The Valentine and Subsidiary

Consolidated Financial Statements

June 30, 2023

Keiter
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THE VALENTINE AND SUBSIDIARY

Table of Contents

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INDEPENDENT AUDITOR'S REPORT

To the Board of Trustees
The Valentine
Richmond, Virginia

Opinion

We have audited the accompanying consolidated financial statements of The Valentine and Subsidiary (collectively, "The Valentine"), which comprise the consolidated statement of financial position as of June 30, 2023, and the related consolidated statements of activities, functional expenses, and cash flows for the year then ended, and the related notes to the consolidated financial statements.

In our opinion, the consolidated financial statements referred to above present fairly, in all material respects, the financial position of The Valentine as of June 30, 2023, and the changes in their net assets and their cash flows for the year then ended in accordance with accounting principles generally accepted in the United States.

Basis for Opinion

We conducted our audit in accordance with auditing standards generally accepted in the United States. Our responsibilities under those standards are further described in the Auditor's Responsibilities for the Audit of the Consolidated Financial Statements section of our report. We are required to be independent of The Valentine and to meet our other ethical responsibilities in accordance with the relevant ethical requirements relating to our audit. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Responsibilities of Management for the Consolidated Financial Statements

Management is responsible for the preparation and fair presentation of the consolidated financial statements in accordance with accounting principles generally accepted in the United States, and for 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.

In preparing the consolidated financial statements, management is required to evaluate whether there are conditions or events, considered in the aggregate, that raise substantial doubt about The Valentine's ability to continue as a going concern within one year after the date that the consolidated financial statements are available to be issued.

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Auditor’s Responsibilities for the Audit of the Consolidated Financial Statements

Our objectives are to obtain reasonable assurance about whether the consolidated financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor’s report that includes our opinion. Reasonable assurance is a high level of assurance but is not absolute assurance and therefore is not a guarantee that an audit conducted in accordance with generally accepted auditing standards will always detect a material misstatement when it exists. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control. Misstatements, including omissions, are considered material if there is a substantial likelihood that, individually or in the aggregate, they would influence the judgment made by a reasonable user based on the consolidated financial statements.

In performing an audit in accordance with generally accepted auditing standards, we:

- Exercise professional judgment and maintain professional skepticism throughout the audit.
- Identify and assess the risks of material misstatement of the consolidated financial statements, whether due to fraud or error, and design and perform audit procedures responsive to those risks. Such procedures include examining, on a test basis, evidence regarding the amounts and disclosures in the consolidated financial statements.
- Obtain an understanding of internal control relevant to the audit 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 Valentine’s internal control. Accordingly, no such opinion is expressed.
- Evaluate the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluate the overall presentation of the consolidated financial statements.
- Conclude whether, in our judgment, there are conditions or events, considered in the aggregate, that raise substantial doubt about The Valentine’s ability to continue as a going concern for a reasonable period of time.

We are required to communicate with those charged with governance regarding, among other matters, the planned scope and timing of the audit, significant audit findings, and certain internal control related matters that we identified during the audit.

Report on Summarized Comparative Information

We have previously audited the 2022 consolidated financial statements of The Valentine and Subsidiary, and we expressed an unmodified audit opinion on those audited consolidated financial statements in our report dated November 15, 2022. In our opinion, the summarized comparative information presented herein as of and for the year ended June 30, 2022, is consistent, in all material respects, with the audited consolidated financial statements from which it has been derived.

Keiter

November 16, 2023
Glen Allen, Virginia

THE VALENTINE AND SUBSIDIARY

Consolidated Statement of Financial Position
June 30, 2023 with Summarized Totals as of June 30, 2022

Assets	Without Donor Restrictions	With Donor Restrictions	Totals 2023	Totals 2022
Current assets:				
Cash and cash equivalents	$ 47,900	$ -	$ 47,900	$ 89,885
Investments	1,947,557	47,959	1,995,516	1,500,158
Accounts receivable	23,436	-	23,436	20,197
Promises to give	-	828,748	828,748	1,258,293
Inventory	34,936	-	34,936	36,174
Prepaid expenses	26,107	-	26,107	11,917
Total current assets	2,079,936	876,707	2,956,643	2,916,624
Promises to give, net	-	1,439,041	1,439,041	1,119,310
Investments	3,166,979	14,752,119	17,919,098	16,937,696
Beneficial interest in perpetual trust	-	1,270,580	1,270,580	1,196,510
Beneficial interest in charitable remainder trusts	-	321,717	321,717	319,483
Historic properties, net	1,457,121	-	1,457,121	1,573,496
Collections (Note 2)	-	-	-	-
Property and equipment, net	6,279,767	7,734,260	14,014,027	6,693,558
Intangible asset	20,606	-	20,606	20,606
Right-of-use operating lease assets	268,831	-	268,831	-
Total assets	$ 13,273,240	$ 26,394,424	$ 39,667,664	$ 30,777,283

See accompanying notes to consolidated financial statements.

