



CHRYSLER MUSEUM *of* ART

FINANCIAL STATEMENTS

JUNE 30, 2016



ASSURANCE, TAX & ADVISORY SERVICES

THE CHRYSLER MUSEUM, INCORPORATED

TABLE OF CONTENTS

	Page
INDEPENDENT AUDITOR'S REPORT	1 – 2
FINANCIAL STATEMENTS	
Statements of Financial Position	3
Statements of Activities	4 – 5
Statements of Operating Expenses	6
Statements of Cash Flows	7
Notes to Financial Statements	8 – 23



INDEPENDENT AUDITOR'S REPORT

To the Board of Trustees
The Chrysler Museum, Incorporated

Report on the Financial Statements

We have audited the accompanying financial statements of The Chrysler Museum, Incorporated which comprise the statement of financial position as of June 30, 2016, and the related statements of activities, operating expenses, and cash flows for the year then ended, and the related notes to the financial statements (collectively, 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 audit. We conducted our audit 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 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 The Chrysler Museum, Incorporated as of June 30, 2016, and the changes in its net assets and its cash flows for the year then ended in accordance with accounting principles generally accepted in the United States of America.

Other of Matter

The financial statements of The Chrysler Museum, Incorporated, as of and for the year ended June 30, 2015, were audited by other auditors, whose report, dated December 3, 2015, expressed an unmodified opinion on those statements.

PB Mares, LLP

Norfolk, Virginia
January 25, 2017

FINANCIAL STATEMENTS

THE CHRYSLER MUSEUM, INCORPORATED

STATEMENTS OF FINANCIAL POSITION

June 30, 2016 and 2015

	2016	2015
ASSETS		
Cash and cash equivalents	\$ 2,072,787	\$ 2,971,532
Inventory	145,013	193,158
Other assets	658,582	664,344
Pledges receivable, net	5,174,495	6,377,099
Charitable trusts	116,688	116,912
Investments	69,888,812	74,763,156
Property and equipment, net	871,142	1,074,810
Total assets	\$ 78,927,519	\$ 86,161,011
LIABILITIES AND NET ASSETS		
Liabilities		
Accounts payable	\$ 281,145	\$ 289,777
Accrued expenses and other liabilities	984,690	1,034,992
Deferred revenue	193,940	148,550
Note payable	9,574,884	11,719,709
Total liabilities	11,034,659	13,193,028
Net Assets:		
Unrestricted:		
Board designated	12,672,285	13,279,682
Other	2,730,381	2,712,434
Total unrestricted net assets	15,402,666	15,992,116
Temporarily Restricted	18,996,780	23,760,505
Permanently Restricted	33,493,414	33,215,362
Total net assets	67,892,860	72,967,983
Total liabilities and net assets	\$ 78,927,519	\$ 86,161,011

THE CHRYSLER MUSEUM, INCORPORATED

STATEMENT OF ACTIVITIES Year Ended June 30, 2016

	2016			Total
	Unrestricted	Temporarily Restricted	Permanently Restricted	
Changes in Unrestricted Net Assets:				
Support and Revenue:				
City of Norfolk	\$ 2,847,832	\$ -	\$ -	\$ 2,847,832
Contributions and other grants	622,550	1,371,235	278,052	2,271,837
Investment income (loss)	3,157	-	-	3,157
Memberships	1,161,847	-	-	1,161,847
Earned income from auxiliary activities	1,047,612	-	-	1,047,612
Other income	115,607	-	-	115,607
Net assets released from donor restrictions	1,540,059	(1,540,059)	-	-
Transfer of board designated reserves	729,352	-	-	729,352
Total support and revenue	8,068,016	(168,824)	278,052	8,177,244
Operating expenses:				
Program services:				
Galleries, curatorial and exhibitions	3,808,064	-	-	3,808,064
Other	2,606,135	-	-	2,606,135
Total program services	6,414,199	-	-	6,414,199
Supporting services:				
Development and marketing	1,155,447	-	-	1,155,447
General and administrative	495,221	-	-	495,221
Total supporting services	1,650,668	-	-	1,650,668
Total operating expenses	8,064,867	-	-	8,064,867
Change in Net Assets from Operating Activities	3,149	(168,824)	278,052	112,377
Non-Operating Activities:				
Change in net assets related to collection items not capitalized:				
Accessions	(737,058)	-	-	(737,058)
Deaccession proceeds	-	-	-	-
Investment income (loss)	(1,174,334)	(2,268,120)	-	(3,442,454)
Contributions, non-operating	196,297	-	-	196,297
Interest expense	(410,696)	-	-	(410,696)
Property improvements - museum expansion	(64,237)	-	-	(64,237)
Net assets released from donor restrictions	2,326,781	(2,326,781)	-	-
Transfer of board designated reserves	(729,352)	-	-	(729,352)
Total non-operating activities	(592,599)	(4,594,901)	-	(5,187,500)
Change in Net Assets	(589,450)	(4,763,725)	278,052	(5,075,123)
Net Assets, beginning of year	15,992,116	23,760,505	33,215,362	72,967,983
Net Assets, end of year	\$ 15,402,666	\$ 18,996,780	\$ 33,493,414	\$ 67,892,860

