



THE WESTERN RESERVE HISTORICAL SOCIETY

FINANCIAL STATEMENTS

YEAR ENDED JUNE 30, 2015



SKODA MINOTTI

CPAs, BUSINESS & FINANCIAL ADVISORS

Delivering on the Promise.

THE WESTERN RESERVE HISTORICAL SOCIETY

YEAR ENDED JUNE 30, 2015

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INDEPENDENT AUDITORS' REPORT

TO THE BOARD OF TRUSTEES
THE WESTERN RESERVE HISTORICAL SOCIETY

Report on the Financial Statements

We have audited the accompanying financial statements of The Western Reserve Historical Society (a nonprofit organization), which comprise the statement of financial position as of June 30, 2015, and the related statements of activities and changes in net assets, and cash flows for the year then ended, and the related notes to the financial statements.

Management's Responsibility for the Financial Statements

Management is responsible for the preparation and fair presentation of these financial statements in accordance with accounting principles generally accepted in the United States of America; this includes the design, implementation, and maintenance of internal control relevant to the preparation and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error.

Auditors' Responsibility

Our responsibility is to express an opinion on these financial statements based on our audit. We conducted our audit in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Opinion

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of The Western Reserve Historical Society as of June 30, 2015, and the changes in net assets and its cash flows for the year then ended in conformity with accounting principles generally accepted in the United States of America.

Report on Summarized Comparative Information

We have previously audited The Western Reserve Historical Society's 2014 financial statements, and our report dated December 9, 2014, expressed an unmodified audit opinion on those financial statements. In our opinion, the summarized comparative information presented herein as of and for the year ended June 30, 2014 is consistent, in all material respects, with the audited financial statements from which it has been derived.

SKODA MINOTTI & CO.



Cleveland, Ohio
November 18, 2015

THE WESTERN RESERVE HISTORICAL SOCIETY

STATEMENT OF FINANCIAL POSITION

JUNE 30, 2015

(WITH COMPARATIVE TOTALS AS OF JUNE 30, 2014)

	<u>2015</u>	<u>2014</u>
ASSETS:		
Cash and cash equivalents	\$ 1,170,308	\$ 1,304,304
Capital accounts receivable	408,732	-
Other receivables	134,403	144,972
Prepaid expenses	52,281	42,143
Inventory	104,335	100,555
Pledges receivable, net of discount	1,051,798	1,166,741
Property and equipment, net of accumulated depreciation	13,325,962	13,112,609
Investments	16,142,161	16,616,941
Beneficial interests in trusts	6,748,416	7,282,648
Total assets	<u>\$ 39,138,396</u>	<u>\$ 39,770,913</u>
LIABILITIES:		
Accounts payable	\$ 65,150	\$ 95,390
Accrued expenses	26,175	18,779
Capital accounts payable	283,904	-
Deferred revenue	122,781	92,651
Line of credit	1,061,057	765,698
Annuity obligations	71,823	79,652
Total liabilities	<u>1,630,890</u>	<u>1,052,170</u>
NET ASSETS:		
Unrestricted	13,504,688	13,470,153
Temporarily restricted	9,199,889	9,921,136
Permanently restricted	14,802,929	15,327,454
Total net assets	<u>37,507,506</u>	<u>38,718,743</u>
Total liabilities and net assets	<u>\$ 39,138,396</u>	<u>\$ 39,770,913</u>

The accompanying notes are an integral part of these financial statements.

THE WESTERN RESERVE HISTORICAL SOCIETY
STATEMENT OF ACTIVITIES AND CHANGES IN NET ASSETS
YEAR ENDED JUNE 30, 2015
(WITH COMPARATIVE TOTALS FOR THE YEAR ENDED JUNE 30, 2014)

