

**VIRGINIA MUSEUM OF
CONTEMPORARY ART**

**FINANCIAL STATEMENTS AND
SUPPLEMENTAL SCHEDULES**

As of and for the Years Ended June 30, 2013 and 2012

And Report of Independent Auditor

VIRGINIA MUSEUM OF CONTEMPORARY ART
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Report of Independent Auditor

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

We have audited the accompanying financial statements of the Virginia Museum of Contemporary Art, which comprise the statements of financial position as of June 30, 2013 and 2012, and the related statements of activities, functional expenses, and cash flows for the years then ended, and the related notes to the financial statements.

Management's Responsibility for the Financial Statements

Management is responsible for the preparation and fair presentation of these financial statements in accordance with accounting principles generally accepted in the United States of America; this includes the design, implementation, and maintenance of internal control relevant to the preparation and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error.

Auditor's Responsibility

Our responsibility is to express an opinion on these financial statements based on our audits. We conducted our audits in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audits to obtain reasonable assurance about whether the financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Opinion

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of Virginia Museum of Contemporary Art as of June 30, 2013 and 2012, and the change in its net assets and its cash flows for the years then ended in accordance with accounting principles generally accepted in the United States of America.

Other Matter

Our audits were conducted for the purpose of forming an opinion on the financial statements as a whole. The supplemental schedules on pages 16-17 are presented for purposes of additional analysis and are not a required part of the financial statements. Such information is the responsibility of management and was derived from and relates directly to the underlying accounting and other records used to prepare the financial statements. The information has been subjected to the auditing procedures applied in the audit of the financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the financial statements or to the financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the information is fairly stated in all material respects in relation to the financial statements as a whole.



Virginia Beach, VA
November 4, 2013

VIRGINIA MUSEUM OF CONTEMPORARY ART
STATEMENTS OF FINANCIAL POSITION

JUNE 30, 2013 AND 2012

	<u>2013</u>	<u>2012</u>
ASSETS		
Current Assets:		
Cash and cash equivalents	\$ 645,408	\$ 792,954
Investments	525,802	150,055
Accounts receivable	12,765	69,280
Inventory	14,533	18,463
Prepaid expense	7,030	64,393
Total Current Assets	<u>1,205,538</u>	<u>1,095,145</u>
Property and Equipment:		
Leasehold improvements	2,065,365	2,065,365
Equipment	484,062	670,244
	<u>2,549,427</u>	<u>2,735,609</u>
Less accumulated depreciation	1,372,446	1,416,295
Total Property and Equipment	<u>1,176,981</u>	<u>1,319,314</u>
Total Assets	<u>\$ 2,382,519</u>	<u>\$ 2,414,459</u>
LIABILITIES AND NET ASSETS		
Current Liabilities:		
Accounts payable, trade	\$ 81,803	\$ 2,560
Accrued expenses	19,674	19,381
Deferred income, advance payments	75,859	161,326
Total Current Liabilities	<u>177,336</u>	<u>183,267</u>
Net Assets:		
Unrestricted:		
Undesignated	851,693	742,068
Invested in property and equipment	1,176,981	1,319,314
Board designated endowment	155,111	-
Temporarily restricted	21,398	14,068
Permanently restricted	-	155,742
Total Net Assets	<u>2,205,183</u>	<u>2,231,192</u>
Total Liabilities and Net Assets	<u>\$ 2,382,519</u>	<u>\$ 2,414,459</u>