THE CHRYSLER MUSEUM, INCORPORATED

STATEMENT OF ACTIVITIES Year Ended June 30, 2015

	2015			Total
	Unrestricted	Temporarily Restricted	Permanently Restricted	
Changes in Unrestricted Net Assets:				
Support and Revenue:				
City of Norfolk	\$ 2,847,832	\$ -	\$ -	\$ 2,847,832
Contributions and other grants	440,852	3,049,088	110,530	3,600,470
Investment income (loss)	3,219	-	-	3,219
Memberships	1,006,382	-	-	1,006,382
Earned income from auxiliary activities	1,081,067	-	-	1,081,067
Other income	134,784	-	-	134,784
Net assets released from donor restrictions	1,634,061	(1,634,061)	-	-
Transfer of board designated reserves	848,808	-	-	848,808
Total support and revenue	7,997,005	1,415,027	110,530	9,522,562
Operating expenses:				
Program services:				
Galleries, curatorial and exhibitions	3,830,054	-	-	3,830,054
Other	2,417,198	-	-	2,417,198
Total program services	6,247,252	-	-	6,247,252
Supporting services:				
Development and marketing	1,020,389	-	-	1,020,389
General and administrative	728,689	-	-	728,689
Total supporting services	1,749,078	-	-	1,749,078
Total operating expenses	7,996,330	-	-	7,996,330
Change in Net Assets from Operating Activities	675	1,415,027	110,530	1,526,232
Non-Operating Activities:				
Change in net assets related to collection items not capitalized:				
Accessions	(821,686)	-	-	(821,686)
Investment income (loss)	(327,156)	(632,278)	-	(959,434)
Contributions, non-operating	306,613	-	-	306,613
Interest expense	(541,917)	-	-	(541,917)
Property improvements - museum expansion	(278,259)	-	-	(278,259)
Net assets released from donor restrictions	3,680,668	(3,680,668)	-	-
Transfer of board designated reserves	(848,808)	-	-	(848,808)
Total non-operating activities	1,169,455	(4,312,946)	-	(3,143,491)
Change in Net Assets	1,170,130	(2,897,919)	110,530	(1,617,259)
Net Assets, beginning of year	14,821,986	26,658,424	33,104,832	74,585,242
Net Assets, end of year	\$ 15,992,116	\$ 23,760,505	\$ 33,215,362	\$ 72,967,983

THE CHRYSLER MUSEUM, INCORPORATED

STATEMENTS OF OPERATING EXPENSES

Years Ended June 30, 2016 and 2015

	2016	2015
Natural Classifications		
Salaries	\$ 3,623,573	\$ 3,435,137
Payroll taxes	255,451	280,073
Employee benefits	383,873	406,470
Total compensation and benefits	4,262,897	4,121,680
Advertising	153,526	151,895
Computer services	44,263	74,864
Consulting and outside services	546,204	505,109
Cost of sales	190,660	198,791
Depreciation	221,979	228,052
Exhibition fees and installation	324,916	523,185
Insurance	171,814	169,886
Miscellaneous	397,880	312,627
Printing and publications	193,078	132,167
Repairs and maintenance	285,417	346,421
Supplies	297,019	248,809
Telephone	48,765	49,815
Donor stewardship	359,766	338,105
Utilities	566,683	594,924
Total operating expenses	\$ 8,064,867	\$ 7,996,330
Functional Classification		
Program services		
Galleries, curatorial and exhibitions	\$ 3,808,064	\$ 3,830,054
Other		
Education	917,808	846,760
Library	175,788	344,305
Gift Shop	330,940	335,970
Glass Studio	784,801	498,262
Historic houses	137,040	136,075
Special events	177,756	171,124
Support programs	82,002	84,702
Total program services	6,414,199	6,247,252
Supporting services		
Development and marketing	1,155,447	1,020,389
General and administrative	495,221	728,689
Total supporting services	1,650,668	1,749,078
Total operating expenses	\$ 8,064,867	\$ 7,996,330

See Notes to Financial Statement.

THE CHRYSLER MUSEUM, INCORPORATED

STATEMENTS OF CASH FLOWS Years Ended June 30, 2016 and 2015

	2016	2015
Cash Flows From Operating Activities		
Change in net assets	\$ (5,075,123)	\$ (1,617,259)
Adjustments to operating activities:		
Net decrease in fair value of investments	5,636,745	4,266,575
Depreciation	221,979	228,052
Contributions restricted for long-term use	(2,859,783)	(4,370,422)
Accessions	737,058	821,686
Property improvements expensed	64,237	278,259
Changes in certain asset and liabilities		
Inventory and other assets	53,907	(136,475)
Pledges receivable	71,470	-
Charitable trusts	224	718
Accounts payable, accrued expenses, and deferred revenue	(13,544)	(1,265,510)
Net cash used in operating activities	(1,162,830)	(1,794,376)
Cash Flows From Investing Activities		
Purchase of investments	(83,770,871)	(46,206,036)
Proceeds from sales of investments	83,008,470	33,957,218
Payments for property improvements	(64,237)	(278,259)
Accessions	(737,058)	(821,686)
Additions to property and equipment	(18,311)	(140,579)
Net cash used in investing activities	(1,582,007)	(13,489,342)
Cash Flows From Financing Activities		
Collection of contributions restricted for long-term use	3,990,917	5,583,054
Proceeds from note payable	-	785,028
Repayments of note payable	(2,144,825)	(3,280,291)
Net cash provided by financing activities	1,846,092	3,087,791
Decrease in cash and cash equivalents	(898,745)	(12,195,927)
Cash and Cash Equivalents		
Beginning	2,971,532	15,167,459
Ending	\$ 2,072,787	\$ 2,971,532
Supplemental Disclosure of Cash Flow Information		
Cash paid during the year for interest	\$ 410,696	\$ 541,917

THE CHRYSLER MUSEUM, INCORPORATED

NOTES TO FINANCIAL STATEMENTS

Note 1. Nature of Organization

The Chrysler Museum, Incorporated (Museum) is one of America's most distinguished art museums. Located in Hampton Roads, a community of 1.7 million in southeastern Virginia, the Museum welcomes approximately 200,000 annual visitors from around the world. The Museum operates on an annual budget of approximately \$8 million and employs a staff of approximately 120.

The Museum is home to a world-class collection of over 30,000 paintings, sculptures, photographs, and decorative arts primarily assembled by industrialist Walter P. Chrysler, Jr. The Museum is particularly well known for its glass collection, one of the finest and most comprehensive anywhere.

The Museum also administers two Historic Houses, the Moses Myers House and the Norfolk History Museum, each of which is located in downtown Norfolk. The Moses Myers House, which was the residence of Norfolk's first Jewish citizens, includes more than seventy percent of its original late eighteenth century furnishings.

