



Norfolk, Virginia

FINANCIAL STATEMENTS

June 30, 2014

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## INDEPENDENT AUDITOR'S REPORT

The Board of Trustees  
The Chrysler Museum, Incorporated  
Norfolk, Virginia

We have audited the accompanying financial statements of The Chrysler Museum, Incorporated (the Museum), which comprise the statements of financial position as of June 30, 2014 and 2013, and the related statements of activities, operating 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 the Museum at June 30, 2014 and 2013, and the changes in its net assets and its cash flows for the years then ended in accordance with accounting principles generally accepted in the United States of America.

*McPhillips, Roberts & Deans, PLC*

Norfolk, Virginia

January 9, 2015

**THE CHRYSLER MUSEUM, INCORPORATED**

## STATEMENTS OF FINANCIAL POSITION

June 30, 2014 and 2013

<b>Assets</b>	<u>2014</u>	<u>2013</u>
Cash and cash equivalents	\$ 15,167,459	\$ 11,672,892
Inventory	142,030	27,521
Prepaid expense and other assets	578,997	543,135
Pledges receivable, net	7,589,731	8,147,499
Charitable trusts	117,630	143,015
Investments	66,780,913	58,011,621
Property and equipment, net	<u>1,162,283</u>	<u>855,517</u>
<b>TOTAL ASSETS</b>	<b><u>\$ 91,539,043</u></b>	<b><u>\$ 79,401,200</u></b>
 <b>Liabilities and Net Assets</b>		
<b>Liabilities</b>		
Accounts payable	\$ 879,784	\$ 1,710,154
Accrued expenses and other liabilities	1,738,625	1,506,776
Deferred revenue	120,420	41,457
Note payable	<u>14,214,972</u>	<u>3,037,000</u>
<b>Total Liabilities</b>	<b><u>16,953,801</u></b>	<b><u>6,295,387</u></b>
 <b>Net Assets</b>		
Unrestricted		
Board designated	12,144,973	17,103,801
Other	<u>2,677,013</u>	<u>2,181,318</u>
Total unrestricted net assets	14,821,986	19,285,119
Temporarily restricted	26,658,424	21,279,271
Permanently restricted	<u>33,104,832</u>	<u>32,541,423</u>
<b>Total Net Assets</b>	<b><u>74,585,242</u></b>	<b><u>73,105,813</u></b>
<b>TOTAL LIABILITIES AND NET ASSETS</b>	<b><u>\$ 91,539,043</u></b>	<b><u>\$ 79,401,200</u></b>

