

VIRGINIA MUSEUM OF TRANSPORTATION, INC.

Roanoke, Virginia

FINANCIAL STATEMENTS

**For the Years Ended
June 30, 2013 and 2012**

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INDEPENDENT AUDITOR'S REPORT

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

We have audited the accompanying statements of Virginia Museum of Transportation, Inc. (a nonprofit organization), which comprise the statements of financial position as of June 30, 2013 and 2012, and the related statements of activities and cash flows for the years 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.

Auditor's Responsibility

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

An audit involves performing procedures to obtain 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 Virginia Museum of Transportation, Inc. as of June 30, 2013 and 2012, and the changes in its net assets and its cash flows for the years then ended in accordance with accounting principles generally accepted in the United States of America.

A. J. + Reed, LLP

Roanoke, Virginia
January 17, 2014

VIRGINIA MUSEUM OF TRANSPORTATION, INC.

**Statements of Financial Position
June 30, 2013 and 2012**

ASSETS	<u>2013</u>	<u>2012</u>
Current Assets		
Cash and cash equivalents	\$ 303,346	\$ 197,570
Pledges and grants receivable	-	150,000
Accounts receivable	1,699	3,238
Inventory	35,230	33,505
Other assets	<u>10,000</u>	<u>10,250</u>
Total current assets	350,275	394,563
 Collections (See Note 4)	 -	 -
 Property and Equipment - Net	 <u>5,722,048</u>	 <u>5,619,597</u>
Total assets	<u>\$ 6,072,323</u>	<u>\$ 6,014,160</u>
 LIABILITIES and NET ASSETS		
Current Liabilities		
Current portion of long-term debt	\$ 10,156	\$ 7,702
Accounts payable and accrued expenses	<u>86,632</u>	<u>33,896</u>
Total current liabilities	96,788	41,598
 Long-Term Debt - Noncurrent Portion	 <u>123,635</u>	 <u>132,968</u>
Total liabilities	<u>220,423</u>	<u>174,566</u>
 Net Assets		
Unrestricted	5,739,678	5,574,984
Temporarily restricted	<u>112,222</u>	<u>264,610</u>
Total net assets	<u>5,851,900</u>	<u>5,839,594</u>
Total liabilities and net assets	<u>\$ 6,072,323</u>	<u>\$ 6,014,160</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, 2013 and 2012**

	2013	2012
UNRESTRICTED NET ASSETS		
Support and revenue:		
Contributions - monetary	\$ 212,654	\$ 124,053
Contributions - in-kind	133,707	90,250
Roanoke City funding	22,000	20,000
Other municipal governments	8,300	9,161
Admission fees	205,735	163,784
Membership dues	28,720	24,384
Facility rental	19,991	15,410
Shop sales	157,919	129,499
Miscellaneous	26,599	17,922
	815,625	594,463
Net assets released from restrictions	517,969	305,982
Total support and revenue	1,333,594	900,445
Expenses:		
Salaries and wages	331,869	301,726
Payroll taxes	28,505	26,942
Professional fees	54,451	23,262
Occupancy	42,851	28,114
Utilities	57,725	47,880
Real estate taxes (payment in lieu)	12,310	12,283
Insurance	29,072	19,944
Gift shop expenses	93,147	80,738
Advertising and marketing	118,390	33,280
Exhibit expense	17,563	12,151
Designated expense	2,235	13,519
Supplies	17,050	10,604
Telephone	11,732	11,674
Postage and shipping	7,555	5,336
Other outside services	57,412	6,698
Equipment rental and maintenance	4,253	4,825

VIRGINIA MUSEUM OF TRANSPORTATION, INC.

**Statements of Activities (Continued)
For the Years Ended June 30, 2013 and 2012**

	<u>2013</u>	<u>2012</u>
Expenses: (Continued)		
Printing and publications	\$ 18,639	\$ 11,491
Travel and meetings	2,241	5,272
Membership dues	2,558	2,911
Staff development	4,535	3,927
Interest	7,469	9,340
Bank and credit card fees	10,533	9,619
Miscellaneous	9,472	2,715
Depreciation	<u>227,333</u>	<u>197,384</u>
Total expenses	<u>1,168,900</u>	<u>881,635</u>
Change in unrestricted net assets	<u>164,694</u>	<u>18,810</u>
TEMPORARILY RESTRICTED NET ASSETS		
Contributions	365,581	268,549
Net assets released from restrictions	<u>(517,969)</u>	<u>(305,982)</u>
Change in temporarily restricted net assets	<u>(152,388)</u>	<u>(37,433)</u>
Change in Net Assets	12,306	(18,623)
NET ASSETS		
Beginning	<u>5,839,594</u>	<u>5,858,217</u>
Ending	<u>\$ 5,851,900</u>	<u>\$ 5,839,594</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, 2013 and 2012**

	2013	2012
OPERATING ACTIVITIES		
Change in net assets	\$ 12,306	\$ (18,623)
Adjustments to reconcile change in net assets to net cash provided by (used in) operating activities:		
Depreciation and amortization	227,333	197,384
In-kind contributions of property and equipment	(48,540)	(90,250)
Changes in current assets and liabilities:		
Decrease (increase):		
Receivables	151,539	(152,494)
Inventory	(1,725)	4,081
Other assets	250	327
Increase (decrease)		
Accounts payable and accrued expenses	52,736	465
Net cash provided by (used in) operating activities	393,899	(59,110)
INVESTING ACTIVITIES		
Purchase of property, plant and equipment	(281,244)	(144,220)
FINANCING ACTIVITIES		
Principal payments on notes payable	(6,879)	(6,943)
Net Increase (Decrease) in Cash and Cash Equivalents	105,776	(210,273)
CASH AND CASH EQUIVALENTS		
Beginning	197,570	407,843
Ending	\$ 303,346	\$ 197,570
SUPPLEMENTAL DISCLOSURE OF CASH FLOW INFORMATION		
Cash paid during the year for:		
Interest	\$ 7,469	\$ 9,340

SUPPLEMENTAL NONCASH INVESTING AND FINANCING ACTIVITIES

The Museum received non-cash contributions of property and equipment of \$48,540 and \$90,250 for the years ended June 30, 2013 and 2012, respectively.