In addition to its fine permanent collection, the Museum presents each year a dynamic schedule of changing exhibitions and a wide variety of interpretive programs. Each is designed to make the works on view in the Museum galleries accessible and meaningful to a diverse audience.

Through an active program of loans from its collection and through the professional involvement of its staff, the Museum maintains an active presence in the international museum community.

The Museum is particularly proud of its record of community citizenship and good management. The Museum is a regular partner and collaborator with regional governments, businesses, educational organizations, and cultural groups, seeking to leverage resources to provide the highest quality service at the lowest cost.

The Museum's mission is to act as a catalyst. We bring art and people together to enrich and transform lives. A free admission policy along with interpretive programming ensures the Museum is truly accessible to the community we exist to serve.

The Chrysler Museum Glass Studio is an educational tool that offers the public an experimental approach to the exciting properties of glass. This addition to the Museum complements our comprehensive glass collection with an engaging approach that demonstrates the many glass processes used to create these extraordinary objects.

Note 2. Summary of Significant Accounting Policies

Basis of 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. All donor-restricted support is reported as an increase in temporarily or permanently restricted net assets, depending on the nature of the restriction. When a temporary 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."

THE CHRYSLER MUSEUM, INCORPORATED

NOTES TO FINANCIAL STATEMENTS

Note 2. Summary of Significant Accounting Policies (Continued)

Estimates: Management uses estimates and assumptions in preparing financial statements. Those estimates and assumptions affect the reported assets and liabilities, the disclosure of contingent assets and liabilities, and the reported revenue and expenses. Actual results could differ from those estimates.

Art Collection: In conformity with the practice followed by most museums, the collection is not presented in the accompanying statements of financial position. The value of accessions (collection items purchased by the Museum) and the deaccession proceeds are reported as non-operating activities in the accompanying statements of activities. Contributed collection items are not reflected in the financial statements.

The Museum is committed to applying the highest professional standards to the care and preservation of its unique collection. Each of the items is cataloged, preserved, and cared for, and activities verifying their existence and assessing their condition are performed continuously. Accessions and deaccessions are approved by the Museum's Board of Trustees and the proceeds from deaccession are used solely for the acquisition of collection items. Additionally, in an effort to maintain the purchasing power of such proceeds, the Board has similarly designated the investment income earned on these funds. At June 30, 2016, the Museum's collection was insured at a level deemed appropriate by management.

Cash and Cash Equivalents: For purposes of the statements of financial position and cash flows, cash and cash equivalents are defined as demand deposits, certificate of deposits and all highly liquid debt instruments purchased with an original maturity of three months or less, other than those maintained as a part of investment portfolios.

Inventory: Inventory is valued at lower of cost (using the first-in, first-out method) or market. The Museum's inventory consists of items to be sold in the gift shop. Some examples of the types of inventory reflected in the statement of financial position are jewelry, books, games, household items, decorative items, clothing, stationary, and souvenirs.

Pledges Receivable: Pledges receivable represent unconditional promises to give and are recorded at fair value initially and net realizable value thereafter. Promises to give expected to be settled after one year are discounted at an appropriate discount rate commensurate with the risks involved. An allowance for uncollectible pledges receivable is provided based upon management's judgment. Conditional promises to give are not included as support until the conditions are substantially met.

Investments: The Museum's investments are carried at their fair values in the statements of financial position. Fair value is defined as the exchange price that would be received for an asset or paid to transfer a liability (an exit price) in the principal or most advantageous market for the asset or liability in an orderly transaction between market participants on the measurement date. Changes in fair value are included in the change in net assets in the accompanying statements of activities. See Note 6 for further discussion of fair value measurements.

Property and Equipment: Property and equipment are recorded at cost if purchased and at estimated fair value if donated. Asset purchases of \$500 or more are capitalized, while maintenance and repairs that do not improve or extend the useful lives of the respective assets are expensed currently. Depreciation is calculated using the straight-line method based on useful lives of 3-30 years.

THE CHRYSLER MUSEUM, INCORPORATED

NOTES TO FINANCIAL STATEMENTS

Note 2. Summary of Significant Accounting Policies (Continued)

The Museum building and Historic Houses are owned by the City of Norfolk. By mutual agreement, the Museum occupies these facilities without charge. Most improvements and additions to the buildings have been funded jointly by the City and by Museum contributions restricted for such purposes. As required by the City, all improvements and additions to the Museum building and Historic Houses are the property of the City. As required by this agreement, the Museum transferred \$64,237 and \$278,259 of property improvements to the City of Norfolk during the years ended June 30, 2016 and 2015, respectively. The Museum does not recognize contribution income and the offsetting rental expense for the use of the facilities.

On October 28, 2011, the City of Norfolk awarded the Museum \$10,000,000 to support its capital campaign project. Payments are subject to City appropriation annually and as such the Museum recognizes revenue under this arrangement when invoiced. Support from this arrangement totaled \$850,000 and \$2,000,000 during the years ended June 30, 2016 and 2015, respectively, and has been recognized in the accompanying financial statements. As of June 30, 2016, cumulative support from this award totaled \$6,600,000, with a remaining balance of \$3,400,000.

Deferred Revenue: Deferred revenue results primarily from camps and rental of the Museum for special events received in advance and which will be recognized as revenue when the event occurs in the following fiscal year.

Advertising: Advertising costs are charged to operations when incurred and totaled \$153,526 and \$151,895 for the years ended June 30, 2016 and 2015, respectively.

Functional Allocation of Expenses: The cost of providing the various program and supporting services has been summarized on a functional basis in the statements of activities and statements of operating expenses. Direct expenses are aggregated by function and indirect expenses, primarily facilities management and depreciation, are allocated among the functional programs and services benefited.

