

VIRGINIA MUSEUM OF TRANSPORTATION, INC.

Roanoke, Virginia

FINANCIAL STATEMENTS

For the Years Ended  
June 30, 2011 and 2010

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VIRGINIA GROUP OF CPA FIRMS, INC.

## Independent Auditor's 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, 2011 and 2010, 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, 2011 and 2010 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  
February 14, 2012

## VIRGINIA MUSEUM OF TRANSPORTATION, INC.

## Statements of Financial Position

At June 30, 2011 and 2010

<u>ASSETS</u>	<u>2011</u>	<u>2010</u>
Current Assets:		
Cash and cash equivalents	\$ 407,843	\$ 396,921
Pledges receivable	-	11,450
Accounts receivable	744	2,075
Inventory	37,586	33,868
Other assets	<u>10,577</u>	<u>782</u>
Total current assets	\$ 456,750	\$ 445,096
Property and Equipment - Net	<u>5,582,511</u>	<u>5,630,239</u>
Total assets	<u>\$ 6,039,261</u>	<u>\$ 6,075,335</u>
<u>LIABILITIES and NET ASSETS</u>		
Current Liabilities:		
Current portion of long-term debt	\$ 7,245	\$ 6,816
Accounts payable and accrued expenses	<u>33,431</u>	<u>49,974</u>
Total current liabilities	\$ 40,676	\$ 56,790
Long-Term Debt - Noncurrent portion	<u>140,368</u>	<u>147,431</u>
Total liabilities	<u>\$ 181,044</u>	<u>\$ 204,221</u>
Net Assets:		
Unrestricted	\$ 5,556,174	\$ 5,571,855
Temporarily restricted	<u>302,043</u>	<u>299,259</u>
Total net assets	<u>\$ 5,858,217</u>	<u>\$ 5,871,114</u>
Total liabilities and net assets	<u>\$ 6,039,261</u>	<u>\$ 6,075,335</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, 2011 and 2010

	<u>2011</u>	<u>2010</u>
Unrestricted Net Assets:		
Support and revenue:		
Contributions	\$ 103,749	\$ 130,467
Gift in kind	43,700	141,088
Roanoke City operating and capital	23,100	53,086
Other municipal governments	9,384	11,000
Admission fees	163,576	138,674
Membership dues	16,295	11,070
Facility rental	16,469	16,764
Shop sales	119,180	102,499
Miscellaneous	14,036	8,415
Investment income	2,007	1,512
Net gain on sale of fixed assets	25,000	-
	<u>\$ 536,496</u>	<u>\$ 614,575</u>
Net assets released from restrictions	<u>180,133</u>	<u>56,541</u>
	<u>\$ 716,629</u>	<u>\$ 671,116</u>
Total support and revenue		
Expenses:		
Salaries and wages	\$ 222,576	\$ 208,265
Payroll taxes	20,455	18,636
Professional fees	24,160	20,164
Occupancy	24,729	24,973
Utilities	48,149	42,769
Real estate taxes (payment in lieu)	12,337	13,344
Insurance	25,899	23,566
Gift shop expenses	63,098	54,945
Advertising and marketing	22,264	21,937
Exhibit expense	3,743	5,834
Designated expense	6,630	4,106
Supplies	9,167	5,181
Telephone	11,116	8,540
Postage and shipping	3,543	2,627
Other outside services	7,011	1,373
Equipment rental and maintenance	3,578	1,165

VIRGINIA MUSEUM OF TRANSPORTATION, INC.  
Statements of Activities  
For the Years Ended June 30, 2011 and 2010

	<u>2011</u>	<u>2010</u>
Expenses: (Continued)		
Printing and publications	\$ 5,982	\$ 7,524
Travel and meetings	1,854	3,316
Membership dues	1,949	3,158
Staff development	1,830	1,767
Interest	9,431	9,916
Bank and credit card fees	7,192	6,504
Miscellaneous	7,310	9,574
Depreciation	<u>188,307</u>	<u>181,270</u>
Total expenses	<u>\$ 732,310</u>	<u>\$ 680,454</u>
Change in unrestricted net assets	<u>\$ (15,681)</u>	<u>\$ (9,338)</u>
Temporarily Restricted Net Assets:		
Contributions	\$ 182,917	\$ 233,450
Net assets released from restrictions	<u>(180,133)</u>	<u>(56,541)</u>
Change in temporarily restricted net assets	<u>\$ 2,784</u>	<u>\$ 176,909</u>
Change in Net Assets	\$ (12,897)	\$ 167,571
Net Assets at Beginning of Year	<u>5,871,114</u>	<u>5,703,543</u>
Net Assets at End of Year	<u>\$ 5,858,217</u>	<u>\$ 5,871,114</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, 2011 and 2010