	2015			Total	2014 Total
	Unrestricted	Temporarily Restricted	Permanently Restricted		
OPERATING REVENUES AND SUPPORT					
Gifts, grants and project support	\$ 1,414,622	\$ 1,605,299	\$ 5,000	\$ 3,024,921	\$ 3,091,012
Capital grants	629,746	-	-	629,746	-
Admissions and memberships	777,850	-	-	777,850	657,672
Endowment support for current operations	658,780	62,407	-	721,187	695,870
Earned income	925,712	-	-	925,712	773,197
Net assets released from restrictions	1,945,652	(1,945,652)	-	-	-
Total operating revenues	6,352,362	(277,946)	5,000	6,079,416	5,217,751
OPERATING EXPENSES					
Program services					
Library, archives, and museums	3,702,198	-	-	3,702,198	2,905,191
Hale Farm & Village	1,190,839	-	-	1,190,839	1,077,753
Other historic properties	78,978	-	-	78,978	94,422
Total program services	4,972,015	-	-	4,972,015	4,077,366
Supporting services					
Management and general	786,023	-	-	786,023	878,143
Fundraising	523,790	-	-	523,790	345,886
Total supporting services	1,309,813	-	-	1,309,813	1,224,029
Total operating expenses	6,281,828	-	-	6,281,828	5,301,395
CHANGE IN NET ASSETS FROM OPERATIONS					
	70,534	(277,946)	5,000	(202,412)	(83,644)
NON-OPERATING CHANGES					
Net investment gain (loss)	(3,405)	252,253	-	248,848	2,470,766
Less: endowment support for current operations	(30,340)	(690,847)	-	(721,187)	(695,870)
Proceeds from sales of gifts-in-kind	4,566	-	-	4,566	27,953
Insurance proceeds	15,840	-	-	15,840	20,243
Change in beneficial interests in trusts	-	(4,707)	(529,525)	(534,232)	553,403
Loss on retirement of property and equipment	(13,305)	-	-	(13,305)	-
Restructuring expenses	(9,355)	-	-	(9,355)	(3,930)
TOTAL NON-OPERATING CHANGES	(35,999)	(443,301)	(529,525)	(1,008,825)	2,372,565
CHANGE IN NET ASSETS	34,535	(721,247)	(524,525)	(1,211,237)	2,288,921
NET ASSETS - BEGINNING	13,470,153	9,921,136	15,327,454	38,718,743	36,429,822
NET ASSETS - ENDING	\$ 13,504,688	\$ 9,199,889	\$ 14,802,929	\$ 37,507,506	\$ 38,718,743

The accompanying notes are an integral part of these financial statements.

THE WESTERN RESERVE HISTORICAL SOCIETY

STATEMENT OF CASH FLOWS

YEAR ENDED JUNE 30, 2015
(WITH COMPARATIVE TOTALS FOR THE YEAR ENDED JUNE 30, 2014)

	<u>2015</u>	<u>2014</u>
CASH FLOWS FROM OPERATING ACTIVITIES:		
Change in net assets	\$ (1,211,237)	\$ 2,288,921
Adjustments to reconcile change in net assets to net cash provided by operating activities:		
Add back (deduct): Items not affecting cash		
Contributions restricted for long-term purposes	(5,000)	(100,000)
Depreciation	1,154,881	1,135,406
Net realized and unrealized (gains) losses on investments	284,416	(2,055,621)
Net loss on retirement of property and equipment	13,305	-
Change in beneficial interest in trusts	534,232	(553,403)
Change in pledge discount	(18,710)	12,651
Cash provided by (used in) changes in the following items:		
Decrease (increase) in capital accounts receivable	(408,732)	57,671
Decrease (increase) in other receivables	10,569	(73,049)
Increase in prepaid expenses	(10,138)	(17,610)
Decrease (increase) in inventory	(3,788)	1,041
(Increase) decrease in pledges receivable	133,653	(185,244)
Decrease in accounts payable	(30,240)	(148,677)
Increase (decrease) in accrued expenses	7,396	(4,809)
Increase (decrease) in capital accounts payable	283,904	(119,331)
Increase (decrease) in deferred revenue	30,130	(9,716)
Increase (decrease) in annuity obligations	(7,829)	4,630
Net cash provided by operating activities	<u>756,812</u>	<u>232,860</u>
CASH FLOWS FROM INVESTING ACTIVITIES:		
Purchases of property and equipment	(1,381,539)	(219,376)
Purchases of long-term investments	(7,260,678)	(1,737,023)
Proceeds from sale of long-term investments	7,451,050	1,915,015
Net cash used in investing activities	<u>(1,191,167)</u>	<u>(41,384)</u>
CASH FLOWS FROM FINANCING ACTIVITIES:		
Collection of contributions restricted for long-term purposes	5,000	100,000
Net draws (payments) on line of credit	295,359	(148,820)
Net cash provided by (used in) financing activities	<u>300,359</u>	<u>(48,820)</u>
NET INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS	(133,996)	142,656
CASH AND CASH EQUIVALENTS - BEGINNING OF YEAR	<u>1,304,304</u>	<u>1,161,648</u>
CASH AND CASH EQUIVALENTS - END OF YEAR	<u>\$ 1,170,308</u>	<u>\$ 1,304,304</u>
SUPPLEMENTAL DISCLOSURE OF CASH FLOW INFORMATION:		
CASH PAID DURING THE YEAR FOR:		
INTEREST	\$ 16,198	\$ 15,317

The accompanying notes are an integral part of these financial statements.