Volunteers: A substantial number of unpaid volunteers have made significant contributions of their time and talent to further the mission of the Museum. The value of these contributed services is not reported in these financial statements since it is not susceptible to objective measurement or valuation, and because the criteria for recognition of such volunteer efforts have not been satisfied.

Measure of Operations: The Museum includes in its measure of operations all revenue and expenses that are integral to its programs and supporting activities, net assets released from donor restrictions to support operating expenditures, and transfers from board designated and other non-operating funds to support current operating activities. The measure of operations includes support for operating activities from both restricted net assets and unrestricted net assets designated for long-term investment (the donor-restricted and quasi-endowment) according to the Museum's spending policy, which is detailed in Note 12. The measure of operations excludes investment return on quasi-endowment funds; changes in net assets pertaining to acquisition and deaccession of collection items; gains (losses) on disposal or sale of property and equipment; non-capitalized expenditures; interest expense related to borrowings and certain miscellaneous charges and revenue unrelated to operating activities.

THE CHRYSLER MUSEUM, INCORPORATED

NOTES TO FINANCIAL STATEMENTS

Note 2. Summary of Significant Accounting Policies (Continued)

Income Taxes: The Museum is an organization described in Section 501(c)(3) of the Internal Revenue Code and is exempt from federal and state income taxes. Exempt organizations are subject to tax on income regularly conducted trade or business activities that are not substantially related to the organization's exempt purpose. Tax returns are generally subject to examinations for three years from the date filed. Management continually evaluates tax positions reflected in the Museum's tax filings and does not believe that any material uncertain tax positions exist. The Museum's policy is to classify income tax related interest and penalties, if any, as miscellaneous expenses.

New Accounting Pronouncements: In August 2016, the Financial Accounting Standards Board (FASB) issued Accounting Standards Update (ASU) 2016-14, *Presentation of Financial Statements of Not-for-Profit Entities (Topic 958)*, intended to improve financial reporting for a not-for-profit entity. The ASU will reduce the current three classes of net assets into two: with and without donor restrictions. The change in each of the classes of net assets must be reported on the statement of activities. The ASU also requires various enhanced disclosures about topics such as board designations, liquidity, functional classification of expenses, investment expenses, donor restrictions, and underwater endowments. The ASU is effective for years beginning after December 15, 2017. Early application is permitted. The ASU should be applied on a retrospective basis in the year that the ASU is first applied. While this ASU will change the presentation of the Museum's financial statements it is not expected to alter the Museum's reported financial position or activities.

The Museum has elected the early adoption of ASU 2015-07, *Disclosures for Investments in Certain Entities That Calculate Net Asset Value (NAV) per Share (or its Equivalent)*, for the year ended June 30, 2016. As a result, those investments whose fair value is measured at NAV (or its equivalent) using the practical expedient are not categorized within the fair value hierarchy.

Reclassifications: Certain items in the 2015 financial statements were reclassified to conform to the 2016 presentation. These reclassifications had no effect on the previously reported change in net assets.

Subsequent Events: Management has evaluated subsequent events through January 25, 2017, the date which the financial statements were available to be issued.

Note 3. Pledges Receivable

Pledges receivable at June 30, 2016 and 2015 consist of the following:

	<u>2016</u>	<u>2015</u>
Amounts due within one year	\$ 1,330,200	\$ 1,472,267
Amounts due in more than one year but less than five years	2,668,575	3,579,508
Amounts due in more than five years	<u>3,663,977</u>	<u>4,041,864</u>
Total pledges receivable	7,662,752	9,093,639
Less allowance for doubtful accounts	(397,744)	(447,635)
Less present value discount (ranging from 0.95% - 7.00%)	<u>(2,090,513)</u>	<u>(2,268,905)</u>
Total pledges receivable, net	<u>\$ 5,174,495</u>	<u>\$ 6,377,099</u>

THE CHRYSLER MUSEUM, INCORPORATED

NOTES TO FINANCIAL STATEMENTS

Note 4. Split-Interest Agreements

Split-interest agreements with donors consist of irrevocable charitable gift annuities, charitable remainder trusts and a perpetual trust. Split-interest agreements are reported at fair value in the statements of financial position.

Charitable gift annuities are recognized as an asset at fair value at the date of the annuity agreement. An annuity liability is recognized for the present value of future cash flows expected to be paid to the donor and contribution revenues are recognized equal to the difference between the asset and the annuity liability. Liabilities are adjusted during the terms of the annuities for payments to donors, accretion of discounts and changes in the life expectancies of the donors.

Charitable remainder trusts provide for the payment of distributions to designated beneficiaries over the trusts' terms. At the end of the trusts' terms, the remaining assets are to be available for the Museum's use, subject to donor-imposed restrictions. The Museum is also the beneficiary of a perpetual trust which was recognized as an asset and contribution revenue at the date the trust was established. Distributions from the trust are recorded as investment income and the assets are adjusted for changes in the fair value of the trust assets. These trusts are administered and held by others.

At June 30, 2016 and 2015, the Museum recorded liabilities to beneficiaries of the charitable gift annuities totaling \$110,583 and \$110,305, respectively, which are included in accrued expenses in the accompanying statements of financial position. The assets related to these arrangements, amounting to \$317,528 and \$319,119 at June 30, 2016 and 2015, respectively, are included in investments.