THE VALENTINE AND SUBSIDIARY

Consolidated Statement of Financial Position, Continued
June 30, 2023 with Summarized Totals as of June 30, 2022

Liabilities and Net Assets	Without Donor Restrictions	With Donor Restrictions	Totals 2023	Totals 2022
Current liabilities:				
Accounts payable	$ 1,028,900	$ -	$ 1,028,900	$ 54,255
Accrued expenses	138,269	-	138,269	139,382
Fiduciary liability (Note 16)	-	-	-	361,211
Annuity payable	15,573	-	15,573	16,178
Operating lease liabilities	72,902	-	72,902	-
Due (from) to	(5,451)	5,451	-	-
Total current liabilities	1,250,193	5,451	1,255,644	571,026
Long-term liabilities:				
Operating lease liabilities	199,976	-	199,976	-
Note payable	2,060,000	-	2,060,000	-
Total long-term liabilities	2,259,976	-	2,259,976	-
Total liabilities	3,510,169	5,451	3,515,620	571,026
Net assets	9,763,071	26,388,973	36,152,044	30,206,257
Total liabilities and net assets	$ 13,273,240	$ 26,394,424	$ 39,667,664	$ 30,777,283

See accompanying notes to consolidated financial statements.

THE VALENTINE AND SUBSIDIARY

Consolidated Statement of Activities
Year Ended June 30, 2023 with Summarized Totals for Year Ended June 30, 2022

	Without Donor Restrictions	With Donor Restrictions	Totals 2023	Totals 2022
Revenues, gains and other support:				
Contributions and grants	$ 1,858,943	$ 4,209,713	$ 6,068,656	$ 3,358,888
Sale of deaccessioned collections	-	176,026	176,026	39,282
Special events, net	48,027	-	48,027	55,985
Admissions	67,206	-	67,206	52,039
Investment income, net	180,177	266,923	447,100	445,708
Net realized and unrealized investment gain (loss)	283,922	1,318,729	1,602,651	(2,682,506)
Net unrealized gain (loss), value of split-interest agreements	-	76,304	76,304	(260,855)
Gift shop, net of $30,748 in 2023 and $27,983 in 2022	23,783	-	23,783	19,770
Rental income	18,765	-	18,765	54,501
Miscellaneous income	15,521	-	15,521	33,201
Total revenues, gains and support	2,496,344	6,047,695	8,544,039	1,116,013
Net assets released from restrictions	807,550	(807,550)	-	-
Total revenues, gains, support, and other changes	3,303,894	5,240,145	8,544,039	1,116,013
Expenses				
Program services:				
Curatorial	639,862	-	639,862	513,913
Occupancy	650,060	-	650,060	608,556
Museum administration	257,788	-	257,788	189,658
Education and outreach	521,752	-	521,752	497,385
Supporting services:				
Management and general	457,820	-	457,820	432,305
Fundraising	268,403	-	268,403	232,660
Total expenses	2,795,685	-	2,795,685	2,474,477
Change in net assets before other gains	508,209	5,240,145	5,748,354	(1,358,464)
Other gains:				
Employee Retention Credit (Note 17)	197,433	-	197,433	-
Gain on extinguishment of debt	-	-	-	294,400
Total other gains	197,433	-	197,433	294,400
Change in net assets	705,642	5,240,145	5,945,787	(1,064,064)
Net assets at beginning of year	9,057,429	21,148,828	30,206,257	31,270,321
Net assets at end of year	$ 9,763,071	$ 26,388,973	$ 36,152,044	$ 30,206,257

See accompanying notes to consolidated financial statements.

THE VALENTINE AND SUBSIDIARY

Consolidated Statement of Functional Expenses
Year Ended June 30, 2023 with Summarized Totals for Year Ended June 30, 2022

	Program Services				Supporting Services		Totals	
	Curatorial	Occupancy	Museum Administration	Education & Outreach	Management & General	Fundraising	2023	2022
Salaries and wages	$ 285,950	$ 90,348	$ 132,731	$ 383,426	$ 254,743	$ 130,577	$ 1,277,775	$ 1,198,472
Depreciation	117,197	249,000	-	-	-	-	366,197	371,420
Facilities maintenance	-	204,201	-	1,485	2,860	-	208,546	191,803
Equipment maintenance	25,905	10,583	17,318	23,679	10,183	6,233	93,901	115,011
Professional fees	50,359	24,010	41,270	16,010	62,927	18,027	212,603	67,899
Employee benefits	22,518	13,969	8,486	21,226	35,471	13,580	115,250	97,817
Payroll taxes	20,073	6,847	9,590	27,261	18,878	7,849	90,498	85,578
Insurance	24,427	3,335	-	-	26,435	-	54,197	51,190
Collections expense	76,973	10	90	-	-	-	77,073	25,656
Advertising	475	75	10,088	175	2,307	-	13,120	28,923
Printing	471	1,669	11,265	4,514	505	22,736	41,160	20,008
Supplies	6,352	10,151	531	7,584	5,010	4,258	33,886	29,151
Dues and subscriptions	702	5,884	7,825	7,349	15,049	15,241	52,050	52,722
Travel and entertainment	2,176	2,386	5,859	157	818	15,504	26,900	32,276
Design and production	4,205	300	3,575	3,300	-	3,150	14,530	5,682
Other facility rental expense	-	1,339	373	3,865	7,850	221	13,648	25,185
Bank and credit card fees	69	-	2,059	1,518	455	14,401	18,502	12,547
Postage and shipping	531	2,210	3,759	2,299	1,569	13,868	24,236	21,759
Conferences, conventions, and meetings	11	15,955	-	2,793	4,019	1,321	24,099	8,442
Telephone	1,185	4,813	2,790	3,541	2,135	934	15,398	14,355
Casual labor	283	18	179	4,851	606	74	6,011	4,596
Tours expense	-	-	-	3,433	6,000	-	9,433	4,319
Other	-	2,957	-	3,286	-	429	6,672	9,666
	$ 639,862	$ 650,060	$ 257,788	$ 521,752	$ 457,820	$ 268,403	$ 2,795,685	$ 2,474,477

See accompanying notes to consolidated financial statements.