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

VIRGINIA MUSEUM OF CONTEMPORARY ART
STATEMENTS OF ACTIVITIES

FOR THE YEARS ENDED JUNE 30, 2013 AND 2012

	<u>2013</u>	<u>2012</u>
Changes in Unrestricted Net Assets		
Public Support and Revenues:		
Public Support:		
Contributions	\$ 818,821	\$ 807,048
Grant awards	212,900	194,520
Membership dues	68,355	65,340
Revenues:		
Special event fees	368,420	388,604
Facility rent	295,125	302,602
Class and material fees	177,126	189,670
Merchandise and concession sales	82,519	55,120
Exhibition admission income	53,811	35,540
Investment loss and market value adjustments	(1,545)	(141)
Loss on disposal of assets	(6,347)	(23,993)
Other revenues, net	1,850	4,065
Net assets released from restrictions, satisfaction of restrictions	158,662	-
Total Public Support and Revenues	<u>2,229,697</u>	<u>2,018,375</u>
Expenses:		
Program services	1,073,958	1,025,277
Costs of direct benefits to donors	343,444	322,861
Management and general	445,074	395,839
Fundraising	244,818	207,976
Total Expenses	<u>2,107,294</u>	<u>1,951,953</u>
Increase in Unrestricted Net Assets	<u>122,403</u>	<u>66,422</u>
Changes in temporarily restricted net assets:		
Grant awards	-	2,100
Contributions	10,250	-
Investment income and market value adjustments	-	(4,510)
Net assets released from restrictions, satisfaction of restrictions	(2,920)	-
Increase (Decrease) in Temporarily Restricted Net Assets	<u>7,330</u>	<u>(2,410)</u>
Permanently restricted net assets released from restrictions	<u>(155,742)</u>	<u>-</u>
Change in net assets	(26,009)	64,012
Net assets, beginning of year	<u>2,231,192</u>	<u>2,167,180</u>
Net assets, end of year	<u>\$ 2,205,183</u>	<u>\$ 2,231,192</u>

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

VIRGINIA MUSEUM OF CONTEMPORARY ART
STATEMENT OF FUNCTIONAL EXPENSES

FOR THE YEAR ENDED JUNE 30, 2013

	<u>Program Services</u>	<u>Cost of Direct Benefits to Donors</u>	<u>Management and General</u>	<u>Fundraising</u>	<u>Total</u>
Salaries	\$ 381,521	\$ -	\$ 254,347	\$ 112,212	\$ 748,080
Exhibitions and programs	77,000	184,082	-	69,500	330,582
Utilities	82,816	-	9,202	-	92,018
Teachers and casual labor	97,163	12,408	1,107	-	110,678
Advertising and printing	54,134	99,537	2,114	15,858	171,643
Benefits and payroll taxes	69,245	-	46,608	17,311	133,164
Depreciation expense	126,265	-	42,088	-	168,353
Supplies	18,539	4,807	19,309	4,721	47,376
Artists, judges, lecture fees	2,070	-	-	-	2,070
Postage and express mail	-	-	4,103	-	4,103
Maintenance and repairs	38,426	-	9,606	-	48,032
Prizes and awards	4,300	26,136	-	-	30,436
Merchandise and concession cost	19,097	11,244	-	-	30,341
Insurance	15,964	-	7,171	-	23,135
Travel and hospitality	2,322	3,780	2,754	20,285	29,141
Other expenses	12,978	-	2,705	2,648	18,331
Telephone	-	-	924	-	924
Professional services	67,192	-	42,013	-	109,205
Dues, subscriptions and licenses	4,926	1,450	1,023	2,283	9,682
Total Expense	\$ 1,073,958	\$ 343,444	\$ 445,074	\$ 244,818	\$ 2,107,294

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

VIRGINIA MUSEUM OF CONTEMPORARY ART
STATEMENT OF FUNCTIONAL EXPENSES

FOR THE YEAR ENDED JUNE 30, 2012

	Program Services	Cost of Direct Benefits to Donors	Management and General	Fundraising	Total
Salaries	\$ 334,291	\$ -	\$ 222,861	\$ 98,321	\$ 655,473
Exhibitions and programs	36,603	201,181	-	63,058	300,842
Utilities	114,130	-	12,682	-	126,812
Teachers and casual labor	126,004	9,530	1,359	-	136,893
Advertising and printing	78,419	64,467	1,808	13,564	158,258
Benefits and payroll taxes	57,959	-	39,011	14,489	111,459
Depreciation expense	138,985	-	46,328	-	185,313
Supplies	19,747	6,315	21,472	5,250	52,784
Artists, judges, lecture fees	790	-	-	-	790
Postage and express mail	-	115	5,856	-	5,971
Maintenance and repairs	34,868	-	8,717	-	43,585
Prizes and awards	4,200	21,750	-	-	25,950
Merchandise and concession cost	11,359	10,225	-	-	21,584
Insurance	15,045	-	6,759	-	21,804
Travel and hospitality	743	4,934	922	8,196	14,795
Other expenses	10,775	-	2,246	2,199	15,220
Telephone	-	-	1,005	-	1,005
Professional services	37,604	-	23,512	-	61,116
Dues, subscriptions and licenses	3,755	4,344	1,301	2,899	12,299
Total Expense	\$ 1,025,277	\$ 322,861	\$ 395,839	\$ 207,976	\$ 1,951,953