Note 5. Investments

Investments at June 30, 2016 and 2015 consist of the following:

	2016		2015	
	Cost	Fair Value	Cost	Fair Value
Money market funds	\$ 915,618	\$ 915,618	\$ 1,311,586	\$ 1,311,586
Equities	12,321,887	12,421,299	-	-
Registered mutual funds	-	-	24,383,592	23,874,591
US Treasuries	2,308,070	2,308,070	7,653,349	7,617,282
Publicly traded fixed income securities	735,939	800,965	-	-
Securitized fixed income investments	1,076,704	1,152,729	-	-
Credit funds	-	32,969	-	41,891
Private equity funds	-	-	290,107	2,373,191
Multi-strategy and other investments	48,721,719	51,756,143	29,580,129	36,193,706
Real assets fund	-	183,491	2,407,199	3,031,790
	66,079,937	69,571,284	65,625,962	74,444,037
Gift annuity investments	244,700	317,528	244,700	319,119
Total investments	\$ 66,324,637	\$ 69,888,812	\$ 65,870,662	\$ 74,763,156

THE CHRYSLER MUSEUM, INCORPORATED

NOTES TO FINANCIAL STATEMENTS

Note 5. Investments (Continued)

Investment income (loss) for the years ended June 30, consists of the following:

	<u>2016</u>	<u>2015</u>
Interest and dividends	\$ 725,021	\$ 869,961
Capital gain distributions	1,635,159	2,547,399
Increase (decrease) in fair value of investments	(5,635,977)	(4,266,575)
Investment management fees	(163,500)	(107,000)
	<hr/>	<hr/>
Total investment income (loss)	\$ (3,439,297)	\$ (956,215)

Investment income (loss) is recorded in the following net asset categories in the statements of activities for the years ended June 30:

	<u>2016</u>	<u>2015</u>
Unrestricted net assets		
Operating	\$ 3,157	\$ 3,219
Non-operating	(1,174,334)	(327,156)
	<hr/>	<hr/>
	(1,171,177)	(323,937)
Temporarily restricted net assets	(2,268,120)	(632,278)
	<hr/>	<hr/>
Total investment income (loss)	\$ (3,439,297)	\$ (956,215)

Unrestricted non-operating investment income (loss) includes amounts from board designated funds.

Through the Museum's investment in the Richmond Fund, L.P., the Museum has a beneficial ownership of an investment fund that represents 3.0% of the Richmond Fund, L.P.'s total investments at June 30, 2016.

The Richmond Fund, L.P.

In order to diversify investment risk and avoid undue concentration in any one asset class or group of assets, Museum management invests in investment partnerships and funds, including a substantial investment in the Richmond Fund, L.P., a Virginia limited partnership affiliated with the University of Richmond's endowment manager, organized to provide an asset management vehicle for certain non-profit organizations. The General Partner of the Richmond Fund, L.P. is managed by Spider Management Company, LLC a controlled affiliate of the University. One of the goals of the Richmond Fund, L.P. is to achieve gross investment returns for its investors that mirror the returns achieved by the University's endowment. The Museum began its investment with the Richmond Fund, L.P. on March 20, 2016. The fair value of this investment at June 30, 2016 was \$48,799,399.

THE CHRYSLER MUSEUM, INCORPORATED

NOTES TO FINANCIAL STATEMENTS

Note 5. Investments (Continued)

The Richmond Fund, L.P.'s investments are diversified globally and by sector, and at June 30, 2016 were allocated among the following asset classes:

Investments in investment funds:

Hedge funds	53.6%
Private equity	15.5
Real assets	6.7
Real estate	<u>2.9</u>
	<u>78.7%</u>

Investments in securities:

Common and preferred stocks	18.8%
Comingled funds	<u>2.5</u>
	<u>21.3%</u>
	<u>100.0%</u>

The Richmond Fund, L.P.'s investments as a percentage of its total partners' capital was 70.1% at June 30, 2016.

Liquidity

As part of the Museum's investment in The Richmond Fund, L.P., limitations exist on the Museum's ability to redeem certain investments. The limitations on redemptions are governed by partnership agreements and generally exist for five years. Redemptions can be further delayed based on investee liquidity. At June 30, 2016, approximately 40% of the Museum's investment partnership portfolio was available for redemption within the next twelve months.

Note 6. Fair Value Measurements

The Museum has certain assets and liabilities that are valued using a fair value hierarchy. The three levels of fair value hierarchy for recurring fair value measurements are prioritized based on the inputs to valuation techniques used to measure fair value and are as follows:

- Level 1 – quoted prices in active markets for identical assets or liabilities.
- Level 2 – observable inputs that include quoted market prices for similar assets or liabilities; quoted market prices that are not in an active market; or other inputs that are observable and can be corroborated by observable market data for substantially the full term of the assets or liabilities.
- Level 3 – unobservable inputs that are supported by little or no market activity and that are significant to the fair value of the assets or liabilities. Level 3 assets and liabilities include financial instruments whose value is determined using pricing models, discounted cash flow methodologies or similar techniques, as well as instruments for which the determination of fair value requires significant management judgment or estimation.

THE CHRYSLER MUSEUM, INCORPORATED

NOTES TO FINANCIAL STATEMENTS

Note 6. Fair Value Measurements (Continued)

The following tables present the Museum's assets and liabilities that are measured at fair value on a recurring basis for each hierarchy level at June 30, 2016 and 2015:

	2016				
	Level 1	Level 2	Level 3	NAV	Total
Assets					
Investments					
Money market funds	\$ 915,618	\$ -	\$ -	\$ -	\$ 915,618
Equities	12,418,805	2,494	-	-	12,421,299
US Treasuries	2,308,070	-	-	-	2,308,070
Publicly traded fixed income securities	-	800,965	-	-	800,965
Securitized fixed income investments	1,152,729	-	-	-	1,152,729
Credit funds	-	-	-	32,969	32,969
Multi-strategy and other investments	-	-	-	51,756,143	51,756,143
Real assets fund	-	-	-	183,491	183,491
Gift annuity investments	317,528	-	-	-	317,528
Charitable trusts	-	-	116,688	-	116,688
Total assets at fair value	\$ 17,112,750	\$ 803,459	\$ 116,688	\$ 51,972,603	\$ 70,005,500
Liabilities					
Gift annuity liabilities	\$ -	\$ -	\$ 110,583	\$ -	\$ 110,583
Total liabilities at fair value	\$ -	\$ -	\$ 110,583	\$ -	\$ 110,583
	2015				
	Level 1	Level 2	Level 3	NAV	Total
Assets					
Investments					
Money market funds	\$ 1,311,586	\$ -	\$ -	\$ -	\$ 1,311,586
Registered mutual funds	23,874,591	-	-	-	23,874,591
Fixed income funds	4,561,399	-	-	3,055,883	7,617,282
Credit funds	-	-	-	41,891	41,891
Private equity funds	-	-	-	2,373,191	2,373,191
Multi-strategy and other investments	-	-	-	36,193,706	36,193,706
Real assets fund	-	-	-	3,031,790	3,031,790
Gift annuity investments	319,119	-	-	-	319,119
Charitable trusts	-	-	116,912	-	116,912
Total assets at fair value	\$ 30,066,695	\$ -	\$ 116,912	\$ 44,696,461	\$ 74,880,068
Liabilities					
Gift annuity liabilities	\$ -	\$ -	\$ 110,305	\$ -	\$ 110,305
Total liabilities at fair value	\$ -	\$ -	\$ 110,305	\$ -	\$ 110,305

