

**CALIFORNIA STATE RAILROAD
MUSEUM FOUNDATION**

Audited Financial Statements

December 31, 2012

CALIFORNIA STATE RAILROAD MUSEUM FOUNDATION

AUDITED FINANCIAL STATEMENTS

For the Years Ended December 31, 2012 and 2011

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INDEPENDENT AUDITOR'S REPORT

Board of Directors
California State Railroad Museum Foundation
Sacramento, California

We have audited the accompanying financial statements of the California State Railroad Museum Foundation (the Foundation) which comprise the statements of financial position as of December 31, 2012 and 2011 and the related statements of activities 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 and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. 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

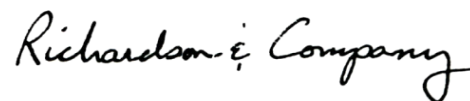
In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of the Foundation as of December 31, 2012 and 2011, and the changes in its net assets and its cash flows for the years then ended in accordance with accounting principles generally accepted in the United States of America.

Other Matter

Our audit was conducted for the purpose of forming an opinion on the financial statements as a whole. The schedules of functional expenses on page 15 to 16 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 derive 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.

Other Reporting Required by *Government Auditing Standards*

In accordance with *Government Auditing Standards*, we have also issued our report dated May 29, 2013, on our consideration of the Foundation's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the Foundation's internal control over financial reporting and compliance.



May 29, 2013

CALIFORNIA STATE RAILROAD MUSEUM FOUNDATION

STATEMENTS OF FINANCIAL POSITION

December 31, 2012 and 2011

	<u>2012</u>	<u>2011</u>
ASSETS		
CURRENT ASSETS		
Cash and cash equivalents	\$ 754,220	\$ 525,525
Accounts receivable	33,157	12,309
Inventories	221,230	215,691
Deposits	31,170	20,958
Prepaid expenses and other assets	26,233	23,581
TOTAL CURRENT ASSETS	<u>1,066,010</u>	<u>798,064</u>
NONCURRENT ASSETS		
Investments	2,538,039	2,340,849
Property and equipment, net	271,534	279,941
TOTAL NONCURRENT ASSETS	<u>2,809,573</u>	<u>2,620,790</u>
TOTAL ASSETS	<u>\$ 3,875,583</u>	<u>\$ 3,418,854</u>
LIABILITIES AND NET ASSETS		
LIABILITIES		
Accounts payable and accrued liabilities	\$ 422,191	\$ 372,229
Accrued vacation payable	35,069	36,537
Retirement plan payable	33,964	28,758
Sales tax payable	9,590	9,767
Deferred revenue and other liabilities	7,444	11,134
TOTAL LIABILITIES	<u>508,258</u>	<u>458,425</u>
NET ASSETS		
Unrestricted		
Undesignated	1,049,530	829,056
Designated	163,702	142,580
	<u>1,213,232</u>	<u>971,636</u>
Temporarily restricted	598,731	552,995
Permanently restricted	1,555,362	1,435,798
TOTAL NET ASSETS	<u>3,367,325</u>	<u>2,960,429</u>
TOTAL LIABILITIES AND NET ASSETS	<u>\$ 3,875,583</u>	<u>\$ 3,418,854</u>

