

VIRGINIA MUSEUM OF TRANSPORTATION, INC.

Roanoke, Virginia

FINANCIAL STATEMENTS

For the Years Ended
June 30, 2010 and 2009

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ANDERSON & REED, LLP

CERTIFIED PUBLIC ACCOUNTANTS
1515 FRANKLIN ROAD, S.W.
P.O. Box 13885
ROANOKE, VIRGINIA 24038-3885
TELEPHONE (540) 344-4333
FAX (540) 344-3375

JACK F. WRIGHT, JR.
ALEXANDER BOWMAN, JR.
J. DAVID WRIGHT
MICHAEL R. BELL

MEMBERS
AMERICAN INSTITUTE OF
CERTIFIED PUBLIC ACCOUNTANTS
VIRGINIA SOCIETY OF
CERTIFIED PUBLIC ACCOUNTANTS
VIRGINIA GROUP OF CPA FIRMS, INC.

Independent Auditors' Report

Board of Directors
Virginia Museum of Transportation, Inc.
Roanoke, Virginia

We have audited the accompanying statements of financial position of the Virginia Museum of Transportation, Inc. as of June 30, 2010 and 2009, and the related statements of activities and cash flows for the years then ended. These financial statements are the responsibility of the Museum's management. Our responsibility is to express an opinion on these financial statements based on our audits.

We conducted our audits in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of Virginia Museum of Transportation, Inc. as of June 30, 2010 and 2009 and the changes in its net assets and its cash flows for the years then ended in conformity with accounting principles generally accepted in the United States of America.

Anderson & Reed, LLP

Roanoke, Virginia
January 27, 2011

VIRGINIA MUSEUM OF TRANSPORTATION, INC.

Statements of Financial Position

At June 30, 2010 and 2009

<u>ASSETS</u>	<u>2010</u>	<u>2009</u>
Current Assets:		
Cash and cash equivalents	\$ 396,921	\$ 246,048
Pledges receivable	11,450	53,700
Accounts receivable	2,075	-
Inventory	33,868	21,958
Prepaid expenses	<u>782</u>	<u>575</u>
Total current assets	\$ 445,096	\$ 322,281
Property and Equipment - Net	<u>5,630,239</u>	<u>5,570,926</u>
Total assets	<u>\$ 6,075,335</u>	<u>\$ 5,893,207</u>
<u>LIABILITIES and NET ASSETS</u>		
Current Liabilities:		
Current portion of long-term debt	\$ 6,816	\$ 5,163
Accounts payable and accrued expenses	<u>49,974</u>	<u>30,402</u>
Total current liabilities	\$ 56,790	\$ 35,565
Long-Term Debt - Noncurrent portion	<u>147,431</u>	<u>154,099</u>
Total liabilities	<u>\$ 204,221</u>	<u>\$ 189,664</u>
Net Assets:		
Unrestricted	\$ 5,571,855	\$ 5,581,193
Temporarily restricted	<u>299,259</u>	<u>122,350</u>
Total net assets	<u>\$ 5,871,114</u>	<u>\$ 5,703,543</u>
Total liabilities and net assets	<u>\$ 6,075,335</u>	<u>\$ 5,893,207</u>

The accompanying notes are an integral part of these financial statements and should be read in connection therewith.

VIRGINIA MUSEUM OF TRANSPORTATION, INC.

Statements of Activities

For the Years Ended June 30, 2010 and 2009

	<u>2010</u>	<u>2009</u>
Unrestricted Net Assets:		
Support and revenue:		
Contributions	\$ 130,467	\$ 184,983
Gift in kind	141,088	22,614
Roanoke City operating and capital	53,086	30,200
Other municipal governments	11,000	13,123
Admission fees	138,674	127,570
Membership dues	11,070	7,405
Facility rental	16,764	18,642
Shop sales	102,499	84,542
Miscellaneous	8,415	4,903
Investment income	1,512	933
Net gain on sale of fixed assets	-	4,500
	<u>\$ 614,575</u>	<u>\$ 499,415</u>
Net assets released from restrictions	<u>56,541</u>	<u>4,566</u>
	<u>\$ 671,116</u>	<u>\$ 503,981</u>
Total support and revenue		
Expenses:		
Salaries and wages	\$ 208,265	\$ 160,862
Payroll taxes	18,636	13,866
Professional fees	20,164	18,632
Occupancy	24,973	22,957
Utilities	42,769	35,055
Real estate taxes	13,344	13,344
Insurance	23,566	24,096
Gift shop expenses	54,945	49,841
Advertising and marketing	21,937	26,531
Exhibit expense	5,834	2,046
Designated expense	4,106	2,565
Supplies	5,181	9,191
Telephone	8,540	6,661
Postage and shipping	2,627	2,361
Other outside services	1,373	3,268
Equipment rental and maintenance	1,165	1,069