	<u>2011</u>	<u>2010</u>
Cash Flows from Operating Activities:		
Change in net assets	\$ (12,897)	\$ 167,571
Adjustments to reconcile change in net assets to cash flows provided by operating activities:		
Net gain on sale of fixed assets	(25,000)	-
Depreciation and amortization	188,307	181,270
Noncash contribution	(43,700)	(141,088)
Changes in assets and liabilities:		
(Increase) decrease in receivables	12,781	40,175
(Increase) decrease in inventory	(3,718)	(11,910)
(Increase) decrease in prepaid expenses and other	(9,795)	(207)
Increase (decrease) in accounts payable and accrued expenses	<u>(16,543)</u>	<u>19,572</u>
Net cash provided by operating activities	<u>\$ 89,435</u>	<u>\$ 255,383</u>
Cash Flows from Investing Activities:		
Proceeds from sale of fixed assets	\$ 25,000	\$ -
Purchase of property, plant and equipment	<u>(96,879)</u>	<u>(99,495)</u>
Net cash used in investing activities	<u>\$ (71,879)</u>	<u>\$ (99,495)</u>
Cash Flows from Financing Activities:		
Principal payments on notes payable	<u>\$ (6,634)</u>	<u>\$ (5,015)</u>
Net Increase in Cash and Cash Equivalents	\$ 10,922	\$ 150,873
Cash and Cash Equivalents at Beginning of Year	<u>396,921</u>	<u>246,048</u>
Cash and Cash Equivalents at End of Year	<u>\$ 407,843</u>	<u>\$ 396,921</u>
Supplemental Disclosure of Cash Flow Information:		
Cash paid during the year for:		
Interest	<u>\$ 9,431</u>	<u>\$ 9,916</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, 2011 and 2010

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

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.

(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, 2011 and 2010

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, 2011 and 2010.

(h) Advertising

The Museum expenses advertising costs as incurred.

VIRGINIA MUSEUM OF TRANSPORTATION, INC.  
Notes to Financial Statements  
June 30, 2011 and 2010

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 \$147,613 and \$154,247 for the years ended June 30, 2011 and 2010, 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>	
2012	\$ 7,245
2013	7,702
2014	8,187
2015	<u>124,479</u>
Total	<u>\$ 147,613</u>

The Museum also has a \$50,000 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, 2011 or June 20, 2010.

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, 2011 and 2010

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>2011</u>	<u>2010</u>
Land	\$ 3,103,400	\$ 3,103,400
Buildings and improvements	4,187,424	4,187,424
Exhibits and improvements	782,809	683,472
Office and other	105,620	94,464
Construction in progress	<u>30,086</u>	<u>-</u>
Total property and equipment	\$ 8,209,339	\$ 8,068,760
Less accumulated depreciation	<u>2,626,828</u>	<u>2,438,521</u>
Net property and equipment	<u>\$ 5,582,511</u>	<u>\$ 5,630,239</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, the Aviation Gallery and other exhibits and restoration projects. \$100,000 related to a Taubman Foundation Sustainability grant is time restricted. 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, 2011 and 2010, cash restricted by donors was \$302,043 and \$287,809, respectively. Restricted cash for Auto Gallery use is held in separate bank accounts.

VIRGINIA MUSEUM OF TRANSPORTATION, INC.  
Notes to Financial Statements  
June 30, 2011 and 2010

Notes: (Continued)

8. Concentrations:

The Museum maintains cash balances with three 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, 2011 and 2010.

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, 2011 were \$732,310. The amounts allocated to program services, management and general, and fundraising were \$523,591, \$132,418 and \$76,301, respectively.

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.

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. The challenge grant is currently in the planning phase. \$100,000 of the grant will be used to match the Taubman Foundation Sustainability grant in the fiscal year ending June 30, 2012.

12. Subsequent Events:

Management has evaluated subsequent events through February 14, 2012, the date which the financial statements were available for issue.