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

CALIFORNIA STATE RAILROAD MUSEUM FOUNDATION

STATEMENT OF ACTIVITIES

For the Year Ended December 31, 2012

	Restricted			Total
	Unrestricted	Temporarily	Permanently	
Revenues, gains and other support				
Museum store sales	\$ 982,892			\$ 982,892
Membership	722,685			722,685
Polar Express event	819,744			819,744
Contributions	256,970	\$ 10,565		267,535
Sacramento Southern Railroad operations	328,523			328,523
Railtown 1897 Railroad operations	151,562			151,562
Railtown Depot store sales	147,432			147,432
Facility rentals	56,619			56,619
Interpretive program support/exhibits	9,669			9,669
Huntington Hopkins Hardware store sales	26,718			26,718
Library reproductions	10,323	65		10,388
Opportunity acquisitions		3,443		3,443
Other income	1,839			1,839
Interest and dividends	31,111	16,740	\$ 30,391	78,242
Net realized and unrealized gains on investments	26,329	32,216	89,173	147,718
Net assets released from restriction	17,293	(17,293)		-
Total revenues, gains and support	3,589,709	45,736	119,564	3,755,009
Expenses				
Program services:				
Retail operations	893,567			893,567
Polar Express event	566,693			566,693
Sacramento Southern Railroad operations	294,807			294,807
Railtown Depot Store	189,351			189,351
Railtown 1897 Railroad operations	193,076			193,076
Railroad Technology Museum	284,454			284,454
Museum administration	25,825			25,825
Educational and interpretive programs	72,794			72,794
Facility rental	82,649			82,649
Library operations and acquisitions	20,199			20,199
Exhibits and events	24,003			24,003
Sefton Toy Train Exhibit	31,289			31,289
Supporting services:				
Management and general	208,505			208,505
Membership and development	418,705			418,705
Marketing and promotions	42,196			42,196
Total expenses	3,348,113			3,348,113
Change in net assets	241,596	45,736	119,564	406,896
Net assets at the beginning of the year	971,636	552,995	1,435,798	2,960,429
Net assets at end of year	<u>\$ 1,213,232</u>	<u>\$ 598,731</u>	<u>\$ 1,555,362</u>	<u>\$ 3,367,325</u>

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

CALIFORNIA STATE RAILROAD MUSEUM FOUNDATION

STATEMENT OF ACTIVITIES

For the Year Ended December 31, 2011

	<u>Restricted</u>			<u>Total</u>
	<u>Unrestricted</u>	<u>Temporarily</u>	<u>Permanently</u>	
Revenues, gains and other support				
Museum store sales	\$ 961,859			\$ 961,859
Membership	664,417			664,417
Polar Express event	704,147			704,147
Contributions	239,603	\$ 14,650		254,253
Sacramento Southern Railroad operations	345,040			345,040
Railtown 1897 Railroad operations	148,677			148,677
Railtown Depot store sales	169,323			169,323
Facility rentals	79,521			79,521
Interpretive program support/exhibits	30,102			30,102
Huntington Hopkins Hardware store sales	23,047			23,047
Library reproductions	12,188			12,188
Leland Stanford Mansion store sales		9,831		9,831
Opportunity acquisitions		22,869		22,869
Other income	23,470			23,470
Interest and dividends	20,481	23,445	\$ 64,390	108,316
Net realized and unrealized gains (losses) on investments	(17,991)	(22,816)	(84,528)	(125,335)
Net assets released from restriction	172,334	(172,334)		-
	<u>3,576,218</u>	<u>(124,355)</u>	<u>(20,138)</u>	<u>3,431,725</u>
Total revenues, gains and support				
Expenses				
Program services:				
Retail operations	864,965			864,965
Polar Express event	525,652			525,652
Sacramento Southern Railroad operations	289,120			289,120
Railtown Depot Store	196,814			196,814
Railtown 1897 Railroad operations	150,727			150,727
Railroad Technology Museum	188,710			188,710
Museum administration	68,522			68,522
Educational and interpretive programs	66,936			66,936
Facility rental	89,285			89,285
Library operations and acquisitions	25,127			25,127
Exhibits and events	15,384			15,384
Sefton Toy Train Exhibit	53,442			53,442
Stanford Mansion store	63,473			63,473
Supporting services:				
Management and general	206,925			206,925
Membership and development	362,282			362,282
Marketing and promotions	44,315			44,315
	<u>3,211,679</u>	<u>-</u>	<u>-</u>	<u>3,211,679</u>
Total expenses				
Change in net assets	364,539	(124,355)	(20,138)	220,046
Net assets at the beginning of the year	<u>607,097</u>	<u>677,350</u>	<u>1,455,936</u>	<u>2,740,383</u>
Net assets at end of year	<u>\$ 971,636</u>	<u>\$ 552,995</u>	<u>\$ 1,435,798</u>	<u>\$ 2,960,429</u>