THE VALENTINE AND SUBSIDIARY

Consolidated Statement of Cash Flows
Year Ended June 30, 2023 with Summarized Totals for Year Ended June 30, 2022

	2023	2022
Cash flows from operating activities:		
Change in net assets	$ 5,945,787	$ (1,064,064)
Adjustments to reconcile change in net assets to net cash from operating activities:		
Gain on extinguishment of debt	-	(294,400)
Net realized and unrealized investment (gain) loss	(1,602,651)	2,682,506
Net unrealized (gain) loss, value of split-interest agreements	(76,304)	260,855
Depreciation	366,197	371,420
Contributions restricted for long-term purposes	(1,692,500)	(1,675,000)
Changes in operating assets and liabilities:		
Accounts receivable	(3,239)	(1,056)
Promises to give, net	64,991	41,691
Inventories	1,238	(3,453)
Prepaid expenses	(14,190)	(4,452)
Accounts payable	(32,730)	12,395
Accrued expenses	(1,113)	21,111
Fiduciary liability (Note 16)	(361,211)	361,211
Operating lease assets and liabilities, net	60	-
Net cash provided by operating activities	2,594,335	708,764
Cash flows from investing activities:		
Purchases of property and equipment	(6,558,929)	(1,674,456)
Purchases of investments	(8,718,611)	(4,804,066)
Proceeds from sales of investments	8,843,897	4,539,039
Net cash used in investing activities	(6,433,643)	(1,939,483)
Cash flows from financing activities:		
Collections of contributions restricted for long-term purposes:		
Capital projects	1,553,490	1,048,018
Endowment funds	183,833	188,044
Proceeds from note payable	2,060,000	-
Net cash provided by financing activities	3,797,323	1,236,062
Net change in cash and cash equivalents	(41,985)	5,343
Cash and cash equivalents, beginning of year	89,885	84,542
Cash and cash equivalents, end of year	$ 47,900	$ 89,885

See accompanying notes to consolidated financial statements.

THE VALENTINE AND SUBSIDIARY

Consolidated Statement of Cash Flows, Continued
Year Ended June 30, 2023 with Summarized Totals for Year Ended June 30, 2022

	2023	2022
Supplemental disclosure of cash flow information:		
Cash paid for interest (capitalized)	$ 47,131	$ -
Cash paid for amounts included in the measurement of lease liability:		
Operating cash flows from operating leases	$ 8,470	$ -
Financing cash flows from operating leases	$ 69,600	$ -
Non-cash transactions:		
Operating lease assets obtained in exchange for lease liabilities	$ 342,832	$ -
Property and equipment purchased through accounts payable	$ 1,007,375	$ -

See accompanying notes to consolidated financial statements.

1. Nature of Organization:

The Valentine is a non-for-profit Virginia nonstock corporation founded in 1898. The mission is to collect, preserve and interpret the materials of the life and history of Richmond, Virginia. A combination research library and museum of Richmond history, The Valentine uses the city as a case study to interpret important issues in American urban social history. The Valentine receives the majority of its resources through contributions and grants. 1009 East Clay Street, LLC was formed in 2013 for the primary purpose of renovating a historic property. In January 2015, The Valentine assumed responsibility for the First Freedom Center where the Statute for Religious Freedom was drafted. The Valentine uses the First Freedom Center as a forum for discussing the values reflected in the Statute.

2. Summary of Significant Accounting Policies:

Principles of Consolidation: The consolidated financial statements include the accounts of The Valentine and its 99.5% owned subsidiary, 1009 East Clay Street, LLC, (collectively, the “The Valentine”). All intercompany balances have been eliminated in consolidation.

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").

Basis of Presentation: The consolidated 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. Accordingly, such information should be read in conjunction with The Valentine’s consolidated financial statements for the year ended June 30, 2022, from which the summarized information was derived.

The Valentine is required to report information regarding its financial position and activities according to two classes of net assets – net assets without donor restrictions and net assets with donor restrictions.

Net assets without donor restrictions – Net assets that are currently available at the discretion of The Valentine’s Board of Trustees for use in operations.

Net assets with donor restrictions – Net assets with donor restrictions consist of assets whose use is limited by donor-imposed, time and/or purpose restrictions. Some net assets with donor restrictions include donor-imposed stipulations for specific operating purposes. When a donor restriction expires, net assets with donor restrictions are reclassified to net assets without donor restrictions and reported in the consolidated statement of activities as net assets released from restrictions.

2. Summary of Significant Accounting Policies, Continued:

Basis of Presentation, Continued: Other donor-imposed restrictions are perpetual in nature, whereby the donor stipulates that they may be maintained permanently by The Valentine to use all or part of the income earned on any related investments for general or specific purposes, in accordance with the conditions of each specific donation.

Use of Estimates: The preparation of consolidated financial statements in conformity with generally accepted accounting principles 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 consolidated financial statements and the reported amounts of revenues and expenses during the periods reported. Actual results could differ from those estimates.