STATEMENTS OF ACTIVITIES

For the Years Ended June 30, 2014 and 2013

**THE CHRYSLER MUSEUM, INCORPORATED**

STATEMENTS OF ACTIVITIES

For the Years Ended June 30, 2014 and 2013

	2014			Total
	Unrestricted	Temporarily Restricted	Permanently Restricted	
<b>Support and Revenue</b>				
City of Norfolk	\$ 2,847,832	\$ -	\$ -	\$ 2,847,832
Contributions and other grants	626,103	5,463,345	563,409	6,652,857
Investment income	5,977	5,386,895	-	5,392,872
Memberships	995,561	-	-	995,561
Earned income	715,071	-	-	715,071
Other income	35,467	-	-	35,467
Transfer of board designated reserves	679,992	-	-	679,992
Net assets released from donor restrictions	1,813,777	(1,813,777)	-	-
<b>Total Support and Revenue</b>	<b>7,719,780</b>	<b>9,036,463</b>	<b>563,409</b>	<b>17,319,652</b>
<b>Operating Expenses</b>				
Program services				
Galleries, curatorial and exhibits	3,507,553	-	-	3,507,553
Other	1,967,614	-	-	1,967,614
Total program services	5,475,167	-	-	5,475,167
Supporting services				
Development and marketing	1,426,638	-	-	1,426,638
General and administrative	802,927	-	-	802,927
Total supporting services	2,229,565	-	-	2,229,565
<b>Total Operating Expenses</b>	<b>7,704,732</b>	<b>-</b>	<b>-</b>	<b>7,704,732</b>
<b>Change in Net Assets from Operating Activities</b>	<b>15,048</b>	<b>9,036,463</b>	<b>563,409</b>	<b>9,614,920</b>
<b>Non-Operating Activities</b>				
Change in net assets related to collection items not capitalized				
Accessions	(362,514)	-	-	(362,514)
Deaccession proceeds	-	-	-	-
	(362,514)	-	-	(362,514)
Investment income	2,790,594	-	-	2,790,594
Contributions, non-operating	427,536	-	-	427,536
Property improvements				
Museum expansion	(9,907,479)	-	-	(9,907,479)
Expansion project costs	(403,636)	-	-	(403,636)
Donor redesignations	-	-	-	-
Transfer of board designated reserves	(679,992)	-	-	(679,992)
Net assets released from donor restrictions	3,657,310	(3,657,310)	-	-
<b>Total Non-Operating Activities</b>	<b>(4,478,181)</b>	<b>(3,657,310)</b>	<b>-</b>	<b>(8,135,491)</b>
<b>Change in Net Assets</b>	<b>(4,463,133)</b>	<b>5,379,153</b>	<b>563,409</b>	<b>1,479,429</b>
Net Assets, Beginning of Year	19,285,119	21,279,271	32,541,423	73,105,813
<b>NET ASSETS, END OF YEAR</b>	<b>\$ 14,821,986</b>	<b>\$ 26,658,424</b>	<b>\$ 33,104,832</b>	<b>\$ 74,585,242</b>

See Accompanying Notes to Financial Statements

2013

Unrestricted	Temporarily Restricted	Permanently Restricted	Total
\$ 2,819,636	\$ -	\$ -	\$ 2,819,636
577,657	2,620,590	676,891	3,875,138
10,658	3,127,975	-	3,138,633
908,280	-	-	908,280
667,871	-	-	667,871
82,599	-	-	82,599
656,772	-	-	656,772
1,190,031	(1,190,031)	-	-
<b>6,913,504</b>	<b>4,558,534</b>	<b>676,891</b>	<b>12,148,929</b>
3,232,528	-	-	3,232,528
1,873,809	-	-	1,873,809
5,106,337	-	-	5,106,337
1,225,665	-	-	1,225,665
577,152	-	-	577,152
1,802,817	-	-	1,802,817
<b>6,909,154</b>	<b>-</b>	<b>-</b>	<b>6,909,154</b>
<b>4,350</b>	<b>4,558,534</b>	<b>676,891</b>	<b>5,239,775</b>
(896,165)	-	-	(896,165)
222,074	-	-	222,074
(674,091)	-	-	(674,091)
1,749,084	-	-	1,749,084
340,143	-	-	340,143
(8,317,984)	-	-	(8,317,984)
(120,432)	-	-	(120,432)
-	(500,000)	500,000	-
(656,772)	-	-	(656,772)
1,904,081	(1,904,081)	-	-
<b>(5,775,971)</b>	<b>(2,404,081)</b>	<b>500,000</b>	<b>(7,680,052)</b>
<b>(5,771,621)</b>	<b>2,154,453</b>	<b>1,176,891</b>	<b>(2,440,277)</b>
25,056,740	19,124,818	31,364,532	75,546,090
<b>\$ 19,285,119</b>	<b>\$ 21,279,271</b>	<b>\$ 32,541,423</b>	<b>\$ 73,105,813</b>