THE CHRYSLER MUSEUM, INCORPORATED

NOTES TO FINANCIAL STATEMENTS

Note 6. Fair Value Measurements (Continued)

The Museum used quoted prices in principal active markets for identical assets as of the valuation date (Level 1) to value certain money market funds, registered mutual funds, US Treasuries, publicly traded fixed income securities, and securitized fixed income investments, and equities, at June 30, 2016 and 2015.

For the valuation of certain fixed income investments and equities at June 30, 2016, the Museum used significant other observable inputs, particularly quoted prices for the identical instruments on an inactive market, prices for similar instrument, interest rates, prepayment speeds, credit risk, yield curves, default rates and similar data.

For the most part, the valuation of credit funds, the real assets fund and the multi-strategy and other investments, at June 30, 2016, as well portions of the fixed income funds and private equity funds at June 30, 2015, are reported at estimated fair value utilizing the net asset values provided by fund managers as a practical expedient.

Fair value for the charitable trusts and gift annuity liabilities are determined by calculating the present value of the future distributions expected to be received or paid, using published life expectancy tables and rates ranging from 0.95% to 1.91%. There have been no changes in the valuation techniques and related inputs.

The following tables present a reconciliation of assets and liabilities in which significant unobservable inputs (Level 3) were used to determine fair value for the years ended June 30, 2016 and 2015.

	2016				
	Fair Value July 1, 2015	Net Realized and Unrealized Gains (Losses)	Purchases	Sales	Fair Value June 30, 2016
Charitable trusts assets	\$ 116,912	\$ (224)	\$ -	\$ -	\$ 116,688
Gift annuity liabilities	\$ 110,305	\$ 16,477	\$ -	\$ (16,199)	\$ 110,583
	2015				
	Fair Value July 1, 2014	Net Realized and Unrealized Gains (Losses)	Purchases	Sales	Fair Value June 30, 2015
Charitable trusts assets	\$ 117,630	\$ (718)	\$ -	\$ -	\$ 116,912
Gift annuity liabilities	\$ 116,225	\$ 11,449	\$ -	\$ (17,369)	\$ 110,305

THE CHRYSLER MUSEUM, INCORPORATED

NOTES TO FINANCIAL STATEMENTS

Note 6. Fair Value Measurements (Continued)

The following summarizes investments in entities that calculate fair value based on net asset value per share as of June 30, 2016 and 2015:

2016				
Description	Fair Value	Unfunded Commitments	Redemption Frequency (if Currently Eligible)	Redemption Notice Period
Credit funds	\$ 32,969	\$ -	Redemption Hold Back	
Real assets fund	183,491	-	Redemption Hold Back	N/A
Multi-strategy and other investments	48,799,399	-	Quarterly (with limitations)	60 days
Multi-strategy and other investments	2,956,744	-	Redemption Hold Back	N/A
	<u>\$ 51,972,603</u>	<u>\$ -</u>		

2015				
Description	Fair Value	Unfunded Commitments	Redemption Frequency (if Currently Eligible)	Redemption Notice Period
Fixed income funds	\$ 3,055,883	\$ -	Daily	Quarterly
Credit funds	41,891	-	Redemption Hold Back	N/A
Private equity funds	2,373,191	182,600	Ineligible, annual	90 days
Multi-strategy and other investments	36,193,706	-	Ineligible, quarterly, tri-annual	60-120 days
Real assets fund	3,031,790	1,166,133	Ineligible	N/A
	<u>\$ 44,696,461</u>	<u>\$ 1,348,733</u>		

THE CHRYSLER MUSEUM, INCORPORATED

NOTES TO FINANCIAL STATEMENTS

Note 6. Fair Value Measurements (Continued)

Investments in the multi-strategy and other investments category are primarily invested with the Richmond Fund, LP.

Investments in the Richmond Fund, L.P. include investments in hedge funds, private equity funds and other funds (real assets and real estate) and are reported at fair value as determined by Richmond Fund Management Company, LLC (the "General Partner.") The General Partner has estimated the fair value of the Fund's investments in investment funds on the basis of the net asset value (NAV) per share of the investment (or its equivalent), as a practical expedient, wherever a) the underlying investment manager's calculation of NAV is fair value based, and b) the NAV has been calculated as of the Fund's fiscal year end date. For investments in funds where the reported NAV is not as of the Fund's fiscal year end date or is not fair value based, the General Partner has adjusted the NAV, if deemed necessary, to estimate the NAV. Examples of factors that might necessitate an adjustment to the investment manager's reported NAV when it is not as of the Fund's fiscal year end date, are capital contributions that have been made or distributions that have been received since the calculation date of the reported NAV, changes to market or economic conditions, which could affect the value of the investment fund's portfolio after the calculation date of the reported NAV or changes that have occurred in the composition of the underlying investment portfolio of the investment fund after the NAV calculation date. When the General Partner has concluded that an adjustment is necessary because the reported NAV is not calculated consistently with fair value measurement principles, the General Partner will evaluate the reasons why the NAV has not been based upon fair value and, when possible, obtain sufficient information to estimate a fair value based NAV. When the General Partner determines it is not practicable to calculate an adjusted NAV, the practical expedient will not be utilized and other valuation methodologies will be used as described below. As of June 30, 2016, the General Partner utilized the practical expedient for all investments in investment funds.