THE WESTERN RESERVE HISTORICAL SOCIETY

NOTES TO THE FINANCIAL STATEMENTS

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Nature of Activities

The Western Reserve Historical Society (the Society) is a nonprofit institution that preserves and uses its collections, historic sites and museums to inspire people to discover the American experience by exploring the tangible history of Northeast Ohio.

Collections and exhibitions focus on the Western Reserve, placing this Northeast Ohio region in its larger historical context. The Society's holdings and exhibits provide an educational resource for library and museum users, including school children, the general public and scholars. In order to communicate effectively with these audiences, exhibits, whenever appropriate, employ modern interactive technologies and techniques. The Society seeks to make its research materials, exhibits and programs accessible to a diverse and inclusive audience.

The Society's headquarters in Cleveland is known as the Cleveland History Center and includes the research library, exhibit galleries, two historic homes, collections storage and administrative offices. The renowned Society costume collection, one of the largest of its kind in the country, and the exhibit galleries of the Crawford Auto Aviation Collection, are located in the Cleveland History Center.

The Society also owns and operates Hale Farm & Village, a 90 acre living history museum in the Cuyahoga Valley south of Cleveland, and two other historic properties.

The Society's revenues are from a combination of earned and contributed revenue. Earned revenue includes admission fees, memberships, proceeds from space rentals, group tour fees, store sales, school group and public program income, and fees for service revenue. Store sales are reported net of any sales taxes. Contributed revenue includes gifts, grants and endowments, and trusts from individuals and organizations located primarily in Northeast Ohio.

Basis of Presentation

The accompanying financial statements have been prepared on the accrual basis of accounting. Net assets, revenues, expenses, gains and losses are classified based on the existence or absence of donor-imposed restrictions. Accordingly, net assets of the Society and changes therein are classified and reported as follows:

Unrestricted Net Assets – Net assets that are not subject to donor-imposed restrictions.

Unrestricted net assets consist of current operating net assets and board-designated net assets. The current operating net assets are used for general operating expenses. The board-designated net assets discussed in Note 7 are reserved by the Board of Trustees for the continuity of the Society's general activities, its exhibits and programs, and to meet emergency demands.

THE WESTERN RESERVE HISTORICAL SOCIETY

NOTES TO THE FINANCIAL STATEMENTS

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Basis of Presentation (continued)

Temporarily Restricted Net Assets – Net assets subject to donor-imposed restrictions that may or will be met, either by actions of the Society and/or the passage of time. When a restriction expires, temporarily restricted net assets are reclassified to unrestricted net assets and reported in the statement of activities as net assets released from restrictions. If donor-imposed restrictions are met in the same year as they are imposed, the net assets are reported as unrestricted.

Permanently Restricted Net Assets – Net assets subject to donor-imposed stipulations that they be maintained by the Society in perpetuity. Generally, the donors of these assets permit the Society to use all or part of the income earned on any related investments for general or specific purposes.

The financial statements include certain prior year summarized comparative information in total but not by net asset class. Such information does not include sufficient detail to constitute a presentation in conformity with accounting principles generally accepted in the United States of America (GAAP). Accordingly, such information should be read in conjunction with the Society's financial statements for the year ended June 30, 2014, from which the summarized information was derived.

Non-operating activities reflect transactions of a long-term investment or capital nature. These include contributions to be invested by the Society to generate a return that will support future operations, proceeds from the sale of collection items, and the majority of investment income (including interest and dividends and realized and unrealized investment gains or losses).

Functional Allocation of Expenses

The costs of providing various programs and related supporting services have been summarized on a functional basis in the statement of activities. Accordingly, certain costs have been allocated to the appropriate programs and supporting services.

Use of Estimates

The preparation of financial statements in conformity with GAAP requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates.

Cash and Cash Equivalents

For purposes of the statement of cash flows, the Society considers all highly liquid investments available for current use with an original maturity of three months or less to be cash equivalents.

THE WESTERN RESERVE HISTORICAL SOCIETY

NOTES TO THE FINANCIAL STATEMENTS

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Capital Accounts Receivable and Payable

The capital accounts receivable and payable are related to the renovations and improvements at the Cleveland History Center and Hale Farm & Village. See Note 5 for the construction in progress activities of the Society.