# THE CHRYSLER MUSEUM, INCORPORATED

## STATEMENTS OF OPERATING EXPENSES

For the Years Ended June 30, 2014 and 2013

	2014	2013
<b>Natural Classification</b>		
Salaries	\$ 3,318,043	\$ 3,087,118
Payroll taxes	234,989	223,080
Employee benefits	482,776	443,902
Temporary employees	216,516	137,770
Total compensation and benefits	<u>4,252,324</u>	<u>3,891,870</u>
Advertising	177,425	126,247
Computer services	77,154	61,223
Consulting and outside services	702,354	518,228
Cost of sales	112,332	123,083
Depreciation	199,099	201,226
Exhibition fees and installation	166,153	137,187
Insurance	121,365	135,331
Miscellaneous	345,129	290,661
Printing and publications	123,174	149,479
Repairs and maintenance	333,424	235,989
Supplies	315,531	245,731
Telephone	52,672	58,444
Donor stewardship, professional development and travel	323,835	272,462
Utilities	<u>402,761</u>	<u>461,993</u>
<b>Total Operating Expenses</b>	<b><u>\$ 7,704,732</u></b>	<b><u>\$ 6,909,154</u></b>
<b>Functional Classification</b>		
<b>Program Services</b>		
Galleries, curatorial and exhibitions	<u>\$ 3,507,553</u>	<u>\$ 3,232,528</u>
Other		
Education	718,247	625,794
Library	242,170	212,366
Gift shop	187,509	199,818
Glass Studio	480,759	476,334
Historic houses	143,461	161,727
Special events	142,415	112,667
Support programs	53,053	85,103
	<u>1,967,614</u>	<u>1,873,809</u>
<b>Total Program Services</b>	<b><u>5,475,167</u></b>	<b><u>5,106,337</u></b>
<b>Supporting Services</b>		
Development and marketing	1,426,638	1,225,665
General and administrative	<u>802,927</u>	<u>577,152</u>
<b>Total Supporting Services</b>	<b><u>2,229,565</u></b>	<b><u>1,802,817</u></b>
<b>Total Operating Expenses</b>	<b><u>\$ 7,704,732</u></b>	<b><u>\$ 6,909,154</u></b>

**THE CHRYSLER MUSEUM, INCORPORATED**

STATEMENTS OF CASH FLOWS

For the Years Ended June 30, 2014 and 2013

	2014	2013
<b>Cash Flows From Operating Activities</b>		
Change in net assets	\$ 1,479,429	\$ (2,440,277)
Adjustments to reconcile change in net assets to net cash provided by operating activities		
Net increase in fair value of investments	(5,156,506)	(2,268,179)
Depreciation	199,099	201,226
Loss on disposition of equipment	-	1,262
Cash received restricted for long-term use	(6,566,624)	(6,370,088)
Proceeds from sales of collection items	-	(222,074)
Acquisition of collection items	362,514	896,165
Property improvements expensed	10,311,115	8,438,416
Changes in certain operating assets and liabilities		
Inventory, prepaid expense and other assets	(354,345)	(191,930)
Pledges receivable	557,768	3,267,135
Charitable trusts	25,385	190,218
Accounts payable, accrued expenses and deferred revenue	(519,558)	2,008,549
<b>Net Cash Provided by Operating Activities</b>	<b>338,277</b>	<b>3,510,423</b>
<b>Cash Flows From Investing Activities</b>		
Purchase of investments	(15,368,759)	(17,814,327)
Proceeds from sale of investments and maturities	11,755,973	14,334,092
Proceeds from sales of collection items	-	222,074
Acquisition of collection items	(362,514)	(896,165)
Acquisition of property improvements	(10,311,115)	(8,438,416)
Additions to property and equipment	(301,891)	(40,107)
<b>Net Cash Used in Investing Activities</b>	<b>(14,588,306)</b>	<b>(12,632,849)</b>
<b>Cash Flows From Financing Activities</b>		
Contributions to permanently restricted funds	1,642,938	3,617,044
Contributions to temporarily restricted funds	4,923,686	2,753,044
Proceeds from note payable	11,177,972	3,037,000
Repayments of notes payable	-	(742,164)
<b>Net Cash Provided by Financing Activities</b>	<b>17,744,596</b>	<b>8,664,924</b>
<b>Increase (Decrease) in Cash and Cash Equivalents</b>	<b>3,494,567</b>	<b>(457,502)</b>
Cash and Cash Equivalents, Beginning of Year	11,672,892	12,130,394
<b>CASH AND CASH EQUIVALENTS, END OF YEAR</b>	<b>\$ 15,167,459</b>	<b>\$ 11,672,892</b>
<b>Supplemental Disclosure of Cash Flow Information</b>		
Cash paid during the year for interest	\$ 355,636	\$ 17,436
Prepaid acquisition of property and equipment	\$ 203,974	\$ -

