



**VIRGINIA MUSEUM OF  
CONTEMPORARY ART**

**FINANCIAL STATEMENTS**

*As of and for the Years Ended June 30, 2017  
and 2016*

*And Report of Independent Auditor*

**VIRGINIA MUSEUM OF CONTEMPORARY ART**

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## Report of Independent Auditor

Board of Trustees  
Virginia Museum of Contemporary Art  
Virginia Beach, Virginia

We have audited the accompanying financial statements of the Virginia Museum of Contemporary Art, which comprise the statements of financial position as of June 30, 2017 and 2016, and the related statements of activities, functional expenses, 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 audits to obtain reasonable assurance about whether the financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit 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 Contemporary Art as of June 30, 2017 and 2016, and the change 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.



Virginia Beach, Virginia  
December 15, 2017

**VIRGINIA MUSEUM OF CONTEMPORARY ART**  
**STATEMENTS OF FINANCIAL POSITION**

*JUNE 30, 2017 AND 2016*

|   | <u>2017</u>                | <u>2016</u>                |
|---|----------------------------|----------------------------|
| <b>ASSETS</b>                           |                            |                            |
| Current Assets:                         |                            |                            |
| Cash and cash equivalents               | \$ 416,969                 | \$ 199,975                 |
| Investments                             | 875,179                    | 808,835                    |
| Accounts receivable                     | 71,136                     | 168,022                    |
| Inventory                               | 18,354                     | 28,237                     |
| Prepaid expense                         | 22,004                     | 12,579                     |
| Total Current Assets                    | <u>1,403,642</u>           | <u>1,217,648</u>           |
| Property and Equipment:                 |                            |                            |
| Leasehold improvements                  | 2,065,365                  | 2,065,365                  |
| Equipment                               | 570,697                    | 567,315                    |
|   | <u>2,636,062</u>           | <u>2,632,680</u>           |
| Less accumulated depreciation           | 1,742,261                  | 1,668,586                  |
| Total Property and Equipment            | <u>893,801</u>             | <u>964,094</u>             |
| <b>Total Assets</b>                     | <u><u>\$ 2,297,443</u></u> | <u><u>\$ 2,181,742</u></u> |
| <b>LIABILITIES AND NET ASSETS</b>       |                            |                            |
| Current Liabilities:                    |                            |                            |
| Accounts payable, trade                 | \$ 57,677                  | \$ 71,746                  |
| Accrued expenses                        | 12,575                     | 13,925                     |
| Deferred income, advance payments       | 216,024                    | 189,450                    |
| Total Current Liabilities               | <u>286,276</u>             | <u>275,121</u>             |
| Net Assets:                             |                            |                            |
| Unrestricted:                           |                            |                            |
| Undesignated                            | 821,348                    | 721,955                    |
| Invested in property and equipment      | 893,801                    | 964,094                    |
| Board designated endowment              | 200,724                    | 181,148                    |
| Temporarily restricted                  | 95,294                     | 39,424                     |
| Total Net Assets                        | <u>2,011,167</u>           | <u>1,906,621</u>           |
| <b>Total Liabilities and Net Assets</b> | <u><u>\$ 2,297,443</u></u> | <u><u>\$ 2,181,742</u></u> |

