



CHRYSLER MUSEUM *of* ART

FINANCIAL STATEMENTS

JUNE 30, 2018



ASSURANCE, TAX & ADVISORY SERVICES

THE CHRYSLER MUSEUM, INCORPORATED

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INDEPENDENT AUDITOR'S REPORT

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

Report on the Financial Statements

We have audited the accompanying financial statements of The Chrysler Museum, Incorporated which comprise the statements of financial position as of June 30, 2018 and 2017, 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 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, 2018 and 2017, 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.

PB Mares, LLP

Norfolk, Virginia
November 26, 2018

FINANCIAL STATEMENTS

THE CHRYSLER MUSEUM, INCORPORATED

STATEMENTS OF FINANCIAL POSITION

June 30, 2018 and 2017

	2018	2017
ASSETS		
Cash and cash equivalents	\$ 489,096	\$ 2,274,085
Inventory	141,960	142,749
Other assets	684,418	479,666
Pledges receivable, net	2,616,773	4,311,352
Charitable trusts	113,181	116,690
Investments	82,658,803	76,699,476
Property and equipment, net	586,628	691,845
	<hr/>	<hr/>
Total assets	\$ 87,290,859	\$ 84,715,863
LIABILITIES AND NET ASSETS		
Liabilities		
Accounts payable	\$ 357,107	\$ 438,459
Accrued expenses and other liabilities	712,623	824,477
Deferred revenue	259,953	217,945
Note payable	4,371,254	7,305,547
Total liabilities	5,700,937	8,786,428
Net Assets:		
Unrestricted:		
Board designated	20,525,152	16,807,496
Other	2,809,926	2,734,989
Total unrestricted net assets	23,335,078	19,542,485
Temporarily restricted	24,635,513	22,835,948
Permanently restricted	33,619,331	33,551,002
	<hr/>	<hr/>
Total net assets	81,589,922	75,929,435
	<hr/>	<hr/>
Total liabilities and net assets	\$ 87,290,859	\$ 84,715,863

THE CHRYSLER MUSEUM, INCORPORATED

STATEMENT OF ACTIVITIES Year Ended June 30, 2018

	2018			Total
	Unrestricted	Temporarily Restricted	Permanently Restricted	
Operating Activities:				
Support and Revenue:				
City of Norfolk	\$ 2,917,832	\$ -	\$ -	\$ 2,917,832
Contributions and other grants	1,032,762	1,472,603	68,329	2,573,694
Investment income	1,461	-	-	1,461
Memberships	1,053,895	-	-	1,053,895
Earned income from auxiliary activities	1,157,738	-	-	1,157,738
Other income	182,501	-	-	182,501
Net assets released from donor restrictions	1,621,505	(1,621,505)	-	-
Transfer of board designated reserves	564,860	-	-	564,860
Total support and revenue	8,532,554	(148,902)	68,329	8,451,981
Operating expenses:				
Program services:				
Galleries, curatorial and exhibitions	4,038,764	-	-	4,038,764
Other	2,684,855	-	-	2,684,855
Total program services	6,723,619	-	-	6,723,619
Supporting services:				
Development and marketing	1,201,216	-	-	1,201,216
General and administrative	607,319	-	-	607,319
Total supporting services	1,808,535	-	-	1,808,535
Total operating expenses	8,532,154	-	-	8,532,154
Change in Net Assets from Operating Activities	400	(148,902)	68,329	(80,173)
Non-Operating Activities:				
Change in net assets related to collection items not capitalized:				
Accessions	(788,381)	-	-	(788,381)
Investment income	2,578,498	5,307,538	-	7,886,036
Contributions, non-operating	30,884	-	-	30,884
Interest expense	(237,134)	-	-	(237,134)
Non-operating expenses	(585,885)	-	-	(585,885)
Net assets released from donor restrictions	3,359,071	(3,359,071)	-	-
Transfer of board designated reserves	(564,860)	-	-	(564,860)
Total non-operating activities	3,792,193	1,948,467	-	5,740,660
Change in Net Assets	3,792,593	1,799,565	68,329	5,660,487
Net Assets, beginning of year	19,542,485	22,835,948	33,551,002	75,929,435
Net Assets, end of year	\$ 23,335,078	\$ 24,635,513	\$ 33,619,331	\$ 81,589,922