Contributions and Pledges Receivable

Contributions received are recorded as unrestricted, temporarily restricted or permanently restricted support depending on the existence and/or nature of any donor restrictions. Unconditional pledges receivable are recognized as unrestricted, temporarily restricted or permanently restricted revenues, dependent on the existence, or lack thereof, of donor-imposed restrictions in the period the promise is received. Conditional pledges receivable are recognized when the conditions on which they depend are substantially met. The pledges are stated at their estimated realizable value. The Society evaluates its outstanding pledges receivable on a specific identification basis and writes certain pledges off when determined uncollectible. There were no pledges written off, and no allowance was considered necessary at June 30, 2015.

Pledges that are to be received over a period of years are discounted to their present value assuming their respective payment terms and an appropriate discount rate. The discount is amortized into contribution revenue over the term of the respective pledge agreement.

Inventory

Inventory is stated at the lower of cost or market on a first-in first-out (FIFO) basis. The Society capitalizes gift shop inventory when purchased and expenses it when sold.

Investments

Investments in marketable securities with readily determinable fair values and all investments in debt securities are reported at their fair values in the statement of financial position. Unrealized gains and losses are included in net investment gain (loss) under non-operating changes in the Statement of Activities.

Property and Equipment

Expenditures for improvements, equipment, furniture and fixtures are capitalized and stated at cost. The Society capitalizes these types of expenditures for costs that exceed \$1,000. Depreciation is computed using the straight-line method over the estimated useful life of the assets as follows:

Building and land improvements	10 - 30 years
Equipment, furniture and fixtures	4 - 5 years

Routine expenditures for repairs and maintenance are expensed as incurred.

THE WESTERN RESERVE HISTORICAL SOCIETY

NOTES TO THE FINANCIAL STATEMENTS

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Collections

The Society's collections of historically significant artifacts, art objects and other materials are held for education, research and public exhibition, and are not capitalized by the Society. The cost of collection items purchased is recorded as an expense in the year acquired.

The Board of Trustees considers staff recommendations regarding collection items to be deaccessioned and sold, which may occur because the items are duplicates or no longer meet the mission or purposes of the Society. Net sales proceeds are used to address specific needs of the Society, including debt retirement as deemed warranted. Such activity is reflected in the statement of activities as proceeds from sales of gifts-in-kind, under non-operating changes

Beneficial Interests in Trusts

The Society is the beneficiary of certain trusts administered by others. The trusts' assets are invested in debt and equity securities, and the Society records its interests in these trusts at the fair value of the trust assets, unless facts and circumstances indicate that the fair value of the beneficial interests differs from the fair value of the underlying trust assets. Unless otherwise specified by the donor, trust distributions are recognized as unrestricted gifts, grants, and project support in the Statement of Activities. Subsequent changes in the fair value of the beneficial interests in trust assets are recognized as non-operating activity in the Statement of Activities. As of June 30, 2015, the temporary and permanently restricted balances of beneficial interests in trusts were \$193,011 and \$6,555,405, respectively. Additionally, the Society has beneficial interest in assets held by others for which it does not have variance power (see Note 11).

Deferred Revenue

Deferred revenue consists of rental fees and monies received on grants for services yet to be performed.

Income Taxes

The Society is tax-exempt, under Section 501(c)(3) of the Internal Revenue Code (IRC). However, the Society engages in activities subject to Federal income taxes that are considered unrelated to its exempt purpose. Management has determined that the income tax effect of these activities is not significant to the financial statements. There is a net operating loss carry forward of \$455,131 to offset future income tax liabilities, and accordingly, the Society has not recorded any current or deferred provision or benefit for income taxes. Net operating loss carry forwards begin to expire in 2019.

Based on IRC rules regarding the statute of limitations of examining historical income tax returns, the Society's Forms 990, *Return of Organization Exempt from Income Tax*, are no longer subject to examination by tax authorities for years ending before June 30, 2012. The Society currently has no significant uncertain tax positions that it has taken and believes that it can defend the Society's tax returns to any jurisdiction.

THE WESTERN RESERVE HISTORICAL SOCIETY

NOTES TO THE FINANCIAL STATEMENTS

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Concentrations of Credit Risk

The Society has significant investments in equity and debt securities and is therefore subject to concentrations of credit risk. Investments are managed by investment advisors who are supervised by the Board of Trustees. Though the market value of investments is subject to fluctuations on a year-to-year basis, the Board of Trustees believes that the investment policy is prudent for the long-term welfare of the Society.