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

VIRGINIA MUSEUM OF CONTEMPORARY ART
STATEMENTS OF CASH FLOWS

FOR THE YEAR ENDED JUNE 30, 2013 AND 2012

	<u>2013</u>	<u>2012</u>
Cash flow from operating activities:		
Change in net assets	\$ (26,009)	\$ 64,012
Adjustments to reconcile change in net assets to net cash provided by operating activities:		
Depreciation	168,353	185,313
Loss on disposal of property and equipment	6,347	23,993
Net unrealized losses on investments	12,019	14,473
(Increase) decrease in operating assets/liabilities:		
Accounts receivable	56,515	(51,536)
Inventory	3,930	(4,789)
Prepaid expense	57,363	(57,982)
Accounts payable, trade	79,243	(61,977)
Accrued expenses	293	7,684
Deferred income, advance payments (delayed payments)	<u>(85,467)</u>	<u>60,734</u>
Cash provided by operating activities	<u>272,587</u>	<u>179,925</u>
Cash flows from investing activities:		
Acquisition of property and equipment	(32,367)	(35,646)
Proceeds from sale of investments	155,554	-
Purchase of investments	<u>(543,320)</u>	<u>(4,276)</u>
Cash used in investing activities	<u>(420,133)</u>	<u>(39,922)</u>
Net increase (decrease) in cash	(147,546)	140,003
Cash and cash equivalents, beginning of year	<u>792,954</u>	<u>652,951</u>
Cash and cash equivalents, end of year	<u>\$ 645,408</u>	<u>\$ 792,954</u>

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

VIRGINIA MUSEUM OF CONTEMPORARY ART

NOTES TO THE FINANCIAL STATEMENTS

JUNE 30, 2013 AND 2012

Note 1—Nature of operations

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

Note 2—Summary of significant accounting policies

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

Cash and Cash Equivalents – Cash and investments with an original maturity of 90 days or less are considered to be cash and cash equivalents. Included in cash on the statements of financial position as of June 30, 2013 and June 30, 2012 is temporarily restricted cash of \$21,398 and \$14,068 and permanently restricted cash of \$0 and \$25,934, respectively.

Property and Equipment – Property and equipment acquired by purchase are recorded at cost. Donated assets are recorded at fair market value as of the date contributed. Depreciation is calculated using the straight-line method over estimated useful lives of 5 to 39 years.

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

Accounts Receivable – Accounts receivable consist of pledges and trade receivables at amounts billed less an allowance for doubtful accounts. Pledges receivable are stated at amounts pledged less a discount. The discount is calculated based on a present value formula using the prime rate. Management considers all trade receivables over 30 days to be past due. Management's determination of the allowance for doubtful accounts is based on an evaluation of the accounts receivable, past collection experience, current economic conditions, and other risks inherent in the receivable portfolio. No allowance for doubtful accounts was deemed necessary for the years ended June 30, 2013 and 2012.

Grant Income – Unrestricted grant income is recognized in the year the grant is awarded.

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

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

VIRGINIA MUSEUM OF CONTEMPORARY ART
NOTES TO THE FINANCIAL STATEMENTS

JUNE 30, 2013 AND 2012

Note 2—Summary of significant accounting policies (continued)

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

Management has evaluated the effect of the guidance provided by U.S. Generally Accepted Accounting Principles on Accounting for Uncertainty in Income Taxes. Management believes the Museum continues to satisfy the requirements of a tax-exempt organization at June 30, 2013.

Management has evaluated all other tax positions that could have a significant effect on the financial statements and determined the Museum had no uncertain income tax positions at this date. The Museum is no longer subject to U.S. federal, state, and local income tax examinations by tax authorities for years before 2009.

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

Credit Risk – The Museum places its cash and cash equivalents on deposit with financial institutions in the United States. The Federal Deposit Insurance Corporation (FDIC) covers \$250,000 for substantially all depository accounts. In addition, the FDIC provided unlimited coverage for certain qualifying and participating non-interest bearing transaction accounts through December 31, 2012; however, effective January 1, 2013, the FDIC discontinued the additional unlimited coverage. The Museum from time to time may have amounts on deposit in excess of the insured limits. As of June 30, 2013, the Museum had \$256,639 which exceeded these insured amounts.