THE CHRYSLER MUSEUM, INCORPORATED

STATEMENT OF ACTIVITIES Year Ended June 30, 2017

	2017			Total
	Unrestricted	Temporarily Restricted	Permanently Restricted	
Operating Activities:				
Support and Revenue:				
City of Norfolk	\$ 2,917,832	\$ -	\$ -	\$ 2,917,832
Contributions and other grants	928,222	91,534	57,588	1,077,344
Investment income	1,679	-	-	1,679
Memberships	1,105,635	-	-	1,105,635
Earned income from auxiliary activities	1,034,200	-	-	1,034,200
Other income	114,093	-	-	114,093
Net assets released from donor restrictions	1,601,941	(1,601,941)	-	-
Transfer of board designated reserves	922,466	-	-	922,466
Total support and revenue	8,626,068	(1,510,407)	57,588	7,173,249
Operating expenses:				
Program services:				
Galleries, curatorial and exhibitions	4,315,304	-	-	4,315,304
Other	2,533,556	-	-	2,533,556
Total program services	6,848,860	-	-	6,848,860
Supporting services:				
Development and marketing	1,243,676	-	-	1,243,676
General and administrative	530,554	-	-	530,554
Total supporting services	1,774,230	-	-	1,774,230
Total operating expenses	8,623,090	-	-	8,623,090
Change in Net Assets from Operating Activities	2,978	(1,510,407)	57,588	(1,449,841)
Non-Operating Activities:				
Change in net assets related to collection items not capitalized:				
Accessions	(547,465)	-	-	(547,465)
Investment income	2,938,974	5,904,252	-	8,843,226
Contributions, non-operating	268,824	3,002,295	-	3,271,119
Interest expense	(327,834)	-	-	(327,834)
Property improvements	(437,615)	-	-	(437,615)
Non-operating expenses	(392,549)	-	-	(392,549)
Net assets released from donor restrictions	3,556,972	(3,556,972)	-	-
Transfer of board designated reserves	(922,466)	-	-	(922,466)
Total non-operating activities	4,136,841	5,349,575	-	9,486,416
Change in Net Assets	4,139,819	3,839,168	57,588	8,036,575
Net Assets, beginning of year	15,402,666	18,996,780	33,493,414	67,892,860
Net Assets, end of year	\$ 19,542,485	\$ 22,835,948	\$ 33,551,002	\$ 75,929,435

THE CHRYSLER MUSEUM, INCORPORATED

STATEMENTS OF OPERATING EXPENSES

Years Ended June 30, 2018 and 2017

	2018	2017
Natural Classifications		
Salaries	\$ 3,977,357	\$ 3,848,461
Payroll taxes	284,108	287,949
Employee benefits	452,236	427,885
Total compensation and benefits	4,713,701	4,564,295
Advertising	210,420	225,748
Computer services	125,652	102,888
Consulting and outside services	424,676	441,219
Cost of sales	152,738	146,983
Depreciation	168,798	185,786
Exhibition fees and installation	369,841	569,034
Insurance	179,165	174,175
Miscellaneous	434,250	464,868
Printing and publications	121,470	196,229
Repairs and maintenance	362,334	316,645
Supplies	295,624	254,449
Telephone	52,443	50,658
Donor stewardship	368,922	396,163
Utilities	552,120	533,950
Total operating expenses	\$ 8,532,154	\$ 8,623,090
Functional Classification		
Program services		
Galleries, curatorial and exhibitions	\$ 4,038,764	\$ 4,315,304
Other		
Education	989,388	990,543
Library	776,907	181,597
Gift Shop	182,246	313,588
Glass Studio	319,878	675,734
Historic houses	137,490	105,704
Special events	208,023	191,642
Support programs	70,923	74,748
Total program services	6,723,619	6,848,860
Supporting services		
Development and marketing	1,201,216	1,243,676
General and administrative	607,319	530,554
Total supporting services	1,808,535	1,774,230
Total operating expenses	\$ 8,532,154	\$ 8,623,090

See Notes to Financial Statement.

