

VIRGINIA MUSEUM OF TRANSPORTATION, INC.

Roanoke, Virginia

FINANCIAL STATEMENTS

**For the Years Ended
June 30, 2015 and 2014**

CONTENTS

Independent Auditor's Report	2
Statements of Financial Position.....	4
Statements of Activities	5
Statements of Cash Flows.....	7
Notes to Financial Statements.....	8

INDEPENDENT AUDITOR'S REPORT

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

We have audited the accompanying financial statements of Virginia Museum of Transportation, Inc. (a nonprofit organization), which comprise the statements of financial position as of June 30, 2015 and 2014, 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, 2015 and 2014, 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.

And + Rev, LLC

Roanoke, Virginia
May 24, 2016

VIRGINIA MUSEUM OF TRANSPORTATION, INC.

**Statements of Financial Position
June 30, 2015 and 2014**

<u>ASSETS</u>	<u>2015</u>	<u>2014</u>
Current Assets		
Cash	\$ 1,691,586	\$ 1,179,747
Certificates of deposit	1,004,063	1,501,525
Total cash and cash equivalents	<u>2,695,649</u>	<u>2,681,272</u>
Contributions receivable	1,099	61,665
Accounts receivable	2,000	1,800
Inventory	95,876	61,348
Prepaid expenses	<u>131,740</u>	<u>10,000</u>
Total current assets	2,926,364	2,816,085
Collections (See Note 4)	-	-
Property and Equipment - Net	<u>6,461,363</u>	<u>5,655,693</u>
Total assets	\$ 9,387,727	\$ 8,471,778
<u>LIABILITIES and NET ASSETS</u>		
Current Liabilities		
Current portion of long-term debt	\$ 11,118	\$ 10,632
Accounts payable and accrued expenses	20,177	67,510
Deferred revenue	<u>623,456</u>	<u>-</u>
Total current liabilities	654,751	78,142
Long-Term Debt - Noncurrent Portion	<u>101,886</u>	<u>113,003</u>
Total liabilities	756,637	191,145
Net Assets		
Unrestricted	6,842,286	5,734,105
Temporarily restricted	<u>1,788,804</u>	<u>2,546,528</u>
Total net assets	8,631,090	8,280,633
Total liabilities and net assets	\$ 9,387,727	\$ 8,471,778

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, 2015 and 2014**

	2015	2014
UNRESTRICTED NET ASSETS		
Support and revenue:		
Contributions - monetary	\$ 321,878	\$ 170,301
Contributions - in-kind	31,471	48,057
Roanoke City funding	25,000	24,000
Other municipal governments	7,700	8,600
Excursion revenue	566,208	-
Admission fees	202,359	181,588
Membership dues	58,937	36,951
Facility rental	19,951	16,400
Shop sales	266,879	174,038
Miscellaneous	<u>26,804</u>	<u>38,686</u>
	1,527,187	698,621
Net Assets Released from Restrictions	<u>1,374,327</u>	<u>600,132</u>
Total support and revenue	<u>2,901,514</u>	<u>1,298,753</u>
Expenses:		
Salaries and wages	372,546	367,990
Payroll taxes	32,812	31,594
Professional fees	43,437	34,230
Occupancy	35,666	30,224
Utilities	64,085	64,738
Real estate taxes (payment in lieu)	13,324	12,310
Insurance	158,442	30,661
Gift shop expenses	154,086	96,512
Advertising and marketing	147,701	167,050
Exhibit expense	46,135	24,869
Designated expense	1,778	4,158
Supplies	48,863	22,065
Telephone	13,266	10,548
Postage and shipping	11,671	40,948
Other outside services	41,287	42,764
Equipment rental and maintenance	14,121	15,001
Excursion car rental and service expense	187,038	-

VIRGINIA MUSEUM OF TRANSPORTATION, INC.