# THE CHRYSLER MUSEUM, INCORPORATED

## NOTES TO FINANCIAL STATEMENTS

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### 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 160,000 annual visitors from around the world. The Museum operates on an annual budget of approximately \$7 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. At the insistence of the Museum's Trustees, the Museum operates every year on a balanced budget.

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 new 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

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**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, 2014, 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.

**Pledges Receivable** Pledges receivable represent unconditional promises to give and are recorded at net realizable value. Promises to give to be received 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. Changes in fair value are included in the change in net assets in the accompanying statements of activities.

**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

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The Museum building and Historic Houses are owned by the City of Norfolk. By mutual agreement, the Museum occupies without charge, its facilities owned by the City of Norfolk. 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 \$10,311,115 and \$8,438,416 of property improvements to the City of Norfolk during the years ended June 30, 2014 and 2013, respectively. The Museum does not recognize contribution income and the offsetting rental expense for the use of its facilities because the value is not readily determinable due to the special use nature of the facility.

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 and as such the Museum recognizes revenue under this arrangement when invoiced. Support from this arrangement totaled \$1,000,000 during the year ended June 30, 2013 and has been recognized in the accompanying financial statements. As of June 30, 2014, cumulative support from this award totaled \$3,750,000 with a remaining balance of \$6,250,000.

**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 \$177,425, and \$126,247 for the years ended June 30, 2014 and 2013, 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 of operating expenses. In presenting the Museum's natural classification of expenses on a functional basis, direct expenses are aggregated by function and indirect expenses, primarily facilities management and depreciation, have been 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 effort have not been satisfied.

**Income Taxes** The Museum is an organization described in Section 501(c)(3) of the Internal Revenue Code and 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. Returns are generally subject to examinations for three years from the date filed. This period of limitations has expired for returns filed for tax years 2010 and earlier. Management continually evaluates tax positions reflected in the Museum's tax filings and does not believe that any material uncertain tax positions exist.

**Subsequent Events** Management has evaluated subsequent events through January 9, 2015, the date which the financial statements were available to be issued.

# THE CHRYSLER MUSEUM, INCORPORATED

## NOTES TO FINANCIAL STATEMENTS

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### NOTE 3 - PLEDGES RECEIVABLE

Pledges receivable at June 30, 2014 and 2013 consist of the following:

	2014	2013
Amounts due within one year	\$ 1,503,910	\$ 2,150,775
Amounts due in more than one year but less than five years	4,421,016	4,394,488
Amounts due in more than five years	4,555,624	4,972,195
Total pledges receivable	10,480,550	11,517,458
Less allowance for doubtful accounts	(518,290)	(574,227)
Less present value discount (ranging from 0.95% - 4.84%)	(2,372,529)	(2,795,732)
Total pledges receivable, net	\$ 7,589,731	\$ 8,147,499

### 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.

Initial contributions and annual adjustments for all split-interest agreements are calculated based on estimated life expectancies and other assumptions. Discount rates used in the calculations at June 30, 2014 and 2013 ranged from 0.95% to 1.91% based on the mid-term annual Applicable Federal Rate.

At June 30, 2014 and 2013, the Museum recorded liabilities to beneficiaries of the charitable gift annuities totaling \$116,225 and \$122,322, respectively, which are included in accrued expenses in the accompanying statements of financial position.