THE CHRYSLER MUSEUM, INCORPORATED

STATEMENTS OF CASH FLOWS

Years Ended June 30, 2018 and 2017

	2018	2017
Cash Flows From Operating Activities		
Change in net assets	\$ 5,660,487	\$ 8,036,575
Adjustments to operating activities:		
Net increase in fair value of investments	(7,887,497)	(8,844,905)
Depreciation	168,798	185,786
Contributions restricted for long-term use	(68,329)	(57,588)
Accessions	788,381	547,465
Property improvements expensed	-	437,615
Changes in certain asset and liabilities:		
Inventory and other assets	(203,963)	181,180
Pledges receivable	58,785	121,372
Charitable trusts	3,509	(1)
Accounts payable, accrued expenses, and deferred revenue	(151,198)	21,105
Net cash provided by (used in) operating activities	(1,631,027)	628,604
Cash Flows From Investing Activities		
Purchase of investments	-	(5,227,566)
Proceeds from sales of investments	1,928,170	7,261,807
Payments for property improvements	-	(437,615)
Payments for accessions	(788,381)	(547,465)
Additions to property and equipment	(63,581)	(6,489)
Net cash provided by investing activities	1,076,208	1,042,672
Cash Flows From Financing Activities		
Collection of contributions restricted for long-term use	1,704,123	799,359
Repayments of note payable	(2,934,293)	(2,269,337)
Net cash used in financing activities	(1,230,170)	(1,469,978)
Increase (decrease) in cash and cash equivalents	(1,784,989)	201,298
Cash and Cash Equivalents		
Beginning	2,274,085	2,072,787
Ending	\$ 489,096	\$ 2,274,085
Supplemental Disclosure of Cash Flow Information		
Cash paid during the year for interest	\$ 237,134	\$ 327,834

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 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 Museum also operates the Chrysler Museum Glass Studio (Glass Studio), which is an educational facility that offers the public an experimental approach to the exciting properties of glass. The Glass Studio 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 or is otherwise satisfied, 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, 2018 and 2017, 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 net realizable value. The Museum's inventory consists of items to be sold in the gift shop. Some examples of the types of inventory reflected in the statements 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. At June 30, 2018 and 2017, the Museum had \$4,950,000 and \$5,800,000, respectively, in conditional promises to give related to expanding the Glass Studio and Museum.

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 \$5,000 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 (City). 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 \$0 and \$437,615 of property improvements to the City during the years ended June 30, 2018 and 2017, 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 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 during the years ended June 30, 2018 and 2017, and has been recognized in the accompanying financial statements. As of June 30, 2018, cumulative support from this award totaled \$8,300,000, with a remaining balance of \$1,700,000.

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 \$210,420 and \$225,748 for the years ended June 30, 2018 and 2017, 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. The Museum has net operating loss carryforwards at June 30, 2018 of approximately \$567,000 related to its unrelated business income that will begin to expire in 2029. Due to the uncertainty related to the potential use of this net operating loss carryforward, management has applied a full valuation allowance against the related deferred tax asset. 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 is currently evaluating the impact of the adoption of this guidance on its financial statements.