**VIRGINIA MUSEUM OF CONTEMPORARY ART**  
**STATEMENTS OF ACTIVITIES**

YEARS ENDED JUNE 30, 2017 AND 2016

|  | <u>2017</u>         | <u>2016</u>         |
|--|---------------------|---------------------|
| Changes in Unrestricted Net Assets:                      |                     |                     |
| Public Support and Revenues:                             |                     |                     |
| Public Support:  |                     |                     |
| Contributions  | \$ 814,187          | \$ 965,290          |
| Grant awards   | 186,136             | 221,600             |
| Membership dues  | 41,020              | 102,670             |
| Revenues:  |                     |                     |
| Special event fees                                       | 398,199             | 302,192             |
| Facility rent  | 282,330             | 258,210             |
| Class and material fees                                  | 216,366             | 232,960             |
| Merchandise and concession sales                         | 75,252              | 78,236              |
| Exhibition admission income                              | 55,817              | 44,611              |
| Investment gain (loss) and market value adjustments, net | 56,130              | (40,871)            |
| Interest and dividend income                             | 21,324              | 51,409              |
| Other revenues, net                                      | 1,338               | 2,246               |
| Net assets released from restrictions                    | 5,139               | 418                 |
| Total Public Support and Revenues                        | <u>2,153,238</u>    | <u>2,218,971</u>    |
| Expenses:  |                     |                     |
| Program services   | 1,156,543           | 1,477,107           |
| Costs of direct benefits to donors                       | 224,826             | 208,045             |
| Management and general                                   | 450,581             | 481,836             |
| Fundraising  | 272,612             | 333,398             |
| Total Expenses   | <u>2,104,562</u>    | <u>2,500,386</u>    |
| Increase (Decrease) in Unrestricted Net Assets           | <u>48,676</u>       | <u>(281,415)</u>    |
| Changes in Temporarily Restricted Net Assets:            |                     |                     |
| Contributions  | 61,009              | 10,225              |
| Net assets released from restrictions                    | <u>(5,139)</u>      | <u>(418)</u>        |
| Increase in Temporarily Restricted Net Assets            | <u>55,870</u>       | <u>9,807</u>        |
| Change in net assets                                     | 104,546             | (271,608)           |
| Net assets, beginning of year                            | <u>1,906,621</u>    | <u>2,178,229</u>    |
| Net assets, end of year                                  | <u>\$ 2,011,167</u> | <u>\$ 1,906,621</u> |

**VIRGINIA MUSEUM OF CONTEMPORARY ART**  
**STATEMENT OF FUNCTIONAL EXPENSES**

YEAR ENDED JUNE 30, 2017

|                                    | <b>Program<br/>Services</b> | <b>Cost of<br/>Direct<br/>Benefits<br/>to Donors</b> | <b>Management<br/>and<br/>General</b> | <b>Fundraising</b> | <b>Total</b>        |
|------------------------------------|-----------------------------|--|---------------------------------------|--------------------|---------------------|
| Advertising and printing           | \$ 159,253                  | \$ 25,541  | \$ 2,542                              | \$ 19,070          | \$ 206,406          |
| Artists, judges, lecture fees      | 1,712                       | -  | -                                     | -                  | 1,712               |
| Bank Fees                          | 1,476                       | 2,836  | 4,070                                 | 19,199             | 27,581              |
| Benefits and payroll taxes         | 86,605                      | -  | 58,293                                | 21,651             | 166,549             |
| Depreciation expense               | 55,256                      | -  | 18,419                                | -                  | 73,675              |
| Dues and subscriptions             | 2,348                       | 1,565  | 628                                   | 1,400              | 5,941               |
| Exhibitions and programs           | 93,908                      | 82,041   | -                                     | 46,838             | 222,787             |
| Insurance                          | 24,547                      | -  | 11,027                                | -                  | 35,574              |
| Maintenance and repairs            | 57,870                      | -  | 14,467                                | -                  | 72,337              |
| Merchandise and concession<br>cost | 9,887                       | 38,546   | -                                     | -                  | 48,433              |
| Other expenses                     | 2,341                       | 494  | 591                                   | 578                | 4,004               |
| Postage and express mail           | -                           | -  | 6,618                                 | -                  | 6,618               |
| Prizes and awards                  | 4,750                       | 23,500   | -                                     | -                  | 28,250              |
| Professional services              | 25,645                      | -  | 16,035                                | -                  | 41,680              |
| Salaries                           | 429,998                     | -  | 286,665                               | 126,470            | 843,133             |
| Supplies                           | 4,262                       | 10,740   | 12,407                                | 3,034              | 30,443              |
| Taxes and licenses                 | 5,504                       | -  | 883                                   | 1,970              | 8,357               |
| Teachers and casual labor          | 80,914                      | 31,284   | 1,133                                 | -                  | 113,331             |
| Telephone                          | -                           | -  | 314                                   | -                  | 314                 |
| Travel and hospitality             | 1,466                       | 8,279  | 4,400                                 | 32,402             | 46,547              |
| Utilities                          | 108,801                     | -  | 12,089                                | -                  | 120,890             |
| <b>Total Expenses</b>              | <b>\$ 1,156,543</b>         | <b>\$ 224,826</b>                                    | <b>\$ 450,581</b>                     | <b>\$ 272,612</b>  | <b>\$ 2,104,562</b> |

The accompanying notes to the financial statements are an integral part of this statement.