**Statements of Activities
For the Years Ended June 30, 2015 and 2014**

	<u>2015</u>	<u>2014</u>
Expenses: (Continued)		
Printing and publications	\$ 26,595	\$ 31,251
Travel and meetings	33,058	9,510
Membership dues	2,970	3,221
Staff development	445	1,904
Interest	5,526	6,019
Bank and credit card fees	30,403	13,941
Miscellaneous	3,827	2,277
Depreciation	<u>304,251</u>	<u>240,541</u>
Total expenses	<u>1,793,333</u>	<u>1,304,326</u>
Change in unrestricted net assets	<u>1,108,181</u>	<u>(5,573)</u>
TEMPORARILY RESTRICTED NET ASSETS		
Contributions	616,603	3,034,438
Net assets released from restrictions	<u>(1,374,327)</u>	<u>(600,132)</u>
Change in temporarily restricted net assets	<u>(757,724)</u>	<u>2,434,306</u>
Change in Net Assets	350,457	2,428,733
NET ASSETS		
Beginning	<u>8,280,633</u>	<u>5,851,900</u>
Ending	<u>\$ 8,631,090</u>	<u>\$ 8,280,633</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, 2015 and 2014**

	<u>2015</u>	<u>2014</u>
OPERATING ACTIVITIES		
Change in net assets	\$ 350,457	\$ 2,428,733
Adjustments to reconcile change in net assets to net cash provided by operating activities:		
Depreciation and amortization	304,251	240,541
In-kind contributions of property and equipment	-	(36,190)
Changes in current assets and liabilities:		
Decrease (increase):		
Receivables	60,366	(61,766)
Inventory	(34,528)	(26,118)
Prepaid expenses	(121,740)	-
Increase (decrease):		
Accounts payable and accrued expenses	(47,333)	(19,122)
Deferred revenue	<u>623,456</u>	<u>-</u>
Net cash provided by operating activities	<u>1,134,929</u>	<u>2,526,078</u>
INVESTING ACTIVITIES		
Purchase of property, plant and equipment	<u>(1,109,921)</u>	<u>(137,996)</u>
FINANCING ACTIVITIES		
Principal payments on notes payable	<u>(10,631)</u>	<u>(10,156)</u>
Net Increase in Cash and Cash Equivalents	14,377	2,377,926
CASH AND CASH EQUIVALENTS		
Beginning	<u>2,681,272</u>	<u>303,346</u>
Ending	<u>\$ 2,695,649</u>	<u>\$ 2,681,272</u>
SUPPLEMENTAL DISCLOSURE OF CASH FLOW INFORMATION		
Cash paid during the year for:		
Interest	<u>\$ 5,526</u>	<u>\$ 6,019</u>

SUPPLEMENTAL NONCASH INVESTING AND FINANCING ACTIVITIES

The Museum received non-cash contributions of property and equipment of \$-0- and \$36,190 for the years ended June 30, 2015 and 2014, 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, 2015 and 2014

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, admission fees and excursion revenue.

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.

Cash and Cash Equivalents:

The Organization considers all certificates of deposit with a maturity of twelve months or less to be cash equivalents. The Museum's certificates of deposit mature in three to twelve months, with minimal early withdrawal penalties.

Contributions 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. All contributions receivable at June 30, 2015 are fully collectible in less than one year.

Inventories:

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

VIRGINIA MUSEUM OF TRANSPORTATION, INC.

Notes to Financial Statements

June 30, 2015 and 2014

Note 2. Summary of Significant Accounting Policies (Continued)

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.

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 \$5,000. 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.

Deferred Revenue:

Deferred revenue of \$623,456 as of June 30, 2015, relates to excursion ticket sales revenue for excursions occurring in July of 2015 (subsequent fiscal year) that was collected and included in cash as of June 30, 2015.

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, 2015 and 2014.

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, 2015 and 2014**

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.

Note 3. Note Payable and Line of Credit

The Museum has a note payable to a commercial bank with a balance of \$113,004 and \$123,635 for the years ended June 30, 2015 and 2014, 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:

<u>Year Ended June 30,</u>	
2016	\$ 11,118
2017	11,653
2018	12,199
2019	12,771
2020	13,363
2021 and thereafter	<u>51,900</u>
Total	<u>\$ 113,004</u>

The Museum also has a \$50,000 operating line of credit with no outstanding balance at June 30, 2015 and 2014 and bearing interest at the bank's floating prime rate minus .5% for the years ended June 30, 2015 and 2014. The line of credit is secured by the capitalized equipment of the Museum.