In May 2014, the FASB issued ASU (ASU) 2014-09, *Revenue from Contracts with Customers (Topic 606)*, requiring an entity to recognize the amount of revenue to which it expects to be entitled for the transfer of promised goods or services to customers. The updated standard will replace most existing revenue recognition guidance in U.S. GAAP when it becomes effective and permits the use of either a full retrospective or retrospective with cumulative effect transition method. In August 2015, the FASB issued ASU 2015-14 which defers the effective date of ASU 2014-09 one year making it effective for annual reporting periods beginning after December 15, 2018. The Museum has not yet selected a transition method and is currently evaluating the effect that the standard will have on the financial statements.

In June 2018, the FASB issued ASU 2018-08, *Not-for-Profit Entities (Topic 958): Clarifying the Scope and Accounting Guidance for Contributions Received and Contributions Made*, which is intended to clarify and improve current guidance about whether a transfer of assets is an exchange transaction or a contribution. The amendments in this ASU provide a more robust framework to determine when a transaction should be accounted for as a contribution under Subtopic 958-605 or as an exchange transaction accounted for under other guidance (for example, Topic 606). The amendments also provide additional guidance about how to determine whether a contribution is conditional or unconditional. The amendments in this ASU could result in more grants and contracts being accounted for as contributions than under previous GAAP. This ASU should be applied on a modified prospective basis. Retrospective application is permitted. The ASU is effective for years beginning after December 31, 2018. The Museum is currently evaluating the impact of the adoption of this guidance on its financial statements.

Reclassifications: Certain items in the 2017 financial statements were reclassified to conform to the 2018 presentation. These reclassifications had no effect on the previously reported change in net assets.

THE CHRYSLER MUSEUM, INCORPORATED

NOTES TO FINANCIAL STATEMENTS

Note 2. Summary of Significant Accounting Policies (Continued)

Subsequent Events: Management has evaluated subsequent events through November 26, 2018, the date which the financial statements were available to be issued.

Note 3. Pledges Receivable

Pledges receivable at June 30, 2018 and 2017 consist of the following:

	<u>2018</u>	<u>2017</u>
Amounts due within one year	\$ 587,057	\$ 1,741,235
Amounts due in more than one year but less than five years	761,981	1,355,884
Amounts due in more than five years	<u>3,331,695</u>	<u>3,510,761</u>
Total pledges receivable	4,680,733	6,607,880
Less allowance for doubtful accounts	(233,563)	(338,254)
Less present value discount (ranging from 0.95% - 7.00%)	<u>(1,830,397)</u>	<u>(1,958,274)</u>
Total pledges receivable, net	<u>\$ 2,616,773</u>	<u>\$ 4,311,352</u>

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, 2018 and 2017, the Museum recorded liabilities to beneficiaries of the charitable gift annuities totaling \$89,921 and \$95,041, respectively, which are included in accrued expenses and other liabilities in the accompanying statements of financial position. The assets related to these arrangements, amounting to \$368,404 and \$345,656 at June 30, 2018 and 2017, respectively, are included in investments.

THE CHRYSLER MUSEUM, INCORPORATED

NOTES TO FINANCIAL STATEMENTS

Note 5. Investments

Investments are stated at fair value (see Note 6 for more details) and at June 30, 2018 and 2017 consist of the following:

	<u>2018</u>	<u>2017</u>
	Fair Value	Fair Value
Money market funds	\$ 350,760	\$ 483,536
Equities	17,922,475	16,093,792
US Treasuries	5,389,074	4,113,712
Publicly traded fixed income securities	204,106	747,444
Securitized fixed income investments	1,216,165	1,147,710
Multi-strategy fund - The Richmond Fund L.P.	57,207,819	53,767,626
	<u>82,290,399</u>	<u>76,353,820</u>
Gift annuity investments	368,404	345,656
	<u>\$ 82,658,803</u>	<u>\$ 76,699,476</u>
Total investments		

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

	<u>2018</u>	<u>2017</u>
Interest and dividends	\$ 971,658	\$ 815,292
Realized gains	3,226,605	1,997,945
Increase in fair value of investments	4,468,873	6,639,587
Investment management fees	(779,639)	(607,919)
	<u>\$ 7,887,497</u>	<u>\$ 8,844,905</u>
Total investment income		

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

The Richmond Fund, L.P.