**VIRGINIA MUSEUM OF CONTEMPORARY ART**  
**STATEMENT OF FUNCTIONAL EXPENSES**

YEAR ENDED JUNE 30, 2016

|                                    | <b>Program<br/>Services</b> | <b>Cost of<br/>Direct<br/>Benefits<br/>to Donors</b> | <b>Management<br/>and<br/>General</b> | <b>Fundraising</b> | <b>Total</b>        |
|------------------------------------|-----------------------------|--|---------------------------------------|--------------------|---------------------|
| Advertising and printing           | \$ 176,747                  | \$ 70,894  | \$ 3,407                              | \$ 25,556          | \$ 276,604          |
| Artists, judges, lecture fees      | 3,980                       | -  | -                                     | -                  | 3,980               |
| Bank Fees                          | 15,339                      | 6,941  | 4,387                                 | -                  | 26,667              |
| Benefits and payroll taxes         | 72,643                      | -  | 48,895                                | 18,161             | 139,699             |
| Depreciation expense               | 59,216                      | -  | 19,739                                | -                  | 78,955              |
| Dues and subscriptions             | 5,342                       | 1,830  | 1,151                                 | 2,567              | 10,890              |
| Exhibitions and programs           | 287,753                     | 69,170   | -                                     | 95,013             | 451,936             |
| Insurance                          | 19,276                      | -  | 8,660                                 | -                  | 27,936              |
| Maintenance and repairs            | 95,667                      | 65   | 23,933                                | -                  | 119,665             |
| Merchandise and concession<br>cost | 32,134                      | 14,968   | -                                     | -                  | 47,102              |
| Other expenses                     | 3,052                       | -  | -                                     | -                  | 3,052               |
| Postage and express mail           | -                           | -  | 7,894                                 | -                  | 7,894               |
| Prizes and awards                  | 4,750                       | 21,736   | -                                     | -                  | 26,486              |
| Professional services              | 19,748                      | -  | 12,347                                | -                  | 32,095              |
| Salaries                           | 455,169                     | -  | 303,446                               | 133,873            | 892,488             |
| Supplies                           | 30,735                      | 1,109  | 26,336                                | 6,439              | 64,619              |
| Taxes and licenses                 | 3,999                       | 2,332  | 1,016                                 | 2,266              | 9,613               |
| Teachers and casual labor          | 72,377                      | 14,480   | 877                                   | -                  | 87,734              |
| Telephone                          | -                           | -  | 934                                   | -                  | 934                 |
| Travel and hospitality             | 10,374                      | 4,520  | 6,724                                 | 49,523             | 71,141              |
| Utilities                          | 108,806                     | -  | 12,090                                | -                  | 120,896             |
| <b>Total Expenses</b>              | <b>\$ 1,477,107</b>         | <b>\$ 208,045</b>                                    | <b>\$ 481,836</b>                     | <b>\$ 333,398</b>  | <b>\$ 2,500,386</b> |

The accompanying notes to the financial statements are an integral part of this statement.