Cash and Cash Equivalents: The Valentine considers all highly liquid debt instruments purchased with a maturity of three months or less to be cash equivalents.

Accounts Receivable: Accounts receivable are reported net of an allowance for doubtful accounts. The allowance is based on management's estimate of the amount of receivables that will actually be collected. As of June 30, 2023 and 2022, management determined an allowance for doubtful accounts was not necessary. Accounts receivable was $19,141 at July 1, 2021.

Inventory: The inventory consists of products for sale and is stated at the lower of cost (specific identification method) or net realizable value.

Beneficial Interest in Assets Held in Trust by Others: The Valentine has been named as a beneficiary in several charitable remainder trusts in which The Valentine is not the trustee. When The Valentine is notified of the existence of the trust, an asset and contribution revenue are recorded at the present value of the estimated future cash receipts. In accordance with GAAP, The Valentine does not record contributions receivable from remainder trusts if the trust is revocable or if the donor retains the unilateral right to change beneficiaries.

Historic Properties and Collections: Historic properties consist principally of the Wickham-Valentine House, the Edward Valentine Studio, the Davis House, and the Gray-Valentine Buildings. Except for the Wickham-Valentine House and Davis House restorations, which are stated at cost less accumulated depreciation, such properties, in conformity with the practice followed by many museums, are stated at a nominal value. Depreciation of the historic properties is computed by the straight-line method over the estimated useful lives of the related assets, which range from 3 to 40 years. Accumulated depreciation on the historic properties was $2,830,463 and $2,714,086 as of June 30, 2023 and June 30, 2022, respectively. Depreciation expense for historic properties was $116,375 for 2023 and $116,854 for 2022.

2. Summary of Significant Accounting Policies, Continued:

Historic Properties and Collections, Continued: The Valentine's consolidated financial statements exclude the value of the collection objects and library holdings, and no determination has been made as to aggregate value of such items. Purchases of collections items are recorded as decreases in net assets with donor restrictions if the assets used to purchase collection items are restricted by the donor.

The Valentine requires that proceeds from sales of collection items be used for the acquisition of other items for collections and direct care of existing collections. The Valentine defines direct care as those activities that enhance the life, usefulness or quality of the collections.

Property and Equipment: Property and equipment are stated at cost or, if donated, appraised value at date of gift. Major repairs and betterments are capitalized, and normal maintenance and repairs are charged to expense as incurred. Depreciation of the buildings and equipment is computed by the straight-line method over the estimated useful lives of the related assets, which range from 3 to 40 years.

Intangible Asset: Costs of indefinite-lived intangible assets will not be amortized. The Valentine's intangible asset consists of an indefinite-lived trademark with a cost of $20,606 as of June 30, 2023 and 2022.

Valuation of Long-Lived Assets: The Valentine accounts for the valuation of long-lived assets under GAAP, which required that long-lived assets and certain identifiable intangible assets be reviewed for impairment whenever events or changes in circumstances indicate that the carrying amount of asset may not be recoverable. Recoverability of the long-lived asset is measured by a comparison of the carrying amount of the asset to future undiscounted net cash flows expected to be generated by the asset. If such assets are considered to be impaired, the impairment to be recognized is measured by the amount by which the carrying amount of the assets exceeds the estimated fair value of the assets. Assets to be disposed of are reportable at the lower of carrying amount or fair value, less cost to sell. There were no impairments identified during 2023 or 2022.

Leases: In February 2016, the FASB issued ASU 2016-02, Leases (Topic 842), which supersedes ASC 840 and creates a new topic, ASC 842. ASC 842 requires lessees to recognize a right-of-use asset and a lease liability on the consolidated statement of financial position for substantially all leases with a term of 12 months or greater. Leases are classified as either finance or operating, with classification affecting expense recognition in The Valentine's operations.

2. Summary of Significant Accounting Policies, Continued:

Leases, Continued: The lease liabilities are initially measured at the present value of future lease payments, measured on a discounted basis, as of the lease commencement date or the adoption date, whichever is later. The right-of-use assets are initially measured at the value of the lease liability, adjusted for initial direct lease costs, lease incentives, and prepaid or deferred rent. The Valentine elected to use the risk-free discount rate for any leases for which the rate implicit in the lease was not readily determinable. The right-of-use assets and lease liabilities are calculated to include options to extend or terminate the lease when The Valentine determines that it is reasonably certain it will exercise those options. In making those determinations, The Valentine considers various existing economic and market factors, business strategies as well as the nature, length, and terms of the lease agreements.

At July 1, 2022, The Valentine adopted the provisions of ASC 842, using the modified retrospective adoption method. In addition, The Valentine utilized the simplified transition option available in ASC 842, which allows entities to continue to apply the legacy guidance in ASC 840, including its disclosure requirements, in the comparative periods presented in the year of adoption.

Upon adoption of ASC 842, The Valentine elected the transitional package of practical expedients that allow an entity to not reassess (1) whether any expired or existing contracts contain a lease, (2) the lease classification of any expired or existing lease, and (3) initial direct costs for any existing lease, and the use of hindsight in determining the lease term. In addition, The Valentine elected to not record a lease liability and corresponding right of use asset for leases with terms of 12 months or less, and to account for lease and non-lease components as a single lease component.

The adoption of ASC 842 resulted in the recognition of operating lease right-of-use assets of $342,832 and operating lease liabilities of $326,442 as of July 1, 2022. The standard did not materially impact the Valentine’s operations and cash flows.