Through the Museum's investment in the Richmond Fund, L.P., the Museum has a beneficial ownership of an investment fund that represents 2.65% and 2.69% of the Richmond Fund, L.P.'s total investments at June 30, 2018 and 2017, respectively.

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 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 fair value of this investment at June 30, 2018 was \$57,207,819 and at June 30, 2017 was \$53,767,626.

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, 2018 and 2017 were allocated among the following asset classes:

	<u>2018</u>	<u>2017</u>
Investments in investment funds:		
Hedge funds	51.90%	53.47%
Private equity	15.27%	12.48%
Real assets	5.58%	6.52%
Real estate	3.70%	3.06%
	76.45%	75.53%
Investments in securities:		
Common and preferred stocks	14.82%	15.76%
Comingled funds	1.83%	1.84%
	16.65%	17.60%
Other	6.90%	6.87%
	100.0%	100.0%

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, 2018 and 2017, 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, 2018 and 2017:

	2018				
	Level 1	Level 2	Level 3	NAV	Total
Assets					
Investments					
Money market funds	\$ 350,760	\$ -	\$ -	\$ -	\$ 350,760
Equities	17,922,475	-	-	-	17,922,475
US Treasuries	5,389,074	-	-	-	5,389,074
Publicly traded fixed income securities	-	204,106	-	-	204,106
Securitized fixed income investments	1,216,165	-	-	-	1,216,165
Multi-strategy fund - The Richmond Fund L.P.	-	-	-	57,207,819	57,207,819
Gift annuity investments:					
Bank deposits	77,647	-	-	-	77,647
Equity mutual funds	207,503	-	-	-	207,503
Fixed income mutual funds	83,254	-	-	-	83,254
Charitable trusts	-	-	113,181	-	113,181
Total assets at fair value	\$25,246,878	\$ 204,106	\$ 113,181	\$57,207,819	\$ 82,771,984
Liabilities					
Gift annuity liabilities	\$ -	\$ -	\$ 89,921	\$ -	\$ 89,921
Total liabilities at fair value	\$ -	\$ -	\$ 89,921	\$ -	\$ 89,921

THE CHRYSLER MUSEUM, INCORPORATED

NOTES TO FINANCIAL STATEMENTS

Note 6. Fair Value Measurements (Continued)

	2017				
	Level 1	Level 2	Level 3	NAV	Total
Assets					
Investments					
Money market funds	\$ 483,536	\$ -	\$ -	\$ -	\$ 483,536
Equities	16,093,792	-	-	-	16,093,792
US Treasuries	4,113,712	-	-	-	4,113,712
Publicly traded fixed income securities	-	747,444	-	-	747,444
Securitized fixed income investments	1,147,710	-	-	-	1,147,710
Multi-strategy fund - The Richmond Fund L.P.	-	-	-	53,767,626	53,767,626
Gift annuity investments:					
Bank deposits	76,812	-	-	-	76,812
Equity mutual funds	185,974	-	-	-	185,974
Fixed income mutual funds	82,870	-	-	-	82,870
Charitable trusts	-	-	116,689	-	116,689
Total assets at fair value	\$22,184,406	\$ 747,444	\$ 116,689	\$53,767,626	\$ 76,816,165
Liabilities					
Gift annuity liabilities	\$ -	\$ -	\$ 95,041	\$ -	\$ 95,041
Total liabilities at fair value	\$ -	\$ -	\$ 95,041	\$ -	\$ 95,041

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, and securitized fixed income investments, and equities, at June 30, 2018 and 2017.

For the valuation of certain fixed income investments at June 30, 2018 and 2017, 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.