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

CALIFORNIA STATE RAILROAD MUSEUM FOUNDATION

STATEMENTS OF CASH FLOWS

For the Years Ended December 31, 2012 and 2011

	<u>2012</u>	<u>2011</u>
CASH FLOWS FROM OPERATING ACTIVITIES		
Change in net assets	\$ 406,896	\$ 220,046
Adjustments to reconcile change in net assets to net cash (used) provided by operating activities:		
Depreciation	34,083	66,141
Unrealized and realized gain on investments	(147,718)	108,560
Donation of property and equipment	(3,500)	
Changes in operating assets and liabilities:		
Accounts receivable	(20,848)	(2,652)
Inventories	(5,539)	36,172
Deposits	(10,212)	9,100
Prepaid expenses and other assets	(2,652)	10,025
Accounts payable, accrued liabilities, deferred revenue and other liabil	46,272	(34,742)
Accrued vacation payable	(1,468)	1,954
Retirement plan payable	5,206	(2,622)
Sales tax payable	(177)	(2,949)
Net cash provided by operating activities	<u>300,343</u>	<u>409,033</u>
CASH FLOWS FROM INVESTING ACTIVITIES		
Acquisition of property and equipment	(22,176)	(16,067)
Purchase of investments	(594,151)	(524,990)
Proceeds from sale of investments	544,679	445,057
Net cash used by investing activities	<u>(71,648)</u>	<u>(96,000)</u>
CASH FLOWS FROM FINANCING ACTIVITIES		
Borrowings on lines of credit		225,000
Payments on lines of credit		(225,000)
Net cash used by financing activities	<u>-</u>	<u>-</u>
Increase in cash and cash equivalents	228,695	313,033
Cash and cash equivalents, beginning of the year	<u>525,525</u>	<u>212,492</u>
Cash and cash equivalents, end of year	<u>\$ 754,220</u>	<u>\$ 525,525</u>
SUPPLEMENTAL DISCLOSURE OF CASH FLOW INFORMATION		
Interest paid	<u>\$ 521</u>	<u>\$ 4,382</u>

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

CALIFORNIA STATE RAILROAD MUSEUM FOUNDATION
NOTES TO FINANCIAL STATEMENTS
December 31, 2012 and 2011

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Organization and Operation

California State Railroad Museum Foundation (the Foundation) is a not-for-profit organization incorporated under the laws of the State of California whose purpose is to promote and further the educational and interpretive activities of the California State Railroad Museum. In addition, the Foundation supports the preservation of railroad historical artifacts through its various acquisition and maintenance programs. The Foundation is a cooperating association of the California State Railroad Museum and therefore solicits contributions and grants and incurs expenditures for and on behalf of the Museum.

Method of Accounting

The financial statements of the Foundation are presented on the accrual basis of accounting and maintained in accordance with accounting principles generally accepted in the United States of America (GAAP). This is the procedure by which resources are classified for accounting and reporting purposes into funds established according to their nature and objectives.

Contributions received are recorded as unrestricted, temporarily restricted, or permanently restricted support, depending on the existence and/or nature of any donor restrictions. Support that is restricted by the donor is reported as an increase in unrestricted net assets if the restriction expires in the reporting period in which the support is recognized. All other donor-restricted support is reported as an increase in temporarily or permanently restricted net assets, depending on the nature of the restriction. When a 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. Investment income related to temporarily or permanently restricted net assets is classified as either temporarily restricted or unrestricted based on the intent of the donor, or is added to permanently restricted net assets if required by the donor.

Cash and Cash Equivalents

Cash and cash equivalents include demand deposits, money market accounts and short-term investments with original maturities of three months or less.

Donated and Purchased Collection Items

In accordance with guidance for the accounting for contributions received and contributions made, the Foundation does not recognize as revenues or gains or capitalize collection items acquired through purchase or donation. Purchases of collection items are recorded as decreases in unrestricted net assets if purchased with unrestricted assets and as decreases in temporarily restricted or permanently restricted net assets if purchased with donor-restricted assets.

Donated Materials and Services

Donated materials and services that create or enhance nonfinancial assets or that require specialized skills, are provided by individuals possessing those skills, and would typically need to be purchased if not provided by donation, are recorded at their fair values in the period received.

CALIFORNIA STATE RAILROAD MUSEUM FOUNDATION

NOTES TO FINANCIAL STATEMENTS (continued)

December 31, 2012 and 2011

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Inventories

Inventories are stated at the lower of cost or market determined by the first-in, first-out method. Shipping and handling costs are capitalized with respect to ending inventories.

Property and Equipment

The Foundation capitalizes all expenditures for property and equipment in excess of \$500. Property and equipment are carried at cost or, if donated, at the approximate fair value at the date of donation. Depreciation is computed using primarily the straight-line method over an estimated useful life.