Investments: The Valentine invests in a professionally managed portfolio that contains common shares and bonds of publicly traded companies, mutual funds and money market funds (see Notes 3 and 8).

Contributions: Contributions received are recorded as support without donor restrictions or with donor restrictions depending on the nature of donor restrictions, if any. When a restriction expires, net assets are reclassified to net assets without donor restrictions. Endowment contributions are reported as net assets with donor restrictions.

Unconditional promises to give are recorded when the promise is made. Unconditional promises to give due in the next year are reflected as current promises to give and long-term unconditional promises to give are recorded at their net realizable value, using risk-free interest rates to discount the amounts. Conditional promises to give are recognized when the specific condition is met. The Valentine had no conditional pledges at June 30, 2023 and 2022. Contributions of assets other than cash are recorded at their estimated fair market value at the time of donation.

2. Summary of Significant Accounting Policies, Continued:

Contributions of Services, Materials, and Facilities: A substantial number of unpaid volunteers have made significant contributions of their time to develop The Valentine's programs; however, the value of this contributed time is not reflected in accompanying consolidated financial statements since it is not subject to objective measurement or valuation.

Employee Retention Credit: The Valentine's policy is to account for the Employee Retention Credit ("ERC") under ASC 958-605, Revenue Recognition. Under ASC 958-605, The Valentine recognized ERC as income in the period it determined the conditions for recognition had been substantially met (see Note 17).

Revenue Recognition: Revenues for admissions and the gift shop are recognized at a point in time. As of June 30, 2023 and 2022, there were no contract assets or contract liabilities.

Advertising: The Valentine expenses advertising costs as they are incurred. Advertising costs amounted to $13,120 in 2023 and $28,923 in 2022.

Functional Expenses: The costs of providing the various programs and other activities have been summarized on a functional basis in the consolidated statement of activities. Expenses have been summarized based on function and natural classification in the consolidated statement of functional expenses. The Valentine directly allocates costs to functions based on the nature of the cost. Any costs which have a nature that may benefit more than one function are included as Management & General.

Income Taxes: The Valentine is exempt from income taxes under the provision of Section 501(c)(3) of the Internal Revenue Code.

Income Tax Uncertainties: The Valentine follows the FASB guidance for how uncertain tax positions should be recognized, measured, disclosed and presented in the consolidated financial statements. This requires the evaluation of tax positions taken or expected to be taken in the course of preparing The Valentine's tax returns to determine whether the tax positions are "more-likely-than-not" of being sustained "when challenged" or "when examined" by the applicable tax authority. Tax positions not deemed to meet the more-likely-than-not threshold would be recorded as a tax expense and liability in the current year. Management has evaluated The Valentine's tax position and concluded that The Valentine had taken no uncertain tax positions that require adjustment to the consolidated financial statements to comply with the provision of this guidance. The Valentine is not currently under audit by any tax jurisdiction.

2. Summary of Significant Accounting Policies, Continued:

Concentration of Credit Risk: Financial instruments that potentially subject The Valentine to concentrations of credit risk consist principally of cash and cash equivalents, promises to give, and investments.

The Valentine maintains its cash in bank deposit accounts which, at times, may exceed federally insured limits. The Valentine has not experienced any losses in such accounts and believes it is not exposed to any significant financial credit risk on cash.

Promises to give are from individuals, corporations and foundations located primarily in Virginia. The Valentine believes its credit risk related to these promises to give is limited due to the nature of its donors. The ability to collect receivables is affected by the general economic conditions. As of June 30, 2023, two donors composed 27% of promises to give. As of June 30, 2022, three donors composed 58% of promises to give.

The Valentine invests in various investments securities, which are exposed to various risks, such as interest rate, market and credit. Due to the level of risk associated with certain investment securities and the level of uncertainty related to changes in the value of investment securities, it is at least reasonably possible that changes in risk in the near term would affect the investment balance and the amount reported in the accompanying consolidated financial statements.

Reclassifications: Certain prior year balances have been reclassified to conform with the current year presentation.

Subsequent Events: Management has evaluated subsequent events through November 16, 2023, the date the consolidated financial statements were available to be issued, and has determined that, there are no subsequent events to be reported in the accompanying consolidated financial statements.

3. Investments:

Investments in marketable securities at June 30, 2023 and 2022, consist of the following:

	2023		2022	
	Cost	Fair Value	Cost	Fair Value
Common stocks	$ 4,611,958	$ 6,829,524	$ 8,808,835	$ 10,726,736
Money market funds	3,764,351	3,834,478	4,075,719	4,075,719
Corporate bonds	2,447,136	2,430,363	2,059,008	1,964,043
Mutual funds	6,236,212	6,820,249	1,774,486	1,671,356
	$ 17,059,657	$ 19,914,614	$ 16,718,048	$ 18,437,854

4. Promises to Give:

Promises to give at June 30, 2023 and 2022, consist of the following:

	2023	2022
Promises to give due in less than one year	$ 828,748	$ 1,258,293
Promises to give due in one to five years	1,558,651	1,191,847
	2,387,399	2,450,140
Less unamortized discount	(119,610)	(72,537)
Promises to give, net	$ 2,267,789	$ 2,377,603

The Valentine used a rate of 4.2% at June 30, 2023, and 3.6% at June 30, 2022, to discount to present value its promises to give. All promises to give are considered collectible.

