning of year	<u>22,351,176</u>	<u>-</u>	<u>22,351,176</u>
Net assets, end of year	<u>\$ 21,410,258</u>	<u>\$ 362,166</u>	<u>\$ 21,772,424</u>

See report of independent accountants.