When assets are sold or otherwise disposed of, the cost and related accumulated depreciation or amortization are removed from the accounts, and any resulting gain or loss is recognized in income for the period. The cost of maintenance and repairs is charged to expense as incurred. The Foundation evaluates property and equipment for financial impairment as events or changes in circumstances indicate that the carrying amount of such assets may not be fully recoverable.

Accrued Vacation

It is the Foundation's policy to accumulate a limited amount of earned but unused vacation, which will be paid to employees upon separation. Accumulated unpaid vacation is accrued when earned.

Income Taxes

The Foundation is a tax exempt organization under the Internal Revenue Service Section 501(c)(3) and California Revenue and Taxation Code Section 23701(d) and therefore, is subject to federal and state taxes only on unrelated business income earned. There was no income from such activities during the years ended December 31, 2012 and 2011. The Foundation is not a private foundation.

The Foundation's federal returns for the years ended December 31, 2011, 2010, and 2009 could be subject to examination by federal taxing authorities, generally for three years after they are filed. The Foundation's state returned for the years ended December 31, 2011, 2010, 2009, and 2008 could be subject to examination by state taxing authorities, generally for four years after they are filed.

Advertising

The Foundation expenses advertising costs when incurred. Total advertising costs charged to various activities during the year ended December 31, 2012 and 2011 were \$67,455 and \$61,221, respectively, and are included in marketing and advertising on the Schedule of Functional Expenses.

Net Assets

The Foundation classified its net assets as unrestricted, temporarily restricted and permanently restricted.

Unrestricted, undesignated — Includes unrestricted contributions, income earned on unrestricted net assets and amounts for which temporary restrictions have expired.

CALIFORNIA STATE RAILROAD MUSEUM FOUNDATION

NOTES TO FINANCIAL STATEMENTS (continued)

December 31, 2012 and 2011

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Unrestricted, designated — Unrestricted net assets may be designated for use by the Board of Directors. Such designations limit the area of the Foundation's operations for which expenditures of unrestricted net assets may be made. Designated net assets are primarily for signal repair, Railtown preservation and museum improvements.

Temporarily restricted — Net assets subject to externally imposed stipulations that can be fulfilled by the actions of the Foundation pursuant to those stipulations or the passage of time.

Permanently restricted — Net assets subject to externally imposed restrictions to be held in perpetuity that neither can be fulfilled by the actions of the Foundation, nor expire with the passage of time.

Endowment Funds

The Foundation accounts for endowment gifts under the Uniform Prudent Management of Institutional Funds Act of 2006 (UPMIFA). UPMIFA allows an institution to spend or accumulate as the board determines is prudent for the uses, benefits, purposes and duration of the endowment fund unless the gift instrument states a particular spending rate or formula. UPMIFA considers spending 7% or less of the average fair market value (calculated at least quarterly over a minimal period of three years) to be prudent. In determining when to appropriate or accumulate an endowment fund, the Foundation considers seven factors that affect the spending and future earnings of the fund.

The Foundation's endowment consists of two donor-restricted endowment funds established for the purposes of expanding and preserving specific museum collections. Net assets associated with endowment funds are classified and reported based on the existence or absence of donor-imposed restrictions.

The Foundation classifies as permanently restricted net assets the original value of gifts donated to the permanent endowment and accumulations required by the donor to remain in the endowment, net of distributions made according to the spending policy of the Foundation, not to exceed 7% of the value of the endowment. 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 expended for purposes outlined by the donor or are appropriated for expenditure by the Foundation in a manner consistent with the standard prudence prescribed by UPMIFA.

The Foundation follows the 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 purchasing power of the endowment assets. The Foundation's policy for the Sefton endowment provides for annual expenditures allocated to the extent that the fund had investment earnings during the year, up to the sum of the investment earnings and 7% of the endowment balance. During years that the endowment incurs losses, expenditures are not permitted and expenditures in following years are permitted only after amounts available exceed the cumulative balance of losses, as long as the balance does not drop below the annual 7% reduction in the endowment balance permitted by UPMIFA. The Shrader endowment agreement requires investment returns equal to the three-year average of the CPI index plus 1% be retained in the endowment. The Board has not adopted a spending plan for the Shrader endowment.