Contributed Services

The Society receives a significant amount of donated services from approximately 455 unpaid volunteers who assist in program, fund-raising and special projects. The Society would recognize significant contributions of services received when those services (a) create or enhance nonfinancial assets, or (b) require specialized skills, are provided by individuals possessing those skills, and would typically need to be purchased if not provided by the donation. In accordance with GAAP, the Society has not recognized revenue from contributed services for the year ended June 30, 2015.

Auxiliary Organizations

Included in the assets of the Society are the accounts of the following auxiliary organizations:

African American Archives Auxiliary
American Furniture Collectors
Aviation Hall of Fame
Friends of the Chisholm Halle Costume Wing
Friends of the Crawford Auto-Aviation Museum
Friends of the Library
Genealogical Committee
Museum Advisory Council
Citizens of Hale Farm & Village
WRHS Young Professionals

Donations to these organizations are made for the benefit of the Society. The organizations remit to the Society funds they have received to invest on their behalf. The Society tracks the funds and earnings for each organization and will disburse the funds as requested by the organization to further the purposes of the Society.

As of June 30, 2015, the amount of the auxiliary funds included in temporarily restricted net assets of the Society was \$249,240.

Advertising

Advertising costs are expensed when incurred. Total advertising expenses were \$76,170 for the year ended June 30, 2015.

THE WESTERN RESERVE HISTORICAL SOCIETY

NOTES TO THE FINANCIAL STATEMENTS

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Reclassifications

Certain reclassifications have been made to the 2014 financial statements to conform with the 2015 financial statement presentation. Such reclassifications had no effect on change in net assets as previously reported.

Subsequent Events

The Society evaluated subsequent events through November 18, 2015, the date these financial statements were available to be issued. There were no material subsequent events that required recognition or additional disclosure in these financial statements.

2. PLEDGES RECEIVABLE

As of June 30, 2015, gross outstanding written promises to give to the Society from its donors totaled \$1,075,328, of which \$320,436 was unrestricted and \$754,892 was temporarily restricted. Outstanding pledges were discounted to their present value assuming their respective terms, using a discount rate of 5%. The discounted pledges are scheduled to be collected as follows:

Receivable in less than one year	\$	816,514
Restricted to investment in property – short term		159,950
Receivable in one to five years		98,864
Less present value discount		<u>(23,530)</u>
	<u>\$</u>	<u>1,051,798</u>

As of June 30, 2015, \$203,959 of the pledges receivable are due from members of the Board of Trustees. Additionally, 86% of gross outstanding pledges are from three donors. Contributions from one donor represented 10% of operating revenues received during the fiscal year.

3. INVESTMENTS

Investments under the control of the Society are stated at fair value and consist of the following at June 30, 2015:

	<u>Cost</u>	<u>Fair Value</u>	<u>Unrealized Gain (Loss)</u>
Money market funds	\$ 301,070	\$ 301,070	\$ -
Mutual funds	7,518,666	10,365,605	2,846,939
Bond funds	<u>5,628,061</u>	<u>5,475,486</u>	<u>(152,575)</u>
	<u>\$ 13,447,797</u>	<u>\$ 16,142,161</u>	<u>\$ 2,694,364</u>

THE WESTERN RESERVE HISTORICAL SOCIETY

NOTES TO THE FINANCIAL STATEMENTS

3. INVESTMENTS (continued)

Investment management fees are included in the net investment gain in the statement of activities. The total of these fees was \$36,752 for the year ended June 30, 2015.

The following schedule summarizes the investment return and its classification in the statement of activities and changes in net assets for the year ended June 30, 2015.

	<u>Unrestricted</u>	<u>Temporarily Restricted</u>	<u>Permanently Restricted</u>	<u>Total</u>
Interest and dividend income	\$ 25,737	\$ 507,528	\$ -	\$ 533,265
Net realized and unrealized losses	(12,534)	(271,883)	-	(284,417)
Fund balance transfers	<u>(16,608)</u>	<u>16,608</u>	<u>-</u>	<u>-</u>
Net investment gain (loss)	<u>\$ (3,405)</u>	<u>\$ 252,253</u>	<u>\$ -</u>	<u>\$ 248,848</u>

4. FAIR VALUE MEASUREMENTS

GAAP requires disclosure of a fair value hierarchy that prioritizes the inputs to valuation techniques used to measure fair value into the following three broad categories:

- Level 1 - Quoted unadjusted prices for identical instruments in active markets to which the Society has access at the date of measurement.
- Level 2 - Quoted prices for similar instruments in active markets; quoted prices for identical or similar instruments in markets that are not active; and model-derived valuations in which all significant inputs and significant value drivers are observable in active markets. Level 2 inputs are those in markets for which there are few transactions, the prices are not current, little public information exists, or in instances where prices vary substantially over time or among brokered market makers.
- Level 3 – Inputs to the valuation methodology are unobservable and significant to the fair value measurement.