VIRGINIA MUSEUM OF TRANSPORTATION, INC.

Notes to Financial Statements June 30, 2015 and 2014

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, unencumbered, 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 was not reflected on the financial statements and the value of the locomotives was not capitalized or included in the property and equipment totals indicated in Note 5 below. Major restorations and renovations of collection items are capitalized as costs are incurred. As of June 30, 2015, \$1,205,463 in costs to restore the Norfolk and Western Class J 611 (including \$110,847 in construction in progress at June 30, 2014) were capitalized and are classified as part of Exhibits and improvements in Note 5 below.

Note 5. Property and Equipment

Property and equipment consist of the following:

	<u>June 30,</u>	
	<u>2015</u>	<u>2014</u>
Land	\$ 3,103,400	\$ 3,103,400
Buildings and improvements	4,382,473	4,382,473
Exhibits and improvements	2,323,429	1,112,216
Office and other	166,197	156,642
Construction in progress	<u>-</u>	<u>110,847</u>
Total property and equipment	9,975,499	8,865,578
Less accumulated depreciation	<u>3,514,136</u>	<u>3,209,885</u>
Net property and equipment	<u>\$ 6,461,363</u>	<u>\$ 5,655,693</u>

Note 6. Leases

The Museum has certain equipment under month-to-month operating leases.

VIRGINIA MUSEUM OF TRANSPORTATION, INC.

Notes to Financial Statements June 30, 2015 and 2014

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, 2015 and 2014, cash restricted by donors was \$1,794,866 and \$2,538,969, respectively. The amount specifically restricted for the restoration and preservation of the Norfolk and Western Class J 611 as of June 30, 2015 was \$1,114,743.

Note 8. Excursions

As discussed in Note 4, during 2014 and 2015, the Museum restored the Norfolk and Western Class J 611. The restored locomotive was placed in service in May 2015 with the sole purpose of providing excursion trips throughout Virginia and North Carolina when not on exhibit at the Museum. These excursions began in June 2015 and continued through July 2015. As such, excursion revenue and the related expenses have been recognized based on the timing of trips before and after year end resulting in both significant deferred revenues and prepaid expenses. The Board of the Museum has designated \$16.11 of each excursion ticket sale for future repairs and restoration of the locomotive.

Note 9. Related Party Transactions

Many current and former members of the Museum's Board of Directors routinely contribute to the Museum, as do certain business enterprises with which Board Members are affiliated. The Museum also conducts business with certain Board Members and business enterprises, with which Board Members are affiliated. Such business transactions are properly approved in advance by the Board of Directors, and are arms-length transactions reported at fair market value.

Note 10. Concentrations

The Museum maintains cash balances with five 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, 2015 and 2014.

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.

VIRGINIA MUSEUM OF TRANSPORTATION, INC.

Notes to Financial Statements

June 30, 2015 and 2014

Note 11. 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.

Note 12. Functional Expenses

The Museum's total expenses for the year ended June 30, 2015 were \$1,793,333. The amounts allocated to program services, management and general, and fundraising were \$1,607,987, \$136,969 and \$48,377, respectively.

The Museum's total expenses for the year ended June 30, 2014 were \$1,304,326. The amounts allocated to program services, management and general, and fundraising were \$1,138,984, \$109,384 and \$55,958, respectively.

Note 13. 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 in each of the fiscal years ending June 30, 2015 and 2014.

Note 14. Subsequent Events

Management has evaluated subsequent events through May 24, 2016, the date which the financial statements were available for issue.

During 2014, the Norfolk and Western Class J 611 was moved to the North Carolina Transportation Museum for restoration. The N&W Class J 611 returned home to Roanoke in May of 2015, with public excursions beginning shortly thereafter. The Museum anticipates breaking ground on a preservation and education facility at the Museum that will be home to the N&W Class J 611, the N&W Class A 1218 and the N&W Class Y6a 2156 (when at the Museum on loan from the Museum of Transportation in St. Louis).