Promises to give from board members are approximately 18% of the total balance as of June 30, 2023, and approximately 17% of the total balance as of June 30, 2022. As of June 30, 2023, $170,411 of net promises to give has been earmarked for adding to the principal of endowment funds upon collection. As of June 30, 2022, $347,550 of the net promises to give had been earmarked for adding to the principal of endowment funds upon collection.

5. Beneficial Interest in Perpetual Trust:

The Valentine is the beneficiary of a portion of the annual income earned from the Coons Trust held by a commercial bank. The assets of the Coons Trust are not in the possession or under control of The Valentine.

The Coons Trust had a market value of $1,363,261 and $1,283,788 at June 30, 2023 and 2022, respectively. The present value of the expected future cash flows to The Valentine from the Coons Trust was $1,270,580 and $1,196,510 at June 30, 2023 and 2022, respectively, and is recorded in the consolidated statement of financial position as an asset with donor restrictions. The change in valuation during fiscal years 2023 and 2022 is included in the consolidated statement of activities as an unrealized gain (loss) in the valuation of split-interest agreements.

6. Assets Held in Charitable Remainder Trusts:

The Valentine is the beneficiary of an irrevocable charitable remainder unitrust held by a third party. The market value of the trust shared with The Valentine was $345,861 at both June 30, 2023 and 2022. The discounted present value of the trust was $272,106 and $268,959 at June 30, 2023 and 2022, respectively, and is recorded in the consolidated statement of financial position as an asset with donor restriction.

6. Assets Held in Charitable Remainder Trusts, Continued:

The Valentine is the beneficiary of an irrevocable charitable remainder unitrust held by a third party. The market value of the trust was $56,874 and $58,683 at June 30, 2023 and 2022, respectively. The discounted present value of the trust was $49,611 and $50,524 at June 30, 2023 and 2022, respectively, and is recorded in the consolidated statement of financial position as an asset with donor restriction.

The present value of the estimated future benefits was calculated using a discount rate of 4.6% at June 30, 2023 and 3.6% at June 30, 2022.

The change in valuation of the charitable remainder trusts during fiscal years 2023 and 2022 is included in the consolidated statement of activities as an unrealized gain (loss) in the valuation of split-interest agreements.

7. Property and Equipment:

Property and equipment at June 30, 2023 and 2022, consist of the following:

	2023	2022
Land	$ 161,255	$ 161,255
Buildings and improvements	8,039,898	8,024,368
Vehicles, furniture and equipment	59,794	59,755
Construction in progress	10,604,593	3,049,870
	18,865,540	11,295,248
Less accumulated depreciation	(4,851,513)	(4,601,690)
Property and equipment, net	$ 14,014,027	$ 6,693,558

Depreciation expense for property and equipment was $249,822 for 2023 and $254,566 for 2022.

At June 30, 2023 and 2022, construction in progress was comprised of design and development of collection care and access systems and renovations of the Edward Valentine Studio and collections spaces.

8. Fair Value Measurements:

The Valentine follows FASB guidance with respect to fair value measurements. This guidance provides a framework for measuring fair value under generally accepted accounting principles, for all financial assets and liabilities measured at fair value on a recurring basis.

8. Fair Value Measurements, Continued:

The guidance establishes a three-level hierarchy that prioritizes the inputs to valuation techniques used to measure fair value. The fair value hierarchy gives the highest priority to quoted prices in active markets for identical assets or liabilities (Level 1) and the lowest priority to unobservable inputs (Level 3). If the inputs used to measure the assets or liabilities fall within different levels of the hierarchy, the classification is based on the lowest level that is significant to the fair value measurement of the asset or liability.

Classification of assets and liabilities within the hierarchy considers the market in which the assets or liabilities are traded and the reliability and transparency of the assumptions used to determine fair value. The hierarchy requires the use of observable market data when available. The levels of the hierarchy are defined as follows:

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

Level 2 – Inputs to the valuation methodology are 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 and significant to the fair value measurement.

The following is a description of the valuation methodologies used for assets measured at fair value:

Common stocks: Valued at the closing price as reported on the active market on which stocks are traded.

Mutual funds: Valued at the net asset value ("NAV") of shares held in the fund at the end of the trading day.

Money market funds: Valued at the cash balance.

Corporate bonds: Valued at the closing price as reported on the active market on which bonds are traded.

Promises to give, net: Valued at the sum of future contributions adjusted to the present value using a discount rate.

Beneficial interest in perpetual trust: Valued using the fair value of the underlying assets of the trust as an estimate for the present value of the expected future cash flows.

Charitable remainder trusts: Valued using the fair value of the underlying assets of the trust as an estimate for the present value of the expected future cash flows.