**VIRGINIA MUSEUM OF CONTEMPORARY ART**  
**STATEMENTS OF CASH FLOWS**

YEARS ENDED JUNE 30, 2017 AND 2016

|   | <u>2017</u>       | <u>2016</u>       |
|---|-------------------|-------------------|
| <b>Cash flow from operating activities:</b>   |                   |                   |
| Change in net assets  | \$ 104,546        | \$ (271,608)      |
| Adjustments to reconcile change in net assets to net cash provided by (used in) operating activities: |                   |                   |
| Depreciation  | 73,675            | 78,955            |
| Net (gain) loss on investments  | (56,130)          | 40,871            |
| Interest and dividends reinvested   | (21,324)          | (51,409)          |
| Increase/decrease in operating assets/liabilities:  |                   |                   |
| Accounts receivable   | 96,886            | (113,943)         |
| Inventory   | 9,883             | 7,212             |
| Prepaid expense   | (9,425)           | 49,076            |
| Accounts payable, trade   | (14,069)          | (17,102)          |
| Accrued expenses  | (1,350)           | 1,005             |
| Deferred income, advance payments   | 26,574            | 47,867            |
| Cash provided by (used in) operating activities   | <u>209,266</u>    | <u>(229,076)</u>  |
| <b>Cash flows from investing activities:</b>  |                   |                   |
| Acquisition of property and equipment   | (3,382)           | (42,508)          |
| Proceeds from sale of investments   | 76,339            | 125,932           |
| Purchase of investments   | <u>(65,229)</u>   | <u>(315,669)</u>  |
| Cash provided by (used in) investing activities   | <u>7,728</u>      | <u>(232,245)</u>  |
| Net increase (decrease) in cash   | 216,994           | (461,321)         |
| Cash and cash equivalents, beginning of year  | 199,975           | 661,296           |
| Cash and cash equivalents, end of year  | <u>\$ 416,969</u> | <u>\$ 199,975</u> |

The accompanying notes to the financial statements are an integral part of these statements.



# VIRGINIA MUSEUM OF CONTEMPORARY ART

## NOTES TO THE FINANCIAL STATEMENTS

JUNE 30, 2017 AND 2016

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### Note 1—Nature of operations

Virginia Museum of Contemporary Art (the “Museum”) is a charitable not-for-profit organization. Its purpose is to provide a broad range of art and art-related services and activities to the Tidewater, Virginia community. Included in the scope of the Museum’s activities are a studio school, gallery exhibitions, tours and lectures on art subjects, and various fundraising events.

### Note 2—Summary of significant accounting policies

*Basis of Presentation* – The accompanying financial statements have been prepared in accordance with accounting principles generally accepted in the United States of America (“GAAP”).

*Cash and Cash Equivalents* – Cash and investments with an original maturity of 90 days or less are considered to be cash and cash equivalents. Included in cash on the statements of financial position as of June 30, 2017 and 2016 is temporarily restricted cash of \$95,294 and \$39,424, respectively.

*Property and Equipment* – Property and equipment acquired by purchase are recorded at cost. Donated assets are recorded at fair market value as of the date contributed. Depreciation is calculated using the straight-line method based on the following useful lives:

|                         | <u>Life</u>  |
|-------------------------|--------------|
| Leasehold improvements  | 5 - 39 years |
| Furniture and equipment | 5 - 7 years  |

*Collections* – Purchases of artwork are recorded as decreases in unrestricted net assets in the year in which the item is acquired or as temporarily or permanently restricted if restricted by donor.

*Accounts Receivable* – Accounts receivable consist of trade receivables at amounts billed less an allowance for doubtful accounts. Management considers all trade receivables over 30 days to be past due. Management's determination of the allowance for doubtful accounts is based on an evaluation of the accounts receivable, past collection experience, current economic conditions, and other risks inherent in the receivable portfolio. No allowance for doubtful accounts was deemed necessary for the years ended June 30, 2017 and 2016.

*Grant Income* – Unrestricted grant income is recognized in the year the grant is awarded. Grants that are restricted by the grantor are reported as increases in temporarily restricted net assets. When the restriction is met or expires, temporarily restricted net assets are reclassified to unrestricted net assets.

*Functional Expenses* – Certain costs of providing various programs and other activities have been summarized on a functional basis in the statements of functional expenses. Accordingly, certain costs have been allocated among the programs and supporting services benefited.

*Endowment Fund* – A permanent endowment fund existed in prior years. The principal of the fund was invested in stocks, bonds, or similar investments chosen by the Endowment Investment Committee. The income earned was withdrawn on an annual basis to fund operations. During the year ended June 30, 2013, the Museum obtained permission from the original donor lifting restrictions on the donation. The funds from the permanent endowment were used to set up a Board designated endowment fund to support the Museum and its mission for years to come.

# VIRGINIA MUSEUM OF CONTEMPORARY ART

## NOTES TO THE FINANCIAL STATEMENTS

JUNE 30, 2017 AND 2016

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### **Note 2—Summary of significant accounting policies (continued)**

*Income Taxes* – As a charitable not-for-profit organization, the Museum is exempt from income tax under Section 501(c)(3) of the Internal Revenue Code.