VIRGINIA MUSEUM OF TRANSPORTATION, INC.
Statements of Activities
For the Years Ended June 30, 2010 and 2009

	<u>2010</u>	<u>2009</u>
Expenses: (Continued)		
Printing and publications	\$ 7,524	\$ 1,763
Travel and meetings	3,316	1,117
Membership dues	3,158	-
Staff development	1,767	-
Interest	9,916	10,826
Bank and credit card fees	6,504	6,898
Miscellaneous	9,574	7,885
Depreciation	<u>181,270</u>	<u>168,943</u>
Total expenses	<u>\$ 680,454</u>	<u>\$ 589,777</u>
Change in unrestricted net assets	<u>\$ (9,338)</u>	<u>\$ (85,796)</u>
Temporarily Restricted Net Assets:		
Contributions	\$ 233,450	\$ 11,701
Net assets released from restrictions	<u>(56,541)</u>	<u>(4,566)</u>
Change in temporarily restricted net assets	<u>\$ 176,909</u>	<u>\$ 7,135</u>
Change in Net Assets	\$ 167,571	\$ (78,661)
Net Assets at Beginning of Year	<u>5,703,543</u>	<u>5,782,204</u>
Net Assets at End of Year	<u>\$ 5,871,114</u>	<u>\$ 5,703,543</u>

The accompanying notes are an integral part of these financial statements and should be read in connection therewith.

VIRGINIA MUSEUM OF TRANSPORTATION, INC.

Statements of Cash Flows

For the Years Ended June 30, 2010 and 2009

	<u>2010</u>	<u>2009</u>
Cash Flows from Operating Activities:		
Change in net assets	\$ 167,571	\$ (78,661)
Adjustments to reconcile change in net assets to cash flows provided by operating activities:		
Net gain on sale of fixed assets	-	(4,500)
Depreciation and amortization	181,270	168,943
Noncash contribution	(141,088)	(22,614)
Changes in assets and liabilities:		
(Increase) decrease in receivables	40,175	(28,321)
(Increase) decrease in inventory	(11,910)	7,108
(Increase) decrease in prepaid expenses	(207)	29
Increase in accounts payable and accrued expenses	<u>19,572</u>	<u>7,923</u>
Net cash provided by operating activities	<u>\$ 255,383</u>	<u>\$ 49,907</u>
Cash Flows from Investing Activities:		
Proceeds from sale of fixed assets	\$ -	\$ 8,000
Purchase of property, plant and equipment	<u>(99,495)</u>	<u>(11,720)</u>
Net cash used in investing activities	<u>\$ (99,495)</u>	<u>\$ (3,720)</u>
Cash Flows from Financing Activities:		
Principal payments on notes payable	<u>\$ (5,015)</u>	<u>\$ (5,716)</u>
Net Increase in Cash and Cash Equivalents	\$ 150,873	\$ 40,471
Cash and Cash Equivalents at Beginning of Year	<u>246,048</u>	<u>205,577</u>
Cash and Cash Equivalents at End of Year	<u>\$ 396,921</u>	<u>\$ 246,048</u>
Supplemental Disclosure of Cash Flow Information:		
Cash paid during the year for:		
Interest	<u>\$ 9,916</u>	<u>\$ 10,826</u>

The accompanying notes are an integral part of these financial statements and should be read in connection therewith.

VIRGINIA MUSEUM OF TRANSPORTATION, INC.

Notes to Financial Statements

June 30, 2010 and 2009

1. Nature of Activities:

(a) Organization

The Virginia Museum of Transportation, Inc. is a nonprofit corporation established to operate as an educational institution to collect and preserve exhibits related to the history and technology of all forms of transportation in Virginia. The Museum's major sources of support and revenue are individual and corporate donations, government funding and admission fees.