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

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

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

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

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

VIRGINIA MUSEUM OF CONTEMPORARY ART
NOTES TO THE FINANCIAL STATEMENTS

JUNE 30, 2013 AND 2012

Note 2—Summary of significant accounting policies (continued)

Advertising – The Museum expenses advertising costs as they are incurred. Advertising costs expensed for the years ended June 30, 2013 and 2012 were \$171,643 and \$158,258, respectively.

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

Note 3—Investments

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

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

	June 30, 2013		June 30, 2012	
	Market	Cost	Market	Cost
Mutual funds	\$ 525,802	\$ 540,275	\$ 31,597	\$ 25,000
Marketable equity securities	-	-	118,458	108,673
	<u>\$ 525,802</u>	<u>\$ 540,275</u>	<u>\$ 150,055</u>	<u>\$ 133,673</u>

Note 4—Donated goods and services

Contributions of non-cash assets are recorded at their fair values in the period received. Contributions of donated services that create or enhance non-financial assets or that require specialized skills, are provided by individuals possessing those skills, and would typically need to be purchased if not provided by donation, are recorded at their fair values in the period received. Contributions of non-cash goods and services for June 30, 2013 and June 30, 2012 were \$241,080 and \$214,853, respectively, and are included on the accompanying statements of activities.

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

VIRGINIA MUSEUM OF CONTEMPORARY ART

NOTES TO THE FINANCIAL STATEMENTS

JUNE 30, 2013 AND 2012

Note 5—Permanently restricted net assets

The Museum's endowment consisted of donor-restricted funds held by the Museum for the purpose of attracting other donors who wish to support the work of the Museum in perpetuity through gifts to the endowment. As required by accounting principles generally accepted in the United States of America (GAAP), net assets associated with endowment funds are classified and reported based on the existence or absence of donor-imposed restrictions.

Interpretation of Relevant Law – The by-laws of the Board of Directors provide for the Board, acting to make or cause to be made investments of all Museum funds available for investment. The Board is charged with the responsibility of directing the management of the Museum's Endowment Fund investments. In approving endowment spending and related policies, as part of the prudent and diligent discharge of its duties, as authorized by the Uniform Management of Institutional Funds Act of 1972 (UMIFA), the Board has relied upon the actions, reports, information, advice and counsel taken or provided by its duly constituted committees and the duly appointed officers of the Museum and in doing so has interpreted the law to require the preservation of the fair value of donor-restricted endowment funds, absent explicit donor direction to the contrary.

As a result of this interpretation, for accounting and financial statement purposes, the Museum classified as permanently restricted net assets, the fair value of assets held as donor-restricted endowment, including any subsequent gifts and any accumulations to donor-restricted endowments made in accordance with the direction of the applicable gift instruments.

Funds with Deficiencies – From time to time, the fair value of the assets associated with individual donor-restricted endowment funds fell below the level that the donor requires the Board to retain as a fund of perpetual duration. In accordance with GAAP, deficiencies of this nature were reported in unrestricted net assets. As of June 30, 2012, the total deficiency for these funds totaled \$5,687.

Return Objectives and Risk Parameters – The Museum adopted investment and spending policies for endowment assets that attempted to provide a predictable stream of funding to programs supported by its endowment while seeking to maintain the purchasing power of the endowment assets. Under these policies, as approved by the Board of Directors, the endowment assets were invested in a manner that was intended to produce results that met or exceeded the rate of inflation (as measured by the Consumer Price Index) by 1.5% per year. To satisfy its long-term rate-of-return objectives, the Museum relied on a total return strategy in which investment returns are achieved through both capital appreciation (realized and unrealized) and current yield (interest and dividends). The Museum targeted a diversified asset allocation that placed a greater emphasis on liquid securities, securities that could be sold quickly and efficiently with minimal impact of market price.

Spending Policy and How the Investment Objectives Relate to Spending Policy – The Museum had a policy in which all or part of the income from the endowment, shall be used to provide funds for operations.