CALIFORNIA STATE RAILROAD MUSEUM FOUNDATION

NOTES TO FINANCIAL STATEMENTS (continued)

December 31, 2012 and 2011

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

The Foundation's investment policy balances current income and longer-term capital appreciation with a moderate risk tolerance. The Foundation is seeking annual returns for the total portfolio that equals or exceeds selected benchmarks such as the S&P 500 Index. The Foundation's strategy is to invest in an asset mix which targets 40% for equities, 50% for fixed income, and 10% for complementary assets such as real estate related or private equity investments.

Functional Allocation of Expenses

The Foundation allocates its expenses on a functional basis among its various program and supporting services and reports these allocations on the schedule of functional expenses. Expenses that can be identified with a specific program are allocated directly to their natural expenditure classification. Other expenses and supporting services that are common to several functions are allocated based the proportional share of direct expenses.

Use of Estimates

The preparation of financial statements in conformity with accounting principles generally accepted in the United States of America requires management to make estimates and assumptions. These estimates and assumptions affect the reported amounts of assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from these estimates. Estimates are used in the following: the valuation of inventory, the depreciable lives and methods used for property and equipment, the value of donated rent and the allocation of costs to programs.

2. INVESTMENT SECURITIES

Investments at December 31, 2012 and 2011 consisted of the following:

	<u>2012</u>	<u>2011</u>
Money market funds	\$ 108,184	\$ 178,829
Corporate stocks	573,597	553,158
Mutual funds	1,552,624	1,152,625
Corporate bonds	172,193	166,993
Real asset funds	131,441	289,244
	<u>\$ 2,538,039</u>	<u>\$ 2,340,849</u>

Investment securities are carried at fair value; therefore, realized and unrealized gains and losses are reflected in the statement of activities and changes in net assets in the year incurred.

CALIFORNIA STATE RAILROAD MUSEUM FOUNDATION

NOTES TO FINANCIAL STATEMENTS (continued)

December 31, 2012 and 2011

2. INVESTMENT SECURITIES (Continued)

The components of investments return for the years ended December 31 on the investments described above is as follows:

	<u>2012</u>	<u>2011</u>
Interest and dividends	\$ 78,242	\$ 108,316
Net unrealized gains (losses)	166,578	(118,320)
Net realized (losses) gains	<u>(18,860)</u>	<u>9,760</u>
	<u>\$ 225,960</u>	<u>\$ (244)</u>

As of December 31, 2012 and 2011, the total of investment advisory fees were \$28,375 and \$28,383, respectively, which have been recorded as expenses in outside services and office expense.

3. FAIR VALUE MEASUREMENTS

The Foundation groups its assets and liabilities measured at fair value in three levels, based on the markets in which the assets and liabilities are traded and the reliability of the assumptions used to determine fair value: using quoted market prices for identical instruments traded in active exchange markets (Level 1), using significant other observable inputs (Level 2) and using significant unobservable inputs (Level 3). The Foundation's investment securities described in Note 2 are measured at fair value on a recurring basis. These investments are classified within Level 1 of the fair value hierarchy because they are valued using quoted market prices for identical assets. Net unrealized gains (losses) were \$166,578 in 2012 and \$(118,320) in 2011.

4. PROPERTY AND EQUIPMENT

Property and equipment at December 31, 2012 and 2011 consisted of the following:

	<u>2012</u>	<u>2011</u>
Furniture and fixtures	\$ 192,294	\$ 192,294
Equipment	602,698	577,022
Building improvements	<u>429,421</u>	<u>429,421</u>
	1,224,413	1,198,737
Less accumulated depreciation and amortization	<u>(952,879)</u>	<u>(918,796)</u>
	<u>\$ 271,534</u>	<u>\$ 279,941</u>

CALIFORNIA STATE RAILROAD MUSEUM FOUNDATION

NOTES TO FINANCIAL STATEMENTS (continued)

December 31, 2012 and 2011

5. RESTRICTED NET ASSETS

Temporarily Restricted Net Assets

Temporarily restricted net assets consist of unexpended funds restricted by donors for the following programs:

	<u>2012</u>	<u>2011</u>
Sefton Catalog Fund — To support the acquisition of unique and historical toy train memorabilia and to publish a catalog.	\$ 190,205	\$ 174,901
Sefton Toy Train Exhibit Fund — To support the long-term maintenance and preservation of toy train exhibits and related acquisitions.	225,475	211,625
Opportunity Acquisition Fund — To support the acquisition and care of collections.	93,498	83,186
Shrader Fund — To support the acquisition and care of collections.	10,144	9,339
Other — Miscellaneous contributions and fund restrictions to be used for Foundation programs.	<u>79,409</u>	<u>73,944</u>
Total	<u><u>\$ 598,731</u></u>	<u><u>\$ 552,995</u></u>