2. Summary of Significant Accounting Policies:

(a) Financial Statement Presentation

Effective for the year ended June 30, 2009, the financial statements of the Museum have been prepared using generally accepted accounting principles and are presented on the accrual basis of accounting. Prior to July 1, 2008, the Museum used the modified cash basis of accounting. To properly reflect the change to the accrual method of accounting, beginning net assets were decreased by \$13,756. The Museum is required to report information regarding its financial position and activities according to three classes of net assets: unrestricted, temporarily restricted and permanently restricted. Currently the Museum has no assets that are permanently restricted.

(b) Contributions and Pledges Receivable

Contributions are recognized when the donor makes a promise to give to the Museum that is, in substance, unconditional. Contributions received are recorded as unrestricted, temporarily restricted, or permanently restricted support, depending on the existence and/or nature of any donor restrictions. Support that is restricted by the donor is reported as an increase in unrestricted net assets if the restriction expires in the reporting period in which the support is recognized. All other donor-restricted support is reported as an increase in temporarily or permanently restricted net assets, depending on the nature of the restriction. When a restriction expires, that is, when a stipulated time restriction ends or purpose restriction is accomplished, temporarily restricted net assets are reclassified to unrestricted net assets and reported in the statement of activities as net assets released from restrictions.

(c) Cash and Cash Equivalents

The Organization considers all highly liquid debt instruments purchased with a maturity of three months or less to be cash equivalents.

VIRGINIA MUSEUM OF TRANSPORTATION, INC.
Notes to Financial Statements
June 30, 2010 and 2009

Notes: (Continued)

2. Summary of Significant Accounting Policies: (Continued)

(d) Inventories

Inventories are stated at the lower of cost or market using the first-in, first-out (FIFO) method of valuation.

(e) Property and Equipment

Property and equipment are stated at cost or, if donated, at the estimated fair market value at the date of donation. The Museum's policy is to capitalize property and equipment purchases over \$1,000. The Museum uses the straight-line method of depreciation over the estimated useful lives of the related assets including exhibits, ranging from five to thirty years. The 611 and 1218 steam locomotives housed at the Museum are not included in fixed assets because they are the property of the City of Roanoke. The City has granted the Museum the use of the locomotives under a lease agreement with a term of forty years for the nominal amount of one dollar per year.

(f) Collections

Collection items (as strictly defined by the Financial Accounting Standards Board) acquired either through purchase or donation are not capitalized. Purchases of collection items are recorded as decreases in unrestricted net assets if purchased with unrestricted assets and as decreases in temporarily restricted or permanently restricted net assets if purchased with donor-restricted assets. Contributed collection items are not reflected on the financial statements. Proceeds from deaccessions or insurance recoveries are reflected as increases in the appropriate asset classes. Items not meeting the strict accounting definition of collections are recorded as property and equipment.

(g) Income Taxes

The Museum is exempt from Federal income tax under the provisions of Section 501(c)(3) of the Internal Revenue Code and has no unrelated business income for the years ended June 30, 2010 and 2009.

(h) Advertising

The Museum expenses advertising costs as incurred.

VIRGINIA MUSEUM OF TRANSPORTATION, INC.
Notes to Financial Statements
June 30, 2010 and 2009

Notes: (Continued)

(i) Contributed Services

A substantial number of unpaid volunteers have made significant contributions of their time to develop the Museum's programs. The value of this contributed time is not reflected in the accompanying financial statements since it does not meet specific criteria for recognition. Contributed goods and services that do qualify for recognition have been included as revenue and capitalized in the accompanying financial statements.

(j) Use of Estimates

The preparation of financial statements requires management to make estimates and assumptions that may affect the reported amounts and disclosures. Actual results could differ from those estimates.

3. Line of Credit and Term Note Payable:

The Museum has a term note payable to a commercial bank with a balance of \$154,247 and \$159,262 for the years ended June 30, 2010 and 2009, respectively. The note was scheduled to balloon in January, 2010, but was refinanced in February, 2010. The refinanced note bears interest at 6.125% and is amortized over fifteen years. Principal and interest payments of \$1,339 are made monthly, with a balloon payment due in February, 2015.