Hedge funds for which the practical expedient cannot be utilized are valued based upon valuations determined in good faith by the underlying investment managers and reviewed by the General Partner. Based on the specific investment, the General Partner may consider, among other factors, the volume of redemptions occurring at the reporting date at NAV, restrictions on redemptions at the reporting date and the portion of the fund designated as a "side pocket" not available for redemption. Private equity funds, real assets and real estate funds, for which the practical expedient cannot be utilized, are valued at their estimated fair value as determined in good faith by the underlying investment managers and reviewed by the General Partner. Based on the specific investment and its underlying assets, the General Partner may consider, among other factors, quotes from market participants, pricing models, valuations or implied market inputs of comparable securities, recent sales or purchase multiples of comparable companies or securities, forecasted cash flows of the company, operating results or other financial data against set benchmarks, the book value of the company, market conditions, or other factors it deems relevant. The approved methodology will often depend on the availability of information, the type of investment, the stage of the company, and the business of the company. The General Partner attempts to maximize the use of observable inputs when available, and maintains documentation to support the rationale and method used to estimate fair value.

THE CHRYSLER MUSEUM, INCORPORATED

NOTES TO FINANCIAL STATEMENTS

Note 7. Property and Equipment

Property and equipment at June 30, 2016 and 2015 consist of the following:

	<u>2016</u>	<u>2015</u>
Furniture, fixtures and equipment	\$ 2,309,657	\$ 2,291,346
Less accumulated depreciation	<u>(1,438,515)</u>	<u>(1,216,536)</u>
Property and equipment, net	<u>\$ 871,142</u>	<u>\$ 1,074,810</u>

Note 8. Note Payable

On June 26, 2012, the Museum obtained a construction line of credit in the aggregate borrowings of up to \$15,000,000 for the Museum expansion project. As of June 30, 2016 and 2015, the line of credit balance outstanding was \$9,574,884 and \$11,719,709, respectively. This line was payable in monthly installments of interest only beginning July 2012 through November 2014 at 3.75%. On June 20, 2016, the Museum entered into a change in terms agreement. Under this new agreement, the Museum will pay 79 monthly interest payments at 3.75% beginning June 2016 calculated on the outstanding balance. Annual principal payments of \$1,500,000 will be due beginning in January 2017. One final payment of outstanding principal and interest is due January 2023. This loan is secured by certain Museum investment securities.

Future maturities of the long-term note payable are as follows:

<u>Year</u>	<u>Amount</u>
2017	\$ 1,500,000
2018	1,500,000
2019	1,500,000
2020	1,500,000
2021	1,500,000
Thereafter	<u>2,074,884</u>
Total	<u>\$ 9,574,884</u>

THE CHRYSLER MUSEUM, INCORPORATED

NOTES TO FINANCIAL STATEMENTS

Note 9. Employee Benefit Plan

The Museum offers a 403(b) retirement plan covering substantially all employees who have attained age 21, have been employed for at least one year, and who work a minimum of 1,000 hours annually. Contributions to the plan are at the discretion of the Board of Trustees and approved annually. The Museum's policy is to fund the contributions as accrued. Employer contributions to the plan were \$128,565 and \$103,298 in 2016 and 2015, respectively, exclusive of plan administrative costs.

Note 10. Board Designated and Restricted Net Assets

Quasi-Endowment Funds Board designated net assets include quasi-endowment funds which consists of deaccession proceeds and other unrestricted income which the board has designated for accession, capital, and program use. These quasi-endowment funds follow the spending policy of Museum endowments as discussed in Note 12.

Board designated and restricted net assets at June 30, 2016 and 2015, classified as to purpose, are as follows:

	<u>2016</u>	<u>2015</u>
Unrestricted – Board designated		
Accessions	\$ 4,432,931	\$ 4,914,284
Capital improvements	2,868,355	1,380,719
Program and supporting services	5,370,999	6,984,679
	<hr/>	<hr/>
Total board designated net assets	12,672,285	13,279,682
Temporarily restricted		
Accessions	2,060,495	2,594,494
Capital improvements	2,575,887	2,630,449
Program and supporting services	10,230,558	13,495,866
Time-restricted pledges	4,129,840	5,039,696
	<hr/>	<hr/>
Total temporarily restricted net assets	18,996,780	23,760,505
Permanently restricted		
Accessions	3,571,713	3,321,713
Program and supporting services	29,921,701	29,893,649
	<hr/>	<hr/>
Total permanently restricted net assets	33,493,414	33,215,362
	<hr/>	<hr/>
Total Board designated and restricted net assets	\$ 65,162,479	\$ 70,255,549

THE CHRYSLER MUSEUM, INCORPORATED

NOTES TO FINANCIAL STATEMENTS

Note 10. Board Designated and Restricted Net Assets (Continued)

The above funds aggregated by purpose at June 30, 2016 and 2015 consist of the following:

	<u>2016</u>	<u>2015</u>
Accessions	\$ 10,065,139	\$ 10,830,491
Capital improvements	5,444,242	4,011,168
Program and supporting services	45,523,258	50,374,194
Time-restricted pledges	4,129,840	5,039,696
	<hr/>	<hr/>
Total Board designated and restricted net assets	\$ 65,162,479	\$ 70,255,549

Note 11. Net Assets Released From Restrictions

Temporarily restricted net assets were released from donor restrictions during the years ended June 30, 2016 and 2015 by incurring expenses satisfying the restricted purposes or by occurrence of other events specified by donors, and are summarized as follows:

	<u>2016</u>	<u>2015</u>
Operational support		
Program and supporting services	\$ 1,540,059	\$ 1,634,061
	<hr/>	<hr/>
Non-operating support		
Accessions	482,143	740,661
Capital improvements	1,844,638	2,940,007
	<hr/>	<hr/>
Total non-operating support	2,326,781	3,680,668
	<hr/>	<hr/>
Total net assets released from restrictions	\$ 3,866,840	\$ 5,314,729

Note 12. Endowments

The Museum's endowment consists of approximately 50 individual funds established for a variety of purposes. Its endowment includes both donor-restricted endowment funds and funds designated by the Board of Trustees to function as endowments. Net assets associated with endowment funds, including funds designated by the Board of Trustees to function as endowments, are classified and reported based on the existence or absence of donor-imposed restrictions.