The asset's 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 by the Society are intended 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. There have been no changes in the methodologies used as June 30, 2015.

THE WESTERN RESERVE HISTORICAL SOCIETY

NOTES TO THE FINANCIAL STATEMENTS

4. FAIR VALUE MEASUREMENTS (continued)

Long-term investments – The fair values of the underlying assets are used to determine the fair value, based on the reported net asset value.

Beneficial interests in trusts – The fair values of the underlying assets are used to determine the fair value, based on the Society’s proportionate ownership interest in the investment pool.

The following table presents the Society’s assets measured at fair value on a recurring basis at June 30, 2015:

	<u>Level 1</u>	<u>Level 2</u>	<u>Level 3</u>	<u>Total</u>
Long-term investments	\$ 15,856,733	\$ 285,428	\$ -	\$ 16,142,161
Beneficial interests in trusts	<u>-</u>	<u>-</u>	<u>6,748,416</u>	<u>6,748,416</u>
Total	<u>\$ 15,856,733</u>	<u>\$ 285,428</u>	<u>\$ 6,748,416</u>	<u>\$ 22,890,577</u>

The following table includes a roll-forward of the amounts in the statement of financial position for the year ended June 30, 2015 (including the change in fair value) for beneficial interests in trusts classified within Level 3 of the fair value hierarchy:

Balance at July 1, 2014	\$ 7,282,648
Change in fair value	<u>(534,232)</u>
Balance at June 30, 2015	<u>\$ 6,748,416</u>

Changes in the beneficial interests in trusts are included in the non-operating changes of the statement of activities and changes in net assets.

Assets classified within the Level 3 fair value hierarchy were also valued using a market-based approach, however, because the nature of the interests being valued have no observable market values, the Society relied upon comparable net asset values of the underlying securities for estimating the fair values of the beneficial interests in trusts.

In determining the fair values of the assets classified within the Level 2 hierarchy, the Society applied a market-based valuation approach and used net asset value per share as the significant observable input to determine the assets’ fair value. The fair value of the investments approximated the net asset value per share reported by the investee. The significant investment strategy of the investee is to provide capital appreciation consistent with the return characteristics of alternative investment portfolios of larger endowments and also to provide capital appreciation with less volatility than that of the equity markets. The investments may be redeemed at quarterly intervals upon written notice at the most recently closed net asset value per share reported by the investee.

THE WESTERN RESERVE HISTORICAL SOCIETY

NOTES TO THE FINANCIAL STATEMENTS

5. PROPERTY AND EQUIPMENT

At June 30, 2015, property and equipment consisted of the following:

Land	\$ 1,066,736
Building and land improvements	22,077,876
Equipment, furniture and fixtures	900,733
Construction in progress	<u>540,911</u>
	24,586,256
Less: accumulated depreciation	<u>(11,260,294)</u>
	<u>\$ 13,325,962</u>

During the year ended June 30, 2015, the Society placed in service \$394,000 from construction in progress, including major improvements to the Library and complete renovation of the parking lot and entrance to the museum.

The Society has not capitalized the original cost of the land and museum buildings. Under GAAP, only improvements made to these assets since 1990 have been capitalized. The depreciation expense on property and equipment is allocated between program and supporting services based on the relative usage of the property and equipment.

6. RESTRICTED NET ASSETS

Temporarily restricted net assets as of June 30, 2015 have donor-imposed restrictions for the following uses:

Library	\$ 470,245
Education	119,430
Museums	225,419
Hale Farm and Village	3,844,812
Capital	159,950
Future years' operations	4,122,813
Other/auxiliary organizations	<u>257,220</u>
	<u>\$ 9,199,889</u>

Permanently restricted net assets as of June 30, 2015 are composed of:

Perpetual endowment funds required to be retained permanently by either explicit donor stipulation or UPMIFA	\$ 8,247,524
Beneficial interests in trusts	<u>6,555,405</u>
	<u>\$ 14,802,929</u>

THE WESTERN RESERVE HISTORICAL SOCIETY

NOTES TO THE FINANCIAL STATEMENTS

7. ENDOWMENT DISCLOSURES

The Society's endowment consists of 28 individual funds established for a variety of purposes, including both donor-restricted endowment funds and funds designated by the Board of Trustees to function as endowments. Net assets associated with endowment funds, including funds designated by the Board of Trustees to function as endowments, are classified and reported based on the existence or absence of donor-imposed restrictions.