Permanently Restricted Net Assets

Permanently restricted net assets consist of unexpended funds restricted by donors for the following programs:

	<u>2012</u>	<u>2011</u>
Sefton Endowment — To support the long-term maintenance and preservation of toy train exhibits and related acquisitions.	\$ 1,142,435	\$ 1,055,663
Shrader Endowment — To support the acquisition and care of collections. Donor specified annual investment returns to be added to the restricted balance with excess earnings to be used as designated by the Board of Directors to further the purposes of the Foundation.	<u>412,927</u>	<u>380,135</u>
Totals	<u><u>\$ 1,555,362</u></u>	<u><u>\$ 1,435,798</u></u>

CALIFORNIA STATE RAILROAD MUSEUM FOUNDATION

NOTES TO FINANCIAL STATEMENTS (continued)

December 31, 2012 and 2011

5. RESTRICTED NET ASSETS (Continued)

Changes in endowment net assets consisted of the following:

	Temporarily Restricted	Permanently Restricted	Total
Endowment net assets, January 1, 2011	\$ 322,246	\$ 1,455,936	\$ 1,778,182
Investment return:			
Investment income	17,278	64,390	81,668
Net appreciation (realized and unrealized)	(22,682)	(84,528)	(107,210)
Total investment return	<u>(5,404)</u>	<u>(20,138)</u>	<u>(25,542)</u>
Endowment net assets, December 31, 2011	316,842	1,435,798	1,752,640
Investment return:			
Investment income	8,218	30,391	38,609
Net depreciation (realized and unrealized)	23,865	89,173	113,038
Total investment return	<u>32,083</u>	<u>119,564</u>	<u>151,647</u>
Endowment net assets, December 31, 2012	<u>\$ 348,925</u>	<u>\$ 1,555,362</u>	<u>\$ 1,904,287</u>

6. LINE OF CREDIT

The Foundation has a \$200,000 revolving line of credit with a financial institution that matures on August 10, 2013. Interest is payable monthly at the institution's prime rate plus 2.0% per annum with a floor of 5.00% per annum. The line of credit is secured by the Foundation's inventory, equipment, and accounts receivable. No balances were outstanding as of December 31, 2012 and 2011.

The Foundation has a \$350,000 additional revolving line of credit that matures on August 1, 2014. Interest is payable monthly at the institution's prime rate plus 0.75% per annum with a floor of 4.00%. The line of credit is secured by the investments of the endowments. No balances were outstanding as of December 31, 2012 and 2011.

7. RETIREMENT BENEFITS

The Foundation provides retirement benefits to employees meeting specified service requirements. At the discretion of the Executive Board, the benefits typically equal five percent of the employee's base pay and are deposited annually to a Simplified Employee Pension/Individual Retirement Account administered by an institution selected by the employee. Contributions are fully vested when made, and totaled \$33,825 and \$28,758 for the years ended December 31, 2012 and 2011, respectively.

CALIFORNIA STATE RAILROAD MUSEUM FOUNDATION

NOTES TO FINANCIAL STATEMENTS (continued)

December 31, 2012 and 2011

8. SUBSEQUENT EVENTS

The Foundation has evaluated the effects of subsequent events that have occurred subsequent to December 31, 2012 and through May 29, 2013, which is the date the financial statements were available to be issued, and has determined that there were no subsequent events that require recognition or disclosure in the financial statements or notes therein.

9. DONATED FACILITIES AND EQUIPMENT

The Foundation occupies a small amount of office and retail space within the California Department of Parks and Recreation buildings. The Foundation has quantified and recorded the value of these donated facilities, which is reflected as contribution revenue and as rent expense allocated to retail operations, Railtown Depot, and management and general. For the years end December 31, 2012, and 2011, the in-kind contribution recorded for use of property amounted to \$75,600. Equipment donated as of December 31, 2012 was \$3,500. There was no equipment donated as of December 31, 2011.