Management has evaluated the effect of the guidance provided by U.S. Generally Accepted Accounting Principles on Accounting for Uncertainty in Income Taxes. Management believes the Museum continues to satisfy the requirements of a tax-exempt organization at June 30, 2017.

Management has evaluated all other tax positions that could have a significant effect on the financial statements and determined the Museum had no uncertain income tax positions at this date.

*Inventory* – Merchandise inventory consists of gift shop items, purchased for resale, and is stated at cost.

*Credit Risk* – The Museum places its cash and cash equivalents on deposit with financial institutions in the United States. The Federal Deposit Insurance Corporation covers \$250,000 for substantially all depository accounts. The Museum from time to time may have amounts on deposit in excess of the insured limits. As of June 30, 2017, no accounts exceeded these insured amounts.

*Financial Statement Presentation* – The Museum is required to report information regarding its financial position and activities according to three classes of net assets: unrestricted net assets, temporarily restricted net assets, and permanently restricted net assets. The financial statement will report amounts separately by class of asset, when applicable, as follows:

*Unrestricted* – Amounts that are undesignated are currently available for use in the operations of the Museum. During the year ended June 30, 2013, the Board designated an endowment fund to support the mission of the Museum and to encourage others to leave a legacy to the Museum. Additions can be made annually from operating or reserve accounts by the Executive Committee. In prior years, the designated net assets balance resulted from contributions, which were Board designated for construction of the Museum's building, which opened in April 1989, and for equipment and furniture, related to the project. Subsequent to completion of the facility, the Board of Trustees authorized the use of earnings from those remaining assets for current operation of the Museum and management includes this amount in its general operations budget. In addition, the fund includes capital campaign contributions received to complete the addition of the new atrium, which opened in October 2003.

*Temporarily Restricted* – Amounts are those which are stipulated by donors for specific purposes. When a donor restriction expires, temporarily restricted net assets are reclassified to unrestricted net assets and reported in the statements of activities as net assets released from restrictions.

*Permanently Restricted* – Amounts are restricted to investments in perpetuity, the income from which is expendable in accordance with the conditions of each specific donation.

*Use of Estimates* – The preparation of financial statements in conformity with accounting principles generally accepted in the United States requires management to make estimates and judgments that affect the reported amounts of assets and liabilities and the disclosure of contingencies and liabilities at the date of the financial statements and revenue and expenses recognized during the reporting period. Actual results could differ from those estimates.

**VIRGINIA MUSEUM OF CONTEMPORARY ART**  
**NOTES TO THE FINANCIAL STATEMENTS**

JUNE 30, 2017 AND 2016

**Note 2—Summary of significant accounting policies (continued)**

*Advertising* – The Museum expenses advertising costs as they are incurred. Advertising costs expensed for the years ended June 30, 2017 and 2016 were \$206,406 and \$276,604, respectively.

*Revenue Recognition* – Unearned revenues consisting primarily of tuition and facility rental deposits, which are received in advance, but which relate to the following fiscal year, are deferred and recognized as revenue in that following fiscal year, as services are provided.

*Reclassifications* – Certain reclassifications have been made to the 2016 financial statement presentation to correspond to current year’s format. Total assets and net income are unchanged due to the reclassification.

**Note 3—Investments**

The Museum reports investments in marketable fixed income and equity mutual funds with readily determinable fair values at their fair values in the statements of financial position. Unrealized gain and losses are included in the change in net assets in the accompanying statements of activities under the unrestricted net assets as required by accounting standards.

Investments include mutual funds and marketable equities recorded at fair market value.

|                    | <u>June 30, 2017</u> |                   | <u>June 30, 2016</u> |                   |
|--------------------|----------------------|-------------------|----------------------|-------------------|
|                    | <u>Market</u>        | <u>Cost</u>       | <u>Market</u>        | <u>Cost</u>       |
| Mutual funds       | \$ 680,021           | \$ 632,109        | \$ 612,187           | \$ 619,716        |
| Fixed income funds | 195,158              | 196,366           | 196,648              | 196,366           |
|                    | <u>\$ 875,179</u>    | <u>\$ 828,475</u> | <u>\$ 808,835</u>    | <u>\$ 816,082</u> |

**Note 4—Donated goods and services**

Contributions of noncash assets are recorded at their fair values in the period received. Contributions of donated services that create or enhance nonfinancial assets or that require specialized skills, are provided by individuals possessing those skills and would typically need to be purchased if not provided by donation, are recorded at their fair values in the period received. Contributions of noncash goods and services for June 30, 2017 and 2016 were \$43,588 and \$137,696, respectively, and are included on the accompanying statements of activities in contributions.