THE CHRYSLER MUSEUM, INCORPORATED

NOTES TO FINANCIAL STATEMENTS

NOTE 5 - INVESTMENTS

Investments at June 30, 2014 and 2013 consist of the following:

	2014	2013
Money market funds	\$ 1,181,907	\$ 1,273,333
Fixed income	7,685,990	7,391,592
Registered mutual fund	21,877,313	19,655,713
Credit	76,422	202,520
Private equity	2,618,033	4,021,134
Multi-strategy and other	29,840,579	22,295,234
Real assets	3,188,315	2,893,016
	<u>66,468,559</u>	<u>57,732,542</u>
Gift annuity investments	312,354	279,079
	<u>66,780,913</u>	<u>58,011,621</u>
Total investments	<u>\$ 66,780,913</u>	<u>\$ 58,011,621</u>

The following summarizes investments in entities that calculate fair value based on net asset value per share as of June 30, 2014 and 2013:

Description	2014		Redemption Frequency (if Currently Eligible)	Redemption Notice Period
	Fair Value	Unfunded Commitments		
Credit	\$ 76,422	\$ -	Daily	
Private equity	2,618,033	202,041	Ineligible, annual	90 days
Multi-strategy and other	29,840,579	-	Ineligible, quarterly, tri-annual	60-100 days
Real assets	3,188,315	2,370,833	Ineligible	
	<u>\$ 35,723,349</u>	<u>\$ 2,572,874</u>		

THE CHRYSLER MUSEUM, INCORPORATED

NOTES TO FINANCIAL STATEMENTS

Description	2013		Redemption Frequency (if Currently Eligible)	Redemption Notice Period
	Fair Value	Unfunded Commitments		
Credit	\$ 202,520	\$ -	Daily	
Private equity	4,021,134	279,541	Ineligible, annual	90 days
Multi-strategy and other	22,295,234	-	Ineligible, quarterly, tri-annual	60-100 days
Real assets	2,893,016	2,225,383	Ineligible	
	<u>\$ 29,411,904</u>	<u>\$ 2,504,924</u>		

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

	2014	2013
Interest and dividends	\$ 862,450	\$ 754,579
Capital gain distributions	2,263,510	1,956,959
Increase in fair value of investments	5,156,506	2,268,179
Investment management fees	(99,000)	(92,000)
Total investment income	<u>\$ 8,183,466</u>	<u>\$ 4,887,717</u>

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

	2014	2013
Unrestricted net assets		
Operating	\$ 5,977	\$ 10,658
Non-operating	2,790,594	1,749,084
	<u>2,796,571</u>	<u>1,759,742</u>
Temporarily restricted net assets	5,386,895	3,127,975
Total investment income	<u>\$ 8,183,466</u>	<u>\$ 4,887,717</u>

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



# THE CHRYSLER MUSEUM, INCORPORATED

## NOTES TO FINANCIAL STATEMENTS

### 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 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, 2014 and 2013:

	2014			
	Level 1	Level 2	Level 3	Total
<b>Assets</b>				
Investments				
Money market funds	\$ 1,181,907	\$ -	\$ -	\$ 1,181,907
Fixed income	4,512,760	-	3,173,230	7,685,990
Registered mutual fund	21,877,313	-	-	21,877,313
Credit	-	-	76,422	76,422
Private equity	-	-	2,618,033	2,618,033
Multi-strategy and other	-	-	29,840,579	29,840,579
Real assets	-	-	3,188,315	3,188,315
	<u>27,571,980</u>	<u>-</u>	<u>38,896,579</u>	<u>66,468,559</u>
Gift annuity investments	<u>312,354</u>	<u>-</u>	<u>-</u>	<u>312,354</u>
Total investments	27,884,334	-	38,896,579	66,780,913
Charitable trusts	<u>-</u>	<u>-</u>	<u>117,630</u>	<u>117,630</u>
Total assets at fair value	<u>\$ 27,884,334</u>	<u>\$ -</u>	<u>\$ 39,014,209</u>	<u>\$ 66,898,543</u>
<b>Liabilities</b>				
Gift annuity liabilities	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 116,225</u>	<u>\$ 116,225</u>
Total liabilities at fair value	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 116,225</u>	<u>\$ 116,225</u>