Release from Restriction – During the year ended June 30, 2013, the Museum received notice from the original donor releasing all permanently restricted net assets from restriction.

VIRGINIA MUSEUM OF CONTEMPORARY ART
NOTES TO THE FINANCIAL STATEMENTS

JUNE 30, 2013 AND 2012

Note 5—Permanently restricted net assets (continued)

For the years ended June 30, 2013 and 2012, the Museum had the following endowment-related activities:

	<u>Unrestricted</u>	<u>Temporarily Restricted</u>	<u>Permanently Restricted</u>	<u>Assets</u>
Balance as of July 1, 2011	\$ -	\$ 4,510	\$ 155,742	\$ 160,252
Contributions	-	-	-	-
Investment income, net	2,958	2,330	-	5,288
Net decrease in market value	<u>(8,645)</u>	<u>(6,840)</u>	-	<u>(15,485)</u>
Balance as of June 30, 2012	(5,687)	-	155,742	150,055
Contributions	-	-	-	-
Investment income, net	1,934	-	-	1,934
Net decrease in market value	(5,663)	-	-	(5,663)
Amounts available for operations	<u>155,742</u>	-	<u>(155,742)</u>	-
Balance as of June 30, 2013	<u>\$ 146,326</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 146,326</u>

Note 6—Board designated endowment

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

Return Objectives and Risk Parameters – The Museum has adopted investment and spending policies for endowment assets that attempt to provide a predictable stream of funding to programs supported by its endowment. Under these policies, as approved by the Board of Directors, the endowment assets are invested in a manner that is intended to produce results at least a return of 8.0%. To satisfy its long-term rate-of-return objectives, the Museum relies on a total return strategy in which investment returns are achieved through both capital appreciation (realized and unrealized) and current yield (interest and dividends). The Museum utilizes an asset allocation that targets five different mutual funds. Asset allocations are reviewed semi-annually.

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

For the year ended June 30, 2013, the Museum had the following endowment-related activities:

Board-designated endowment net assets, beginning of year	\$ -
Additions	160,490
Investment income, net	212
Net depreciation	<u>(5,591)</u>
Board-designated endowment net assets, end of year	<u>\$ 155,111</u>

VIRGINIA MUSEUM OF CONTEMPORARY ART
NOTES TO THE FINANCIAL STATEMENTS

JUNE 30, 2013 AND 2012

Note 7—Restrictions and limitations on net asset balances

Temporarily restricted funds at June 30, 2013 and 2012 include amounts restricted for the following:

	<u>2013</u>	<u>2012</u>
Capital expansion on Rodriguez Pavillion	\$ -	\$ 14,068
Cohen fund	21,398	-
Total temporarily restricted funds	<u>\$ 21,398</u>	<u>\$ 14,068</u>

Permanently restricted net assets consist of endowment fund assets to be held indefinitely:

	<u>2013</u>	<u>2012</u>
Endowment fund	\$ -	\$ 155,742

Note 8—Net assets released from restrictions

Net assets were released from restriction by incurring expenses satisfying the restricted purposes or by occurrence of other events specified by donors during the years ended June 30, 2013 and June 30, 2012.

	<u>2013</u>	<u>2012</u>
Restrictions satisfied	<u>\$ 158,662</u>	<u>\$ -</u>

Note 9—Collection of artwork

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

Note 10—Operating leases

The Museum's building opened to the public in April 1989. Ownership was transferred to the City of Virginia Beach (the "City") in October 1989, subject to the terms and conditions of a lease and operating agreement between the Museum and the City. The Museum now leases the land and building from the City for \$1 annually. The market value of the lease is not readily determinable. The initial term of the lease was for five years with unlimited five-year renewals thereafter. The City is responsible for long-term maintenance and repair of the building and its surrounding grounds, and the cost of electricity and gas. At the expiration of the lease, the Museum will waive the right to claim any furniture, fixtures and equipment if not removed from the property within ten days.