A substantial number of unpaid volunteers make significant contributions of their time to develop and implement the Museum’s programs and activities. The Museum does not recognize this as revenue; therefore, the fair value of these volunteer hours has not been determined.

**Note 5—Board designated endowment**

The Museum’s Board designated endowment was created during the year ended June 30, 2013 and consists of board-restricted funds held by the Museum for the purpose of supporting the work of the Museum in perpetuity. As required by GAAP, net assets associated with endowment funds are classified and reported based on the existence or absence of donor-imposed restrictions.

**VIRGINIA MUSEUM OF CONTEMPORARY ART**  
**NOTES TO THE FINANCIAL STATEMENTS**

JUNE 30, 2017 AND 2016

**Note 5—Board designated endowment (continued)**

*Return Objectives and Risk Parameters* – The Museum has adopted investment and spending policies for endowment assets that attempt to provide a predictable stream of funding to programs supported by its endowment. Under these policies, as approved by the Board of Directors, the endowment assets are invested in a manner that is intended to produce results at least a return of 8.0%. To satisfy its long-term rate-of-return objectives, the Museum 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 Museum utilizes an asset allocation that targets five different mutual funds. Asset allocations are reviewed semi-annually.

*Spending Policy* – The spending rate of the unrestricted portion of the endowment account will be no greater than 4.5%. The calculation of the actual distribution amount will be the average value of the endowment account for the previous 12 quarters. The Executive Committee will recommend to the Board of Directors each year the percentage distribution.

For the years ended June 30, 2017 and 2016, the Museum had the following endowment-related activities:

|  | <u>2017</u>       | <u>2016</u>       |
|--|-------------------|-------------------|
| Board-designated endowment net assets, beginning of year | \$ 181,148        | \$ 180,559        |
| Investment income, net                                   | 6,211             | 14,883            |
| Net (depreciation) appreciation                          | 13,365            | (14,294)          |
| Board-designated endowment net assets, end of year       | <u>\$ 200,724</u> | <u>\$ 181,148</u> |

**Note 6—Restrictions and limitations on net asset balances**

Temporarily restricted funds at June 30, 2017 and 2016 include amounts restricted for the following:

|                      | <u>2017</u>      | <u>2016</u>      |
|----------------------|------------------|------------------|
| Cohen Fund           | \$ 65,894        | \$ 39,424        |
| Public Art Work Fund | 29,400           | -                |
|                      | <u>\$ 95,294</u> | <u>\$ 39,424</u> |

Net assets were released from donor restrictions by incurring expenses satisfying the restricted purposes or by occurrence of the other events specified by donors. Total assets released from restrictions were:

|                      | <u>2017</u>     | <u>2016</u>   |
|----------------------|-----------------|---------------|
| Cohen Fund           | \$ 4,539        | \$ 418        |
| Public Art Work Fund | 600             | -             |
|                      | <u>\$ 5,139</u> | <u>\$ 418</u> |

**Note 7—Collection of artwork**

The Museum has a collection of artwork that is on public display. The collection, which has been acquired through purchases and contributions, are not recognized as an asset on the statements of financial position. Purchases of collection items are recorded as decreases in unrestricted net assets in the year in which the items are acquired or as temporarily or permanently restricted net assets if the assets used to purchase the items are restricted by donors.

# VIRGINIA MUSEUM OF CONTEMPORARY ART

## NOTES TO THE FINANCIAL STATEMENTS

JUNE 30, 2017 AND 2016

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### Note 8—Operating leases

The Museum's building opened to the public in April 1989. Ownership was transferred to the City of Virginia Beach (the "City") in October 1989, subject to the terms and conditions of a lease and operating agreement between the Museum and the City. The Museum leases the land and building from the City for \$1 annually. The market value of the lease is not readily determinable. The initial term of the lease was for five years with unlimited five-year renewals thereafter. The City is responsible for long-term maintenance and repair of the building and its surrounding grounds.