8. Fair Value Measurements, Continued:

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

Assets and liabilities measured at fair value at June 30, 2023, include the following:

	Level 1	Level 2	Level 3	Total
Assets:				
Investments:				
Common stocks	$ 6,829,524	$ -	$ -	$ 6,829,524
Money market funds	3,834,478	-	-	3,834,478
Corporate bonds	-	2,430,363	-	2,430,363
Mutual funds	6,820,249	-	-	6,820,249
Total investments at fair value				19,914,614
Promises to give, net	-	-	2,267,789	2,267,789
Beneficial interest in perpetual trust	-	-	1,270,580	1,270,580
Charitable remainder trusts	-	-	321,717	321,717
Total assets at fair value	$ 17,484,251	$ 2,430,363	$ 3,860,086	$ 23,774,700
Liabilities:				
Annuity payable	$ -	$ -	$ 15,573	$ 15,573
Total liabilities at fair value	$ -	$ -	$ 15,573	$ 15,573

Assets and liabilities measured at fair value at June 30, 2022, include the following:

	Level 1	Level 2	Level 3	Total
Assets:				
Investments:				
Common stocks	$ 10,726,736	$ -	$ -	$ 10,726,736
Money market funds	4,075,719	-	-	4,075,719
Corporate bonds	-	1,964,043	-	1,964,043
Mutual funds	1,671,356	-	-	1,671,356
Total investments at fair value				18,437,854
Promises to give, net	-	-	2,377,603	2,377,603
Beneficial interest in perpetual trust	-	-	1,196,510	1,196,510
Charitable remainder trusts	-	-	319,483	319,483
Total assets at fair value	$ 16,473,811	$ 1,964,043	$ 3,893,596	$ 22,331,450
Liabilities:				
Annuity payable	$ -	$ -	$ 16,178	$ 16,178
Total liabilities at fair value	$ -	$ -	$ 16,178	$ 16,178

8. Fair Value Measurements, Continued:

During 2023, The Valentine received $2,134,435 of unconditional promises to give that were categorized as promises to give and collected $2,197,250 of promises to give that were reclassified to cash or investments as appropriate. During 2022, The Valentine received $2,176,546 of unconditional promises to give that were categorized as promises to give and collected $1,735,910 of promises to give that were reclassified to cash or investments as appropriate.

9. Endowment Funds:

The Valentine has interpreted state law as requiring the preservation of the purchasing power (real value) of the permanent endowment funds unless explicit donor stipulations specify how net appreciation must be used. As a result, The Valentine 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. The Valentine's spending and investment policies work together to achieve this objective. The investment policy establishes an achievable return objective through diversification of asset classes. The current long-term return objective is to return 5%, net of investment fees. Actual returns in any given year may vary from this amount.

To satisfy its long-term rate of return objectives, The Valentine 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 Valentine targets a diversified asset allocation that places a great emphasis on equity-based investments to achieve its long-term return objectives with prudent risk parameters.

The spending policy calculates the amount of money annually distributed from The Valentine's endowment funds for administration. The current spending policy is to distribute an amount equal to 4% to 5% of the three-year rolling average market value of the portfolio at March 31.

9. Endowment Funds, Continued:

Changes in endowment net assets with donor restriction for fiscal years ended June 30, 2023 and 2022, are as follows:

	2023	2022
Endowment net assets at beginning of year	$ 12,282,287	$ 14,369,390
Contributions	43,661	18,097
Payments received on promises to give	183,833	188,044
Investment return:		
Investment income	293,143	404,827
Net realized and unrealized gain (loss)	1,196,165	(2,062,902)
Investment fees	(51,376)	(62,170)
Amounts appropriated for expenditure	(559,313)	(572,999)
Endowment net assets at end of year	$ 13,388,400	$ 12,282,287

There were no endowment net assets without donor restriction for fiscal year ended June 30, 2023 and 2022. At June 30, 2023, endowment net assets consisted of $2,230,291 of accumulated investment income and $11,158,109 of original donor-restricted gifts required to be maintained in perpetuity by the donor. At June 30, 2022, endowment net assets consisted of $1,351,672 of accumulated investment income and $10,930,615 of original donor-restricted gifts required to be maintained in perpetuity by the donor.

10. Net Assets With Donor Restrictions:

Net assets were released from donor restrictions during fiscal years 2023 and 2022 by incurring expenses satisfying the restricted purposes, as follows:

	2023	2022
Special grants	$ 648,024	$ 563,553
Special events	131,699	46,526
Exhibits	27,827	29,820
	$ 807,550	$ 639,899

10. Net Assets With Donor Restrictions, Continued:

At June 30, 2023 and 2022, net assets with donor restrictions are restricted for the following purposes:

	2023	2022
Endowment income	$ 2,230,291	$ 1,351,672
Museum collections	1,222,903	1,144,659
Capital	7,749,074	4,306,864
Special grants	1,555,668	766,418
Intern research	103,114	92,172
Time restricted	541,542	569,107
Special events	-	56,349
Publications	31,290	27,970
Exhibitions	34,275	39,459
Perpetual in nature - endowment	11,158,109	10,930,615
Perpetual in nature - promises to give, net	170,411	347,550
Perpetual in nature - split interest agreements	1,592,297	1,515,993
	$ 26,388,973	$ 21,148,828

Net assets with donor restrictions that are perpetual in nature consist of split-interest agreements and endowment fund investments to be held indefinitely. The income from these assets is used to support The Valentine's activities or as stipulated by the donor.

11. Note Payable:

In October 2022, The Valentine entered into a loan agreement with a commercial bank in support of funding construction of the collections storage and access systems. The loan allows draws up to an aggregate of $5 million. The loan matures in October 2027 and bears interest on the unpaid principal balance at the greater of 5% or Wall Street Journal Prime Rate (8.25% at June 30, 2023). Interest only payments are due monthly, and principal and accrued interest is due in one final payment upon maturity. The loan is secured by pledge proceeds. The outstanding balance was $2,060,000 at June 30, 2023.