VIRGINIA MUSEUM OF CONTEMPORARY ART
NOTES TO THE FINANCIAL STATEMENTS

JUNE 30, 2013 AND 2012

Note 10—Operating leases (continued)

The Museum leases office equipment under various lease agreements expiring in fiscal years ranging from 2014 to 2018. Operating lease commitments are as follows:

2014	\$	8,916
2015	\$	8,257
2016	\$	7,565
2017	\$	7,166
2018	\$	3,428

Note 11—Defined contribution plan

The Museum established a 401(k) plan covering all employees on July 1, 2009, not including those that are contracted seasonally, that are at least 21 years of age and have been employed for over one year. The Museum made contributions to the Plan totaling \$20,811 and \$17,135 for the years ended June 30, 2013 and 2012, respectively.

Note 12—Fair value measurements

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

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

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

VIRGINIA MUSEUM OF CONTEMPORARY ART
NOTES TO THE FINANCIAL STATEMENTS

JUNE 30, 2013 AND 2012

Note 12—Fair value measurements (continued)

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

	June 30, 2013			
	Carrying Value	Fair Value Measurements		
		Level 1	Level 2	Level 3
Mutual funds	\$ 525,802	\$ 525,802	\$ -	\$ -

	June 30, 2012			
	Carrying Value	Fair Value Measurements		
		Level 1	Level 2	Level 3
Mutual funds	\$ 31,597	\$ 31,597	\$ -	\$ -
Marketable equity securities	118,458	118,458	-	-
Total assets	\$ 150,055	\$ 150,055	\$ -	\$ -

Note 13—Subsequent events

The Museum has evaluated subsequent events through November 4, 2013, which is the date the financial statements were available to be issued. No events have occurred subsequent to the balance sheet date and through this date that would require adjustment to, or disclosure in, the financial statements.

SUPPLEMENTAL SCHEDULES

VIRGINIA MUSEUM OF CONTEMPORARY ART
SUPPLEMENTAL SCHEDULE OF FINANCIAL POSITION BY FUND BALANCE

JUNE 30, 2013 (WITH COMPARATIVE TOTALS FOR 2012)

	Unrestricted Capital		Board Designated		Temporarily Restricted	Permanently Restricted Endowment	Total 2013	Comparative Total 2012
	Operations							
Assets								
Current Assets:								
Cash and cash equivalents	\$ 620,925	\$ -	\$ 3,085		21,398	\$ -	\$ 645,408	\$ 792,954
Investments	373,776	-	152,026		-	-	525,802	150,055
Accounts receivable	12,765	-	-		-	-	12,765	69,280
Inventory	14,533	-	-		-	-	14,533	18,463
Prepaid expense	7,030	-	-		-	-	7,030	64,393
Total Current Assets	1,029,029	-	155,111		21,398	-	1,205,538	1,095,145
Property and Equipment:								
Leasehold improvements	-	2,065,365	-		-	-	2,065,365	2,065,365
Equipment	-	484,062	-		-	-	484,062	670,244
Less accumulated depreciation	-	2,549,427	-		-	-	2,549,427	2,735,609
	-	1,372,446	-		-	-	1,372,446	1,416,295
Total Property and Equipment	-	1,176,981	-		-	-	1,176,981	1,319,314
Total Assets	\$ 1,029,029	\$ 1,176,981	\$ 155,111		\$ 21,398	\$ -	\$ 2,382,519	\$ 2,414,459
Liabilities and Net Assets								
Current Liabilities:								
Accounts payable, trade	\$ 81,803	\$ -	\$ -		-	\$ -	\$ 81,803	\$ 2,560
Accrued expenses	19,674	-	-		-	-	19,674	19,381
Deferred income, advance payments	75,859	-	-		-	-	75,859	161,326
Total Current Liabilities	177,336	-	-		-	-	177,336	183,267
Net Assets:								
Unrestricted:								
Undesignated	851,693	-	-		-	-	851,693	742,068
Invested on property and equipment	-	1,176,981	-		-	-	1,176,981	1,319,314
Board designated	-	-	155,111		-	-	155,111	-
Temporarily restricted	-	-	-		21,398	-	21,398	14,068
Permanently restricted	-	-	-		-	-	-	155,742
Total Net Assets	851,693	1,176,981	155,111		21,398	-	2,205,183	2,231,192
Total Liabilities and Net Assets	\$ 1,029,029	\$ 1,176,981	\$ 155,111		\$ 21,398	\$ -	\$ 2,382,519	\$ 2,414,459