The City awards the Museum a grant each year to cover the cost of electricity and gas. At the expiration of the lease, the Museum will waive the right to claim any furniture, fixtures, and equipment if not removed from the property within ten days.

The Museum leases office equipment under various lease agreements expiring in fiscal years ranging from 2018 to 2020. Lease expense under these leases was \$9,021 for the years ended June 30, 2017 and 2016. Operating lease commitments are as follows:

|      |    |       |
|------|----|-------|
| 2018 | \$ | 3,907 |
| 2019 |    | 1     |
| 2020 |    | 1     |

### Note 9—Defined contribution plan

The Museum established a 401(k) plan covering all employees on July 1, 2009, not including those that are contracted seasonally, that are at least 21 years of age, and have been employed for over one year. The Museum made contributions to the plan totaling \$30,502 and \$17,957 for the years ended June 30, 2017 and 2016, respectively.

### Note 10—Fair value measurements

Accounting standards require that fair value of certain assets and liabilities is an exit price, representing the amount that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants.

Accounting standards specify a hierarchy of valuation techniques based on whether the inputs to those valuation techniques are observable or unobservable. Observable inputs reflect market data obtained from independent sources, while unobservable inputs reflect the Museum's market assumptions. The three levels of the fair value hierarchy based on these two types of inputs are as follows:

- Level 1: Valuation is based on quoted prices in active markets for identical assets and liabilities.
- Level 2: Valuation is based on observable inputs including quoted prices in active markets for similar assets and liabilities, quoted prices for identical or similar assets and liabilities in less active markets, and model-based valuation techniques for which significant assumptions can be derived primarily from or corroborated by observable data in the market.
- Level 3: Valuation is based on model-based techniques that use one or more significant inputs or assumptions that are unobservable in the market.

**VIRGINIA MUSEUM OF CONTEMPORARY ART**  
**NOTES TO THE FINANCIAL STATEMENTS**

*JUNE 30, 2017 AND 2016*

**Note 10—Fair value measurements (continued)**

The following describes the valuation techniques used by the Museum to measure certain financial assets recorded at fair value on a recurring basis in the financial statements:

|                    | <b>June 30, 2017</b> |                                |                |                |
|--------------------|----------------------|--------------------------------|----------------|----------------|
|                    | <b>Carrying</b>      | <b>Fair Value Measurements</b> |                |                |
|                    | <b>Value</b>         | <b>Level 1</b>                 | <b>Level 2</b> | <b>Level 3</b> |
| Mutual funds       | \$ 680,021           | \$ 680,021                     | \$ -           | \$ -           |
| Fixed income funds | 195,158              | 195,158                        | -              | -              |
| Total investments  | <u>\$ 875,179</u>    | <u>\$ 875,179</u>              | <u>\$ -</u>    | <u>\$ -</u>    |

  

|                    | <b>June 30, 2016</b> |                                |                |                |
|--------------------|----------------------|--------------------------------|----------------|----------------|
|                    | <b>Carrying</b>      | <b>Fair Value Measurements</b> |                |                |
|                    | <b>Value</b>         | <b>Level 1</b>                 | <b>Level 2</b> | <b>Level 3</b> |
| Mutual funds       | \$ 612,187           | \$ 612,187                     | \$ -           | \$ -           |
| Fixed income funds | 196,648              | 196,648                        | -              | -              |
| Total investments  | <u>\$ 808,835</u>    | <u>\$ 808,835</u>              | <u>\$ -</u>    | <u>\$ -</u>    |

**Note 11—Related party transactions**

The Museum had donations of \$68,384 and \$22,939 from members of the Museum’s Board of Trustees as of June 30, 2017 and 2016, respectively.

**Note 12—Subsequent events**

The Museum has evaluated subsequent events through December 15, 2017, which is the date the financial statements were available to be issued. No events have occurred subsequent to the balance sheet date and through this date that would require adjustment to, or disclosure in, the financial statements.