THE CHRYSLER MUSEUM, INCORPORATED

NOTES TO FINANCIAL STATEMENTS

	2013			
	Level 1	Level 2	Level 3	Total
<b>Assets</b>				
Investments				
Money market funds	\$ 1,273,333	\$ -	\$ -	\$ 1,273,333
Fixed income	7,391,592	-	-	7,391,592
Registered mutual fund	19,655,713	-	-	19,655,713
Credit	-	-	202,520	202,520
Private equity	-	-	4,021,134	4,021,134
Multi-strategy and other	-	-	22,295,234	22,295,234
Real assets	-	-	2,893,016	2,893,016
	<u>28,320,638</u>	<u>-</u>	<u>29,411,904</u>	<u>57,732,542</u>
Gift annuity investments	<u>279,079</u>	<u>-</u>	<u>-</u>	<u>279,079</u>
Total investments	28,599,717	-	29,411,904	58,011,621
Charitable trusts	<u>-</u>	<u>-</u>	<u>143,015</u>	<u>143,015</u>
Total assets at fair value	<u>\$ 28,599,717</u>	<u>\$ -</u>	<u>\$ 29,554,919</u>	<u>\$ 58,154,636</u>
<b>Liabilities</b>				
Gift annuity liabilities	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 122,322</u>	<u>\$ 122,322</u>
Total liabilities at fair value	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 122,322</u>	<u>\$ 122,322</u>

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, 2014 and 2013.

	2014				Fair Value June 30, 2014
	Fair Value July 1, 2013	Net Realized and Unrealized Gains (Losses)	Purchases	Sales	
<b>Investments</b>					
Credit	\$ 202,520	\$ (1,298)	\$ -	\$ (124,800)	\$ 76,422
Fixed income	-	173,230	3,000,000	-	3,173,230
Private equity	4,021,134	644,899	77,500	(2,125,500)	2,618,033
Multi-strategy and other	22,295,234	2,979,764	8,500,000	(3,934,419)	29,840,579
Real assets	2,893,016	31,075	638,000	(373,776)	3,188,315
Charitable trust	<u>143,015</u>	<u>(25,385)</u>	<u>-</u>	<u>-</u>	<u>117,630</u>
Total assets	<u>\$ 29,554,919</u>	<u>\$ 3,802,285</u>	<u>\$ 12,215,500</u>	<u>\$ (6,558,495)</u>	<u>\$ 39,014,209</u>
Gift annuity liabilities	<u>\$ 122,322</u>	<u>\$ 11,272</u>	<u>\$ -</u>	<u>\$ (17,369)</u>	<u>\$ 116,225</u>

**THE CHRYSLER MUSEUM, INCORPORATED**

NOTES TO FINANCIAL STATEMENTS

	2013				
	Fair Value July 1, 2012	Net Realized and Unrealized Gains (Losses)	Purchases	Sales	Fair Value June 30, 2013
Investments					
Credit	\$ 340,756	\$ (2,909)	\$ -	\$ (135,327)	\$ 202,520
Private equity	4,875,207	616,004	72,500	(1,542,577)	4,021,134
Multi-strategy and other	19,947,506	2,575,231	2,500,000	(2,727,503)	22,295,234
Real assets	2,849,855	(61,371)	668,079	(563,547)	2,893,016
Charitable trust	333,233	7,081	-	(197,299)	143,015
Total assets	<u>\$ 28,346,557</u>	<u>\$ 3,134,036</u>	<u>\$ 3,240,579</u>	<u>\$ (5,166,253)</u>	<u>\$ 29,554,919</u>
Gift annuity liabilities	<u>\$ 90,713</u>	<u>\$ 11,105</u>	<u>\$ 37,873</u>	<u>\$ (17,369)</u>	<u>\$ 122,322</u>

Net unrealized gains included in net gains (losses) for the period related to assets held at June 30, 2014 and 2013 and totaled \$2,256,523 and \$1,969,653, respectively, and are included in temporarily restricted net assets.