The future maturities of long-term debt are as follows:

<u>Year Ended June 30,</u>	
2011	\$ 6,816
2012	7,245
2013	7,702
2014	8,187
2015	<u>124,297</u>
Total	<u>\$ 154,247</u>

The Museum also has an operating line of credit with the same bank. The line bears interest at the bank's floating prime rate and has no outstanding balance at June 30, 2010 or June 20, 2009.

Both the term note payable and the line of credit are secured by substantially all of the business assets of the Museum.

VIRGINIA MUSEUM OF TRANSPORTATION, INC.
Notes to Financial Statements
June 30, 2010 and 2009

Notes: (Continued)

4. Collections:

The Museum's collections include items of historical significance in the area of rail, road and aviation transportation, which are held for public exhibition and education. Collections are required to be protected, kept unencumbered, cared for and preserved. They are subject to a board policy whereby proceeds from collections items sold are used only to acquire new collections or directly care for existing collections.

5. Property and Equipment:

	<u>June 30,</u>	
	<u>2010</u>	<u>2009</u>
Land	\$ 3,103,400	\$ 3,103,400
Buildings and improvements	4,187,424	4,129,014
Exhibits and improvements	683,472	506,375
Office and other	<u>94,464</u>	<u>89,388</u>
Total property and equipment	\$ 8,068,760	\$ 7,828,177
Less accumulated depreciation	<u>2,438,521</u>	<u>2,257,251</u>
Net property and equipment	<u>\$ 5,630,239</u>	<u>\$ 5,570,926</u>

During the year ended June 30, 2010, the Museum capitalized \$141,088 related to the rescue of the "Lost Engines of Roanoke".

6. Leases:

The Museum has certain equipment under month-to-month operating leases. As previously discussed in Note 2 above, the Museum also has a lease agreement with the City of Roanoke for two steam locomotives which has a forty-year term.

7. Temporarily Restricted Net Assets and Restricted Cash:

Contributions included in temporarily restricted net assets are primarily for capital expenditures and relate to the Auto Gallery, the Norfolk Southern Challenge Grant and other exhibits and restoration projects. Unexpended amounts relating to these contributions are presented as temporarily restricted net assets in the Statement of Activities and are released from restrictions as donors' terms are satisfied. As of June 30, 2010 and 2009, cash restricted by donors was \$287,809 and \$118,650, respectively. Restricted cash for Auto Gallery use is held in separate bank accounts.

VIRGINIA MUSEUM OF TRANSPORTATION, INC.
Notes to Financial Statements
June 30, 2010 and 2009

Notes: (Continued)

8. Concentrations:

The Museum maintains cash balances with two different banks. The cash balances are insured under the Federal Deposit Insurance Corporation for amounts up to \$250,000 for the years ended June 30, 2010 and 2009.

The Museum receives a substantial amount of support from local individuals and corporations and local governments. The current level of the Museum's operations and program services would be significantly impacted if funding is discontinued and alternative revenue sources could not be secured to replace the lost funding.

9. Commitments and Contingencies:

The Museum enters into various contracts and agreements from time to time during the normal course of operations. However, none of these contracts are deemed to be significant or unusual in nature or pose more than normal business risks.

10. Functional Expenses:

The Museum's total expenses for the year ended June 30, 2010 were \$680,454. The amounts allocated to program services, management and general, and fundraising were \$483,654, \$123,839 and \$72,961, respectively.

The Museum's total expenses for the year ended June 30, 2009 were \$589,777. The amounts allocated to program services, management and general, and fundraising were \$420,288, \$109,139 and \$60,350, respectively.

11. Challenge Grant:

During December, 2008, Norfolk Southern Corporation offered the Museum a challenge grant of \$1 million for planning, capital and operating expenses. The grant is contingent on equal commitments of support by both the governments of the Roanoke Region and by other private donors. \$50,000 from Norfolk Southern Corporation, related to the planning phase of the challenge grant, was recognized as a contribution during the year ended June 30, 2009. Management anticipates that an additional \$50,000 from Norfolk Southern Corporation related to the planning phase will be recognized in 2011.

12. Subsequent Events:

Management has evaluated subsequent events through January 27, 2011, the date which the financial statements were available for issue.