10. RELATED PARTY TRANSACTION

Boiler Shop, LLC, a California limited liability company, was formed in August 2009. Boiler Shop, LLC is an independent entity formed for the sole purpose of serving as an intermediary to hold title to certain real property until California State Parks can obtain the necessary authorizations and approvals to take title to such real property. As the transfer of the real property to Boiler Shop, LLC has not yet occurred, the entity has been dormant except for a \$25,000 donation to the LLC from the Foundation and the payment of legal expenses related to the transfer, during the audit period. Presently, several members of the Foundation Board of Directors also serve as the Directors of Boiler Shop, LLC.

CALIFORNIA STATE RAILROAD MUSEUM FOUNDATION

SCHEDULE OF FUNCTIONAL EXPENSES

For the Year Ended December 31, 2012
(With Comparative Totals for 2011)

	Program Services								
	Retail Operations	Polar Express Event	Sacramento Southern Railroad Operations	Railtown Depot Store	Railtown 1897 Railroad Operations	Railroad Technology Museum Administration	Educational and Interpretive Programs	Facility Rental	
Compensation and related expenses:									
Salaries	\$ 189,856	\$ 39,872	\$ 101,763	\$ 55,319	\$ 8,958	\$ 13,053	\$ 3,263	\$ 52,866	
Employee benefits	47,548	3,813	13,733	15,762	1,031	1,512	378	4,552	
Payroll taxes	14,311	3,104	7,872	4,033	719	2,231	263	4,058	
Total compensation and related expenses	251,715	46,789	123,368	75,114	10,708	16,796	3,904	61,476	
Other expenses:									
Cost of goods sold	499,488	19,006		70,990					
Events and programs		361,063	10,270	36	15,928		2,611	30,397	
Office expense	63,945	71,878	26,311	10,622	21,029	2,669	7,292	3,799	
Outside services	1,814	58,349	201	531	2,866	98,877	264	16,899	
Fuel			40,128		42,445				
Repairs and maintenance	903		26,444	241	9,898	91,738	1,069	4,987	
Depreciation	10,040	740	1,973	986	1,575		3,478	247	
Accounting	7,872	1,574	4,198	2,099	2,624		1,574	1,050	
Contributions					45,900				
Marketing and advertising	4,648	504	3,435	10,823	12,533	71,952	2,742	774	
Legal									
Volunteer enhancement					9,627			25,309	
Printing	62	3,026	5,787				424	1,719	
Postage	471	31	76	57	892		228	25	
Travel	1,083	3,378	1,100	3,621	753	1,235	1,619	75	
On Track newsletter									
Railroad operational expenses			10,813		8,559				
Mechanical			12,076						
Insurance	1,777	355	948	474	592	1,187	355	237	
Maintenance of way			27,589		6,574				
Interest expense									
Exhibit design									
Point of sale									
Direct mail	5,684			557	249				
Rent expense	43,200			13,200					
Utilities									
Premiums									
Training			90		324		529		
Product development	865								
Total expenses	\$ 893,567	\$ 566,693	\$ 294,807	\$ 189,351	\$ 193,076	\$ 284,454	\$ 25,825	\$ 72,794	\$ 82,649

CALIFORNIA STATE RAILROAD MUSEUM FOUNDATION

SCHEDULE OF FUNCTIONAL EXPENSES

For the Year Ended December 31, 2012
(With Comparative Totals for 2011)