The valuation of the multi-strategy fund at June 30, 2018 and 2017, is reported at estimated fair value utilizing the net asset values provided by the fund manager 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 Internal Revenue Service life expectancy tables and rates of 2.86% and 1.96%, respectively, for the years ended June 30, 2018 and 2017. There have been no changes in the valuation techniques and related inputs.

THE CHRYSLER MUSEUM, INCORPORATED

NOTES TO FINANCIAL STATEMENTS

Note 6. Fair Value Measurements (Continued)

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, 2018 and 2017.

	2018				
	Fair Value July 1, 2017	Net Realized and Unrealized Gains (Losses)	Purchases	Sales	Fair Value June 30, 2018
Charitable trusts assets	\$ 116,689	\$ (3,508)	\$ -	\$ -	\$ 113,181
Gift annuity liabilities	\$ 95,041	\$ 11,079	\$ -	\$ (16,999)	\$ 89,921

	2017				
	Fair Value July 1, 2016	Net Realized and Unrealized Gains	Purchases	Sales	Fair Value June 30, 2017
Charitable trusts assets	\$ 116,688	\$ 1	\$ -	\$ -	\$ 116,689
Gift annuity liabilities	\$ 110,583	\$ 657	\$ -	\$ (16,199)	\$ 95,041

The following summarizes investments in entities that calculate fair value based on net asset value per share as of June 30, 2018 and 2017:

Description	2018			
	Fair Value	Unfunded Commitments	Redemption Frequency (if Currently Eligible)	Redemption Notice Period
The Richmond Fund L.P.	\$ 57,207,819	\$ -	Quarterly (with limitations)	60 days
	<u>\$ 57,207,819</u>	<u>\$ -</u>		

Description	2017			
	Fair Value	Unfunded Commitments	Redemption Frequency (if Currently Eligible)	Redemption Notice Period
The Richmond Fund L.P.	\$ 53,767,626	\$ -	Quarterly (with limitations)	60 days
	<u>\$ 53,767,626</u>	<u>\$ -</u>		

THE CHRYSLER MUSEUM, INCORPORATED

NOTES TO FINANCIAL STATEMENTS

Note 6. Fair Value Measurements (Continued)

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, 2018 and 2017, 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, 2018 and 2017 consist of the following:

	<u>2018</u>	<u>2017</u>
Furniture, fixtures and equipment	\$ 2,379,727	\$ 2,316,146
Less accumulated depreciation	<u>(1,793,099)</u>	<u>(1,624,301)</u>
Property and equipment, net	<u>\$ 586,628</u>	<u>\$ 691,845</u>

Note 8. Note Payable

The Museum has a note payable with an original balance of \$15,000,000 for the Museum expansion project. As of June 30, 2018 and 2017, the note payable outstanding was \$4,371,254 and \$7,305,547, respectively. 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. The original agreement provides that any 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>
2019	\$ 1,500,000
2020	1,500,000
2021	<u>1,371,254</u>
Total	<u>\$ 4,371,254</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 \$113,806 and \$123,822 in 2018 and 2017, respectively, exclusive of plan administrative costs.

THE CHRYSLER MUSEUM, INCORPORATED

NOTES TO FINANCIAL STATEMENTS

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 funds 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, 2018 and 2017, classified as to purpose, are as follows:

	<u>2018</u>	<u>2017</u>
Unrestricted – Board designated		
Accessions	\$ 4,936,280	\$ 4,766,708
Capital improvements	3,565,766	3,232,020
Program and supporting services	12,023,106	8,808,768
	<hr/>	<hr/>
Total board designated net assets	20,525,152	16,807,496
Temporarily restricted		
Accessions	2,875,187	2,561,804
Capital improvements	3,290,016	2,837,148
Program and supporting services	16,795,964	14,013,646
Time-restricted pledges	1,674,346	3,423,350
	<hr/>	<hr/>
Total temporarily restricted net assets	24,635,513	22,835,948
Permanently restricted		
Accessions	3,571,713	3,571,713
Program and supporting services	30,047,618	29,979,289
	<hr/>	<hr/>
Total permanently restricted net assets	33,619,331	33,551,002
Total Board designated and restricted net assets	<u>\$ 78,779,996</u>	<u>\$ 73,194,446</u>