Under the provisions of the loan agreement, The Valentine is subject to certain covenants, with which The Valentine was in compliance with or received a waiver of at June 30, 2023.

12. Leases:

The Valentine has various operating lease agreements that expire through February 2027. Operating lease expense was $8,530 and $950 (excluding $73,587 and $30,600 of operating lease costs capitalized in construction in progress) for the years ended June 30, 2023 and 2022, respectively.

12. Leases, Continued:

The weighted average remaining lease terms and discount rates at June 30, 2023 are 3.72 years and 2.88%, respectively.

Future minimum lease payments and reconciliation to the consolidated statement of financial position as of June 30, 2023, are as follows:

Year	Amount
2024	$ 79,794
2025	78,555
2026	77,188
2027	52,224
Undiscounted lease payments	287,761
Less interest	(14,883)
	$ 272,878

13. Commitments:

The Valentine has received various gifts which require annual annuity payments totaling $3,489 to the designated beneficiaries. The present value of the annuity payments of $15,573 and $16,178 is included on the consolidated statements of financial position at June 30, 2023 and 2022, respectively.

During 2022, The Valentine entered into a contract with a vendor to provide architectural and construction services with an anticipated completion date during 2024. The total costs under the contract are projected to be $590,466, of which $515,330 has been incurred as of June 30, 2023, leaving $75,136 of remaining future costs.

During 2022, The Valentine entered into a contract with a vendor to provide packing and transit services with an anticipated completion date during 2023. The total costs under the contract are projected to be $1,050,135, and all costs have been incurred as of June 30, 2023.

During 2023, The Valentine entered into a contract with a vendor to provide construction services with an anticipated completion date during 2024. The total costs under the contract are projected to be $6,206,650, of which $5,263,940 has been incurred as of June 30, 2023, leaving $942,710 of remaining future costs.

14. Retirement Plan:

The Valentine provides for a Simple IRA for all eligible full-time employees. Under the plan, employees contribute certain amounts through salary deferral in an amount not to exceed annual limitations imposed by the Internal Revenue Service. The Valentine matches the employee contributions dollar per dollar, not to exceed 3% of the employee's compensation. The Valentine contributions under plan vest immediately. The Valentine contributed $25,989 for 2023 and $23,955 for 2022 in retirement contributions under this plan.

15. Liquidity and Availability of Financial Assets:

For the purposes of analyzing resources available for general expenditures, The Valentine considers all expenditures related to its ongoing activities, such as collection curation and exhibition creation, and other administrative expenditures to be general expenditures.

Financial assets available for general expenditure, that is, without donor or other restrictions limiting their use, within one year of the statement of financial position date of June 30, comprise the following:

	2023	2022
Financial assets available:		
Cash and cash equivalents	$ 47,900	$ 89,885
Accounts receivable	23,436	20,197
Promises to give, net	2,267,789	2,377,603
Investments	19,914,614	18,437,854
Total	22,253,739	20,925,539
Less net assets with donor restrictions included in financial assets	(18,639,899)	(16,841,964)
Plus current promises to give restricted only with respect to time	358,332	298,061
Plus beneficial interests in perpetual trust and charitable remainder trusts	1,592,297	1,515,993
Total	(16,689,270)	(15,027,910)
Financial assets available in one year for general expenditure	$ 5,564,469	$ 5,897,629

As part of The Valentine's liquidity management, it structures its financial assets to be available as its general expenditures, liabilities, and other obligations come due. In addition, The Valentine invests cash in excess of daily requirements in short-term investments. The Valentine will have available a distribution from the endowment in accordance with the spending policy. Further, The Valentine has limited operating expenses with much of annual spending being variable and discretionary.

16. Fiduciary Liability:

During 2022, The Valentine served as a fiduciary to Reclaiming the Monument to receive a $670,000 grant. The Valentine collaborated with Reclaiming the Monument to support the "Recontextualizing Richmond" public art project. This project focuses on the creation of a series of temporary light-based artworks addressing issues of historical, racial, and social justice in Richmond, Virginia and the surrounding capital region. During 2023 and 2022, The Valentine spent $361,211 and $308,789 towards the project, respectively. There was no remaining balance as of June 30, 2023. The remaining balance was $361,211 as of June 30, 2022.

17. Employee Retention Credits:

The Coronavirus Aid, Relief, and Economic Security Act ("CARES Act") provides for an ERC that was designed to encourage eligible employers to keep employees on their payroll despite experiencing economic hardship related to COVID-19. Employers who had a partial or full suspension of operations related to COVID-19 were eligible for a refundable tax credit against certain employment taxes equal to 50% of each employee's qualified wages (up to $10,000) an employer paid between March 12, 2020 and September 30, 2021. As of June 30, 2023, The Valentine had filed for ERC during 2023 and believes that it had substantially met the conditions required to recognize the ERC; Specifically, The Valentine's operations were affected by COVID-19 governmental orders limiting activity and resulting partial suspension of its operations. The ERC amount is recorded as other gain in the accompanying consolidated statement of activities.

18. New Accounting Pronouncement:

The FASB issued new guidance over credit losses, which replaces the current incurred loss model used to measure impairment losses with an expected loss model for trade and other receivables. The new standard will be effective for periods beginning after December 15, 2022, and will require entities to use a modified retrospective approach to the earliest period presented. The Valentine is currently evaluating implications of this new standard.