Interpretation of Relevant Law

The Society has interpreted the State of Ohio's enacted version of the 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 Society classifies as permanently restricted net assets (a) the original value of the 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 instruments 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 UPMIFA.

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

- (1) The duration and preservation of the fund
- (2) The purpose of the Society and the donor-restricted endowment fund
- (3) General economic conditions
- (4) The possible effect of inflation and deflation
- (5) The expected total return from income and appreciation of investments
- (6) Other resources of the Society and investment policies of the Society

Funds with Deficiencies

From time to time, the fair value of assets associated with individual donor-restricted endowment funds may fall below the level that the donor or UPMIFA requires the Society to retain as a fund of perpetual duration. Deficiencies of this nature that are reported in unrestricted net assets were \$28,570 as of June 30, 2015. These deficiencies resulted from unfavorable market fluctuations that occurred shortly after the investment of new permanently restricted contributions, and continued appropriation for certain programs that was deemed prudent by the Board of Trustees. Subsequent gains that restore the fair value of the assets of the endowment fund to the required level will be classified as an increase in unrestricted net assets.

THE WESTERN RESERVE HISTORICAL SOCIETY

NOTES TO THE FINANCIAL STATEMENTS

7. ENDOWMENT DISCLOSURES (continued)

Return Objectives and Risk Parameters

The Society has adopted investment and spending policies for endowment assets that attempt to provide funds for various operating and maintenance expenses while seeking to maintain the purchasing power of the endowment assets. Endowment assets include those assets of donor-restricted funds that the Society must hold in perpetuity or for a donor-specified period as well as board-designated funds. Under this policy, as approved by the Board of Trustees, the endowment assets are invested in a manner that is intended to produce an annual return that equals or exceeds 5%, net of inflation and fees, measured over rolling periods of at least 10 years in length.

The Society has a spending policy which establishes the annual cash outflow from the endowment at 5%, calculated on the basis of market values that are determined at least quarterly and averaged over a period of three years immediately preceding the year in which the appropriation for expenditure was made. The annual spending rate at June 30, 2015 was 5%, excluding investment management fees.

Strategies Employed for Achieving Objectives

In order to maintain long-term purchasing power, the asset allocation policy emphasizes equity-based investments. The Society's long-term broad asset allocation target is 55% equities, 25% fixed income including cash equivalents, and 20% alternative investment strategies. In addition to directing new cash inflows or cash outflows in accordance with asset allocation policy, the Investment Committee reviews the asset allocations quarterly, and makes any necessary adjustments to the allocations based on the policy.

Fund Balance Transfers

The fund balance transfers represent appreciation of investments on donor-imposed restricted funds with deficiencies. Subsequent gains that restore the fair value of the assets of the endowment fund to the required level will be classified as an increase in unrestricted net assets by fund balance transfer.

THE WESTERN RESERVE HISTORICAL SOCIETY

NOTES TO THE FINANCIAL STATEMENTS

7. ENDOWMENT DISCLOSURES (continued)

Endowment Net Assets Composition by Type of Fund as of June 30, 2015

	<u>Unrestricted</u>	<u>Temporarily Restricted</u>	<u>Permanently Restricted</u>	<u>Total</u>
Donor-restricted endowment funds	\$ -	\$ 7,010,426	\$ 8,247,524	\$ 15,257,950
Board-designated endowment funds	702,358	-	-	702,358
Donor-restricted funds below historic dollar value	<u>(28,570)</u>	<u>-</u>	<u>-</u>	<u>(28,570)</u>
Total funds	<u>\$ 673,788</u>	<u>\$ 7,010,426</u>	<u>\$ 8,247,524</u>	<u>\$ 15,931,738</u>

There are other investments held by the Society which are not included as part of the endowment. As of June 30, 2015, these other investments totaled \$210,423.