The above funds aggregated by purpose at June 30, 2018 and 2017 consist of the following:

	<u>2018</u>	<u>2017</u>
Accessions	\$ 11,383,180	\$ 10,900,225
Capital improvements	6,855,782	6,069,168
Program and supporting services	58,866,688	52,801,703
Time-restricted pledges	1,674,346	3,423,350
	<hr/>	<hr/>
Total Board designated and restricted net assets	<u>\$ 78,779,996</u>	<u>\$ 73,194,446</u>

THE CHRYSLER MUSEUM, INCORPORATED

NOTES TO FINANCIAL STATEMENTS

Note 11. Net Assets Released From Restrictions

Temporarily restricted net assets were released from donor restrictions during the years ended June 30, 2018 and 2017 by incurring expenses satisfying the restricted purposes or by occurrence of other events specified by donors, and are summarized as follows:

	<u>2018</u>	<u>2017</u>
Operational support		
Program and supporting services	<u>\$ 1,621,505</u>	<u>\$ 1,601,941</u>
Non-operating support		
Accessions	478,988	324,247
Capital improvements	<u>2,880,083</u>	<u>3,232,725</u>
Total non-operating support	<u>3,359,071</u>	<u>3,556,972</u>
Total net assets released from restrictions	<u>\$ 4,980,576</u>	<u>\$ 5,158,913</u>

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.

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.

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NOTES TO FINANCIAL STATEMENTS

Note 12. Endowments (Continued)

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, 2018 and 2017 is as follows:

	2018			Total
	Unrestricted	Temporarily Restricted	Permanently Restricted	
Donor restricted	\$ -	\$ 11,479,525	\$ 33,619,331	\$ 45,098,856
Board designated	20,388,098	-	-	20,388,098
Total endowment funds	\$ 20,388,098	\$ 11,479,525	\$ 33,619,331	\$ 65,486,954

	2017			Total
	Unrestricted	Temporarily Restricted	Permanently Restricted	
Donor restricted	\$ -	\$ 9,030,385	\$ 33,551,002	\$ 42,581,387
Board designated	16,605,811	-	-	16,605,811
Total endowment funds	\$ 16,605,811	\$ 9,030,385	\$ 33,551,002	\$ 59,187,198

Changes in endowment funds by net asset class at June 30, 2018 and 2017 are as follows:

	Unrestricted	Temporarily Restricted	Permanently Restricted	Total
Balance, June 30, 2016	\$ 12,519,049	\$ 5,938,882	\$ 33,493,414	\$ 51,951,345
Additions	2,506,117	-	57,588	2,563,705
Investment income	2,923,427	4,724,138	-	7,647,565
Expenditures	(1,342,782)	(1,632,635)	-	(2,975,417)
Balance, June 30, 2017	16,605,811	9,030,385	33,551,002	59,187,198
Additions	2,334,044	-	68,329	2,402,373
Investment income	2,564,723	4,170,108	-	6,734,831
Expenditures	(1,116,480)	(1,720,968)	-	(2,837,448)
Balance, June 30, 2018	\$ 20,388,098	\$ 11,479,525	\$ 33,619,331	\$ 65,486,954

Included in permanently restricted endowment funds were \$842,962 and \$881,226 of net pledges receivable at June 30, 2018 and 2017, respectively.

THE CHRYSLER MUSEUM, INCORPORATED

NOTES TO FINANCIAL STATEMENTS

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).

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 34.5% and 41% of its total support and revenue from the City of Norfolk for the years ended June 30, 2018 and 2017.

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 \$674,250 and \$780,000 for the years ended June 30, 2018 and 2017, respectively.