Investments in credit, private equity, multi-strategy and other, and real assets for which a quoted market price is not available are carried at fair value as determined by the underlying investment fund management. Such valuations are based upon judgments that reflect various factors including, but not limited to, market values when available, restrictions affecting marketability, operating results, financial condition of the investees and the price of recent transactions. Due to the inherent uncertainty of investment valuation, the fair values may differ significantly from the values that would have been used had a ready market for all investments existed, and the difference could be material.

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.

**NOTE 7 - PROPERTY AND EQUIPMENT**

Property and equipment at June 30, 2014 and 2013 consist of the following:

	2014	2013
Furniture, fixtures and equipment	\$ 2,150,767	\$ 1,644,902
Less accumulated depreciation	<u>(988,484)</u>	<u>(789,385)</u>
Property and equipment, net	<u>\$ 1,162,283</u>	<u>\$ 855,517</u>

# THE CHRYSLER MUSEUM, INCORPORATED

## NOTES TO FINANCIAL STATEMENTS

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### NOTE 8 - NOTE PAYABLE

On June 26, 2012, the Museum obtained a construction line of credit in the aggregate amount of up to \$15,000,000 for the Museum expansion project. As of June 30, 2014 and 2013, the line of credit balance outstanding was \$14,214,972 and \$3,037,000, respectively. This line was payable in monthly installments of interest only beginning July 2012 through November 2014 at 3.75%. On November 25, 2014, subsequent to year end, the Museum entered into a change in terms agreement. Under this new agreement, the Museum will pay 94 monthly interest payments at 3.75% calculated on the outstanding balance. Annual principal payments of \$1,875,000 will be due beginning in January 2016. 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>
2015	\$ -
2016	1,875,000
2017	1,875,000
2018	1,875,000
2019	1,875,000
Thereafter	<u>6,714,972</u>
Total	<u>\$ 14,214,972</u>

### 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 \$108,492 and \$103,277 in 2014 and 2013, respectively, exclusive of plan administrative costs.

# THE CHRYSLER MUSEUM, INCORPORATED

## NOTES TO FINANCIAL STATEMENTS

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### 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.

All board designated contributions are recorded as non-operating contributions in the statements of activities. Since all board designated net assets result from an internal designation, they are not considered temporarily restricted, but are classified and reported as unrestricted net assets.

Board designated and restricted net assets at June 30, 2014 and 2013, classified as to purpose, are as follows:

	2014	2013
Unrestricted - Board designated		
Accessions	\$ 5,032,010	\$ 4,528,489
Capital improvements	1,139,894	809,190
Program and supporting services	5,973,069	11,766,122
Total board designated net assets	<u>12,144,973</u>	<u>17,103,801</u>
Temporarily restricted		
Accessions	3,032,902	2,498,939
Capital improvements	2,617,370	1,713,027
Program and supporting services	15,211,955	11,783,641
Time-restricted pledges	5,796,197	5,283,664
Total temporarily restricted net assets	<u>26,658,424</u>	<u>21,279,271</u>
Permanently restricted		
Accessions	3,321,713	3,296,300
Program and supporting services	29,783,119	29,245,123
Total permanently restricted net assets	<u>33,104,832</u>	<u>32,541,423</u>
Total Board designated and restricted net assets	<u>\$ 71,908,229</u>	<u>\$ 70,924,495</u>

Board designated net assets are shown net of the note payable, which is secured by board designated endowment investments.

# THE CHRYSLER MUSEUM, INCORPORATED

## NOTES TO FINANCIAL STATEMENTS

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The above funds aggregated by purpose at June 30, 2014 and 2013 consist of the following:

	<u>2014</u>	<u>2013</u>
Accessions	\$ 11,386,625	\$ 10,323,728
Capital improvements	3,757,264	2,522,217
Program and supporting services	50,968,143	52,794,886
Time-restricted pledges	<u>5,796,197</u>	<u>5,283,664</u>
Total Board designated and restricted net assets	<u>\$ 71,908,229</u>	<u>\$ 70,924,495</u>