Changes in Endowment Net Assets for the Fiscal Year Ended June 30, 2015

	<u>Unrestricted</u>	<u>Temporarily Restricted</u>	<u>Permanently Restricted</u>	<u>Total</u>
Investment return:				
Investment income	\$ 23,523	\$ 508,558	\$ -	\$ 532,081
Net appreciation (depreciation) (realized and unrealized)	(17,533)	(269,430)	-	(286,963)
Fund balance transfers	<u>(16,608)</u>	<u>16,608</u>	<u>-</u>	<u>-</u>
Total investment return (loss)	(10,618)	255,736	-	245,118
Gifts	-	-	5,000	5,000
Appropriation of endowment assets for expenditure	<u>(30,340)</u>	<u>(690,847)</u>	<u>-</u>	<u>(721,187)</u>
Change in endowment	(40,958)	(435,111)	5,000	(471,069)
Endowment net assets, July 1, 2014	<u>714,746</u>	<u>7,445,537</u>	<u>8,242,524</u>	<u>16,402,807</u>
Endowment net assets, June 30, 2015	<u>\$ 673,788</u>	<u>\$ 7,010,426</u>	<u>\$ 8,247,524</u>	<u>\$ 15,931,738</u>

THE WESTERN RESERVE HISTORICAL SOCIETY

NOTES TO THE FINANCIAL STATEMENTS

7. ENDOWMENT DISCLOSURES (continued)

Description of Amounts Classified as Permanently Restricted Net Assets and Temporarily Restricted Net Assets as of June 30, 2015 (Endowment only)

Permanently restricted net assets:

The portion of perpetual endowment funds that is required to be retained permanently either by explicit donor stipulation or UPMIFA	<u>\$ 8,247,524</u>
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Temporarily restricted net assets:

Term endowment funds	\$ 3,747,611
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The portion of permanently restricted net assets subject to a time restriction under UPMIFA:

Without purpose restrictions	1,729,350
With purpose restrictions	<u>1,533,465</u>

Total endowment funds classified as temporarily restricted net assets	<u>\$ 7,010,426</u>
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8. LINE OF CREDIT

The Society maintains a revolving line of credit with a commercial bank. The line of credit has a maximum allowed borrowing of \$2,500,000. Interest is charged based on the outstanding balance at 1.50% over the Daily LIBOR Rate. The interest rate was 1.69% at June 30, 2015. The line of credit has an expiration date of June 30, 2017, and is secured by unrestricted endowment assets and a first mortgage on property owned by the Society.

Total interest expense during the year ended June 30, 2015 was \$16,456. The Society met and maintained certain financial covenants as stipulated under the existing line of credit agreement.

9. OPERATING LEASES

The Society leases certain equipment under long-term leases. Rent expense under these leases was \$27,191 for the year ended June 30, 2015. Future minimum rental commitments are as follows:

YEAR ENDING <u>JUNE 30,</u>	
2016	\$ 26,791
2017	25,991
2018	17,711
2019	<u>14,823</u>
	<u>\$ 85,316</u>

THE WESTERN RESERVE HISTORICAL SOCIETY

NOTES TO THE FINANCIAL STATEMENTS

10. EMPLOYEE BENEFIT PLAN

The Society maintains a defined contribution salary deferred (403(b)) plan (the Plan) covering eligible employees. Under the Plan, the Society may match 100% of employee salary deferrals up to 3%, and matches 50% of employee salary deferrals over 3% up to a maximum of 5%. The match is discretionary on an annual basis based on budgetary considerations by management. Matching contributions during the year ended June 30, 2015 were \$41,860.

11. BENEFICIAL INTEREST IN ASSETS HELD BY OTHERS

The Society is also the beneficial recipient of funds held at the Cleveland Foundation and the Akron Community Foundation. In accordance with GAAP, the Society cannot record their beneficial interest in the principal amounts because the funds are held at these community foundations and are subject to the respective foundations' variance powers.

These foundations have the discretion to direct funds from these beneficial interests to the Society. In May 2011, the Frederick C. and Kathleen S. Crawford Fund was established at the Cleveland Foundation. The market value of the Frederick C. and Kathleen S. Crawford Fund was \$16,791,988 as of June 30, 2015. The Cleveland Foundation's grant awards from the Frederick C. and Kathleen S. Crawford Fund were \$635,871 and \$580,156 for the calendar years ending December 31, 2015 and 2014, respectively. These awards were recorded as temporarily restricted gifts, grants and project support until the donor-imposed restrictions were met, by actions of the Society and the passage of time, and subsequently reclassified into unrestricted net assets in the statement of activities as net assets released from restrictions.

In addition to the Crawford Fund, the market value of the community funds established for the benefit of the Western Reserve Historical Society was \$1,258,844, as of June 30, 2015.