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, 2013 and 2012

Note 1. Nature of Activities

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.

Note 2. Summary of Significant Accounting Policies

Financial Statement Presentation:

The financial statements of the Museum have been prepared using generally accepted accounting principles and are presented on the accrual basis of accounting. 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.

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. 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.

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, 2013 and 2012**

Note 2. Summary of Significant Accounting Policies (Continued)

Inventories:

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

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.

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.

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, 2013 and 2012.

The Federal Form 990 information returns of the Museum are subject to examination by the IRS, generally for three years after they are filed.

Advertising:

The Museum expenses advertising costs as incurred.

VIRGINIA MUSEUM OF TRANSPORTATION, INC.

**Notes to Financial Statements
June 30, 2013 and 2012**

Note 2. Summary of Significant Accounting Policies (Continued)

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 or expensed in the accompanying financial statements as appropriate.

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.

Reclassifications:

Certain items in the prior year financial statements have been reclassified to conform with the current year presentation.

Note 3. Note Payable and Line of Credit

The Museum has a note payable to a commercial bank with a balance of \$133,791 and \$140,670 for the years ended June 30, 2013 and 2012, respectively. The note was refinanced in March 2013, bears interest at 4.53% (previously 6.125%) and is amortized over ten years and nine months. Principal and interest payments of \$1,341 are made monthly. The note payable is secured by the capitalized equipment of the Museum.

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

Year Ended June 30,

2014	\$ 10,156
2015	10,632
2016	11,118
2017	11,653
2018	12,199
2019 and thereafter	<u>78,033</u>
Total	<u>\$ 133,791</u>

VIRGINIA MUSEUM OF TRANSPORTATION, INC.

Notes to Financial Statements June 30, 2013 and 2012

Note 3. Note Payable and Line of Credit (Continued)

The Museum also has a \$50,000 operating line of credit with no outstanding balance at June 30, 2013 and 2012 and bearing interest at the bank's floating prime rate minus .5% for the year ended June 30, 2013 and at prime rate for the year ended June 30, 2012. The line of credit is secured by the capitalized equipment of the Museum.

Note 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, cared for and preserved. They are subject to a board policy whereby proceeds from collection items sold are used only to acquire new collections or directly care for existing collections.

On April 2, 2012, the City of Roanoke donated the Norfolk and Western Class J 611 and Class A 1218 steam locomotives to the Museum as part of their Collections. Under the accounting policy for Collections (as strictly defined by the Financial Accounting Standards Board) followed by the Museum, the contribution is not reflected on the financial statements and the value of the locomotives is not capitalized or included in the Property and Equipment totals indicated in Note 5 below.

Note 5. Property and Equipment

Property and equipment consist of the following:

	<u>June 30,</u>	
	<u>2013</u>	<u>2012</u>
Land	\$ 3,103,400	\$ 3,103,400
Buildings and improvements	4,369,177	4,207,983
Exhibits and improvements	1,087,668	912,630
Office and other	131,147	128,491
Construction in progress	-	91,305
Total property and equipment	<u>8,691,392</u>	<u>8,443,809</u>
Less accumulated depreciation	<u>2,969,344</u>	<u>2,824,212</u>
Net property and equipment	<u>\$ 5,722,048</u>	<u>\$ 5,619,597</u>

VIRGINIA MUSEUM OF TRANSPORTATION, INC.

Notes to Financial Statements June 30, 2013 and 2012

Note 6. Leases

The Museum has certain equipment under month-to-month operating leases. Prior to April 2, 2012, the Museum also had a lease agreement with the City of Roanoke for two steam locomotives which was cancelled in April of 2012 when the City of Roanoke donated the Norfolk and Western Class J 611 and Class A 1218 steam locomotives to the Museum to be included in its Collections.

Note 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, Aviation Gallery, Fire Up 611, 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, 2013 and 2012, cash restricted by donors was \$112,222 and \$164,610, respectively. Restricted cash for Auto Gallery use, Fire Up 611 and other restricted funds are held in separate bank accounts.

Note 8. Concentrations

The Museum maintains cash balances with four 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, 2013 and 2012.

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.

Note 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.

VIRGINIA MUSEUM OF TRANSPORTATION, INC.

**Notes to Financial Statements
June 30, 2013 and 2012**

Note 10. Functional Expenses

The Museum's total expenses for the year ended June 30, 2013 were \$1,168,900. The amounts allocated to program services, management and general, and fundraising were \$882,196, \$170,939 and \$115,765, respectively.

The Museum's total expenses for the year ended June 30, 2012 were \$881,635. The amounts allocated to program services, management and general, and fundraising were \$665,231, \$132,128 and \$84,276, respectively.

Note 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. \$100,000 of the grant was released to match the Taubman Foundation Sustainability grant in the fiscal year ending June 30, 2012, and an additional \$100,000 was released in the fiscal year ending June 30, 2013.

Note 12. Subsequent Events

Management has evaluated subsequent events through January 17, 2014, the date which the financial statements were available for issue.