Governing Board's Interpretation of Law The Board of Trustees has interpreted UPMIFA as requiring the preservation of the fair value of the original gift as of the gift date of the donor-restricted endowment funds absent explicit donor stipulations to the contrary. The Museum classifies as permanently restricted net assets (a) the original value of gifts donated to the permanent endowment, (b) the original value of subsequent gifts to the permanent endowment, and (c) accumulations to the permanent endowment made in accordance with the direction of the applicable donor gift instrument at the time the accumulation is added to the fund. The remaining portion of the donor-restricted endowment fund that is not classified in permanently restricted net assets is classified as temporarily restricted net assets until those amounts are appropriated for expenditure by the Museum.

THE CHRYSLER MUSEUM, INCORPORATED

NOTES TO FINANCIAL STATEMENTS

Note 12. Endowments (Continued)

Investment 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 while seeking to maintain the purchasing power of the endowment assets. Endowment assets include those assets of donor-restricted funds that the Museum must hold in perpetuity or for a donor-specified period as well as board-designated funds. Under this policy, as approved by the Board of Trustees, the endowment assets are invested in a manner that is intended to (a) provide for a spending rate that keeps pace with inflation while protecting and growing the real value of the funds corpus, (b) attain an average annual real return, net of fees, of at least 5.0% over the long term, as measured over rolling five-year periods, and (c) control risks that may hinder achievement of these goals.

Spending Policy The Museum utilizes a total return, spending-rate policy in order to provide portfolio management flexibility, preserve the purchasing power (real value) of the funds, and aid the Museum's budgetary process. To meet these objectives, the Museum focuses on the overall return on investments, including interest, dividends, and net investment appreciation. For the Museum's budgeting requirements, the Museum is limited to using up to its spending rate, currently 5.0%, applied to a five-year moving average of the applicable board designated, temporarily and permanently restricted funds' fair value, to determine how much of the total return will be used for each year's budget. If in any one year, the full spending rate is not expended, the unspent portion carries forward and is added to the subsequent year's spending rate. Income in excess of the spending-rate formula is thus available, subject to original gift instruments, to maintain or increase the real value of the funds.

Endowment funds by net asset class at June 30, 2016 and 2015 is as follows:

	2016			
	Unrestricted	Temporarily Restricted	Permanently Restricted	Total
Donor restricted	\$ -	\$ 5,938,882	\$ 33,493,414	\$ 39,432,296
Board designated	12,519,049	-	-	12,519,049
Total endowment funds	\$ 12,519,049	\$ 5,938,882	\$ 33,493,414	\$ 51,951,345

	2015			
	Unrestricted	Temporarily Restricted	Permanently Restricted	Total
Donor restricted	\$ -	\$ 9,298,665	\$ 33,215,362	\$ 42,514,027
Board designated	13,113,175	-	-	13,113,175
Total endowment funds	\$ 13,113,175	\$ 9,298,665	\$ 33,215,362	\$ 55,627,202

THE CHRYSLER MUSEUM, INCORPORATED

NOTES TO FINANCIAL STATEMENTS

Note 12. Endowments (Continued)

Changes in endowment funds by net asset class at June 30, 2016 and 2015 are as follows:

	Unrestricted	Temporarily Restricted	Permanently Restricted	Total
Balance, June 30, 2014	\$ 11,970,427	\$ 11,360,120	\$ 33,104,832	\$ 56,435,379
Additions	3,315,120	-	110,530	3,425,650
Investment loss	(325,046)	(519,971)	-	(845,017)
Expenditures	(1,847,326)	(1,541,484)	-	(3,388,810)
Balance, June 30, 2015	13,113,175	9,298,665	33,215,362	55,627,202
Additions	2,044,801	-	278,052	2,322,853
Investment loss	(1,166,593)	(1,864,983)	-	(3,031,576)
Expenditures	(1,472,334)	(1,494,800)	-	(2,967,134)
Balance, June 30, 2016	\$ 12,519,049	\$ 5,938,882	\$ 33,493,414	\$ 51,951,345

The June 30, 2015 and 2014 unrestricted endowment fund balances have been reduced by \$12,506,989 and \$14,538,108, respectively, to correct overstatements of unrestricted board designated endowment funds as previously disclosed. The board designated net assets as previously reported in the statements of financial position are unchanged as a result of this correction.

Note 13. Concentration of Credit Risk

At various times during the years presented, the Museum may have on deposit with a single financial institution more than \$250,000, which is the basic limit currently insured by the Federal Deposit Insurance Corporation (FDIC).

The Museum invested its excess cash in overnight investments. These investments were not insured but were collateralized by corporate debt and U.S. Government Agency securities. Approximately \$2,219,000 was invested in this manner at June 30, 2015. During 2016, the Museum terminated its overnight investment account and all funds remained in the operating account at June 30, 2016.

Credit risks related to pledges receivable are concentrated as most of the receivables are due from individuals and businesses located in the same geographic region.

The Museum received 48% and 32% of its total support and revenue from the City of Norfolk for the years ended June 30, 2016 and 2015, respectively.

Note 14. Related Party Transactions

The Museum's note payable is held by a financial institution that employs a senior vice president that serves as a trustee of the Museum.

Trustee contributions to the Museum totaled approximately \$581,000 and \$349,000 for the years ended June 30, 2016 and 2015, respectively.