	Program Services					Supporting Services					2011 Total All Expenses	
	Library Operations and Acquisitions	Exhibits and Events	Sefton Toy Train Exhibit	Total All Programs	Management and General	Membership and Development	Marketing and Promotions	Total All Supporting	Total All Expenses			
Compensation and related expenses:												
Salaries	\$ 1,632	\$ 1,632		\$ 471,477	\$ 42,882	\$ 172,423	\$ 9,790	\$ 225,095	\$ 696,572	\$ 671,473		
Employee benefits	189	226		89,122	10,314	25,681	1,134	37,129	126,251	123,035		
Payroll taxes	131	131		37,123	2,631	13,010	789	16,430	53,553	69,069		
Total compensation and related expenses	1,952	1,989	-	597,722	55,827	211,114	11,713	278,654	876,376	863,577		
Other expenses:												
Cost of goods sold	8,108			597,592		44,065		44,065	597,592	607,519		
Events and programs	9,324	789	\$ 217	421,094	12,862	32,331	3,569	48,762	465,159	377,204		
Office expense		1,276	\$ 23,916	220,158	30	560	1,207	1,797	268,920	350,111		
Outside services				203,717					205,514	210,177		
Fuel				82,573					82,573	89,257		
Repairs and maintenance	60	884	4,625	140,969	2,829	6,148		8,977	149,946	48,943		
Depreciation		247		19,779	8,632	3,699	1,973	14,304	34,083	66,141		
Accounting	525	525		23,090	21,516	7,872		29,388	52,478	24,085		
Contributions				45,900	250			250	46,150	35,688		
Marketing and advertising		1,162		37,179	7,490		22,786	30,276	67,455	61,221		
Legal				71,952	72,349			72,349	144,301	79,682		
Volunteer enhancement				34,936	7,173			7,173	42,109	37,764		
Printing				11,018		37,454		37,454	48,472	49,762		
Postage	11	64		1,876	949	26,803		27,752	29,628	32,628		
Travel	51	2,723		15,638	898	520		1,418	17,056	22,715		
On Track newsletter				-		26,998		26,998	26,998	27,191		
Railroad operational expenses				19,372				-	19,372	16,340		
Mechanical				12,076				-	12,076	6,527		
Insurance	118	118		6,398	3,910	1,777	948	6,635	13,033	15,926		
Maintenance of way				34,163				-	34,163	54,160		
Interest expense				-	521			521	521	4,382		
Exhibit design		13,741	2,531	16,272				-	16,272	8,919		
Point of sale				6,490				-	6,490	6,255		
Direct mail				-		412		412	412	-		
Rent expense				56,400	19,200			19,200	75,600	75,600		
Utilities				-	1,172	1,172		2,344	2,344	6,279		
Premiums				-		9,499		9,499	9,499	9,075		
Training	50	485		1,478	387	171		558	2,036	985		
Product development				865		620		620	1,485	23,566		
Total expenses	\$ 20,199	\$ 24,003	\$ 31,289	\$ 2,678,707	\$ 208,505	\$ 418,705	\$ 42,196	\$ 669,406	\$ 3,348,113	\$ 3,211,679		

INDEPENDENT AUDITOR'S REPORT ON INTERNAL CONTROL OVER FINANCIAL
REPORTING AND ON COMPLIANCE AND OTHER MATTERS BASED ON AN
AUDIT OF FINANCIAL STATEMENTS PERFORMED IN ACCORDANCE WITH
GOVERNMENT AUDITING STANDARDS

To the Board of Directors
California State Railroad Museum Foundation
Sacramento, California

We have audited, in accordance with the auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States, the financial statements of the California State Railroad Museum Foundation (the Foundation), which comprise the statement of financial position as of December 31, 2012, and the related statements of activities, and cash flows for the year then ended, and the related notes to the financial statements, and have issued our report thereon dated May 29, 2013.

Internal Control Over Financial Reporting

In planning and performing our audit of the financial statements, we considered the Foundation's internal control over financial reporting (internal control) to determine the audit procedures that are appropriate in the circumstances for the purpose of expressing our opinion on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the Foundation's internal control. Accordingly, we do not express an opinion on the effectiveness of the Foundation's internal control.

A *deficiency in internal control* exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct, misstatements on a timely basis. A *material weakness* is a deficiency, or a combination of deficiencies, in internal control such that there is a reasonable possibility that a material misstatement of the entity's financial statements will not be prevented, or detected and corrected on a timely basis.

A *significant deficiency* is a deficiency, or a combination of deficiencies, in internal control that is less severe than a material weakness, yet important enough to merit attention by those charged with governance.

Our consideration of internal control was for the limited purpose described in the preceding paragraph and was not designed to identify all deficiencies in internal control that might be material weaknesses or significant deficiencies. Given these limitations, during our audit we did not identify any deficiencies in internal control that we consider to be material weaknesses. However, material weaknesses may exist that have not been identified.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether the Foundation's financial statements are free from material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with these provisions was not an objective of our audit and, accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards*.

Purpose of this Report

The purpose of this report is solely to describe the scope of our testing of internal control and compliance and the result of that testing, and not to provide an opinion on the effectiveness of the entity's internal control or on compliance. This report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the entity's internal control and compliance. Accordingly, this communication is not suitable for any other purpose.

Richardson & Company

May 29, 2013