VIRGINIA MUSEUM OF CONTEMPORARY ART
SUPPLEMENTAL SCHEDULE OF ACTIVITIES BY FUND BALANCE

YEAR ENDED JUNE 30, 2013 (WITH COMPARATIVE TOTALS FOR 2012)

	Operations	Unrestricted Capital	Board Designated	Temporarily Restricted	Permanently Restricted Endowment	Total 2013	Comparative Total 2012
Public Support and Revenues:							
Public Support:							
Contributions	\$ 818,821	\$ -	\$ -	\$ 10,250	\$ -	\$ 829,071	\$ 807,048
Grants and foundations	212,900	-	-	-	-	212,900	196,620
Membership dues	68,355	-	-	-	-	68,355	65,340
Revenues:							
Special event fees	368,420	-	-	-	-	368,420	388,604
Facility rent	295,125	-	-	-	-	295,125	302,602
Class and material fees	177,126	-	-	-	-	177,126	189,670
Merchandise and concession sales	82,519	-	-	-	-	82,519	55,120
Exhibition admission income	53,811	-	(631)	-	-	(1,545)	35,540
Investment loss and market value adjustments	(914)	(6,347)	-	-	-	(6,347)	(23,993)
Loss on disposal of equipment	-	-	-	-	-	1,850	4,065
Other revenues, net	1,850	-	-	-	-	2,081,285	2,015,965
	<u>2,078,013</u>	<u>(6,347)</u>	<u>(631)</u>	<u>10,250</u>	<u>-</u>	<u>2,081,285</u>	<u>-</u>
	<u>(29,447)</u>	<u>32,367</u>	<u>155,742</u>	<u>(2,920)</u>	<u>(155,742)</u>	<u>-</u>	<u>-</u>
Transfers and net assets released from restrictions							
Total Public Support and Revenues	<u>2,048,566</u>	<u>26,020</u>	<u>155,111</u>	<u>7,330</u>	<u>(155,742)</u>	<u>2,081,285</u>	<u>2,015,965</u>
Expenses:							
Salaries	748,080	-	-	-	-	748,080	655,474
Exhibitions and programs	330,582	-	-	-	-	330,582	300,842
Utilities	92,018	-	-	-	-	92,018	126,812
Teachers and casual labor	110,678	-	-	-	-	110,678	136,893
Advertising and printing	171,643	-	-	-	-	171,643	158,258
Benefits and payroll taxes	133,164	-	-	-	-	133,164	111,459
Supplies	47,376	-	-	-	-	47,376	52,784
Artists, judges, lecture fees	2,070	-	-	-	-	2,070	790
Postage and express mail	4,103	-	-	-	-	4,103	5,971
Maintenance and repairs	48,032	-	-	-	-	48,032	43,585
Prizes and awards	30,436	-	-	-	-	30,436	25,950
Merchandise and concession cost	30,341	-	-	-	-	30,341	21,584
Insurance	23,135	-	-	-	-	23,135	21,804
Travel and hospitality	29,141	-	-	-	-	29,141	14,795
Bank fees	18,337	-	-	-	-	18,337	15,220
Other expenses	(6)	-	-	-	-	(6)	-
Taxes and permits	2,496	-	-	-	-	2,496	2,115
Telephone	924	-	-	-	-	924	1,005
Professional services	109,205	-	-	-	-	109,205	61,116
Dues, subscriptions and licenses	7,186	-	-	-	-	7,186	10,183
Total Expenses	<u>1,938,941</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>1,938,941</u>	<u>1,766,640</u>
Increase (decrease) in net assets before depreciation							
Depreciation	109,625	26,020	155,111	7,330	(155,742)	142,344	249,325
Increase (decrease) in net assets	<u>109,625</u>	<u>(142,333)</u>	<u>155,111</u>	<u>7,330</u>	<u>(155,742)</u>	<u>(168,353)</u>	<u>(185,313)</u>
Net assets, beginning of year	<u>742,068</u>	<u>1,319,314</u>	<u>-</u>	<u>14,068</u>	<u>155,742</u>	<u>2,231,192</u>	<u>64,012</u>
Net assets, end of year	<u>\$ 851,693</u>	<u>\$ 1,176,981</u>	<u>\$ 155,111</u>	<u>\$ 21,398</u>	<u>\$ -</u>	<u>\$ 2,205,183</u>	<u>\$ 2,231,192</u>