### NOTE 11 - NET ASSETS RELEASED FROM RESTRICTIONS

Temporarily restricted net assets were released from donor restrictions during the years ended June 30, 2014 and 2013 by incurring expenses satisfying the restricted purposes or by occurrence of other events specified by donors, and are summarized as follows:

	<u>2014</u>	<u>2013</u>
Operational support		
Program and supporting services	<u>\$ 1,813,777</u>	<u>\$ 1,190,031</u>
Non-operating support		
Accessions	295,428	677,193
Capital improvements	<u>3,361,882</u>	<u>1,226,888</u>
Total non-operating support	<u>3,657,310</u>	<u>1,904,081</u>
Total net assets released from restrictions	<u>\$ 5,471,087</u>	<u>\$ 3,094,112</u>

# THE CHRYSLER MUSEUM, INCORPORATED

## NOTES TO FINANCIAL STATEMENTS

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### NOTE 12 - ENDOWMENTS

The Museum's endowment consists of approximately 45 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.

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 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.

THE CHRYSLER MUSEUM, INCORPORATED

NOTES TO FINANCIAL STATEMENTS

Endowment funds by net asset class at June 30, 2014 and 2013 is as follows:

	2014			Total
	Unrestricted	Temporarily Restricted	Permanently Restricted	
Donor restricted	\$ -	\$ 11,360,120	\$ 33,104,832	\$ 44,464,952
Board designated	26,508,535	-	-	26,508,535
<b>Total endowment funds</b>	<b>\$ 26,508,535</b>	<b>\$ 11,360,120</b>	<b>\$ 33,104,832</b>	<b>\$ 70,973,487</b>

  

	2013			Total
	Unrestricted	Temporarily Restricted	Permanently Restricted	
Donor restricted	\$ -	\$ 8,019,449	\$ 32,541,423	\$ 40,560,872
Board designated	24,087,847	-	-	24,087,847
<b>Total endowment funds</b>	<b>\$ 24,087,847</b>	<b>\$ 8,019,449</b>	<b>\$ 32,541,423</b>	<b>\$ 64,648,719</b>

Changes in endowment funds by net asset class at June 30, 2014 and 2013 are as follows:

	Unrestricted	Temporarily Restricted	Permanently Restricted	Total
Balance, June 30, 2012	\$ 22,690,521	\$ 6,795,629	\$ 31,364,532	\$ 60,850,682
Contributions	562,702	-	676,891	1,239,593
Investment income	1,731,396	2,559,169	-	4,290,565
Expenditures	(896,772)	(1,335,349)	-	(2,232,121)
Transfers	-	-	500,000	500,000
<b>Balance, June 30, 2013</b>	<b>24,087,847</b>	<b>8,019,449</b>	<b>32,541,423</b>	<b>64,648,719</b>
Contributions	427,537	-	563,409	990,946
Investment income	2,763,581	4,435,241	-	7,198,822
Expenditures	(770,430)	(1,094,570)	-	(1,865,000)
<b>Balance, June 30, 2014</b>	<b>\$ 26,508,535</b>	<b>\$ 11,360,120</b>	<b>\$ 33,104,832</b>	<b>\$ 70,973,487</b>

During 2014, after further clarification, a board designated fund was determined to be part of the endowment and as such is now included with unrestricted endowment funds. This addition increased unrestricted endowment funds by \$13,237,608 and \$13,857,868 at June 30, 2012 and 2013, respectively.



## THE CHRYSLER MUSEUM, INCORPORATED

### NOTES TO FINANCIAL STATEMENTS

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#### **NOTE 13 - CONCENTRATION OF CREDIT RISK**

At various times during the years presented, the Museum may have had 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 routinely invests excess cash in overnight investments. These investments are not insured but are collateralized by high corporate debt and U.S. Government Agency securities. Approximately \$14,434,000 and \$10,861,000 was invested in this manner at June 30, 2014 and 2013.

#### **NOTE 14 - RECLASSIFICATIONS**

Certain amounts in the 2013 financial statements have been reclassified to conform with the current year financial statement presentation. These reclassifications had no effect on financial position or operating results as previously reported.