

**CALIFORNIA STATE RAILROAD
MUSEUM FOUNDATION**

Audited Financial Statements

December 31, 2013

CALIFORNIA STATE RAILROAD MUSEUM FOUNDATION

AUDITED FINANCIAL STATEMENTS

December 31, 2013 and 2012

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INDEPENDENT AUDITOR'S REPORT

To the 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, 2013 and 2012 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

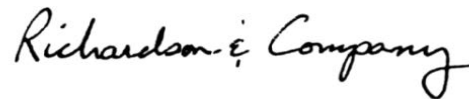
In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of the Foundation as of December 31, 2013 and 2012, and the changes in its net assets and its cash flows for the years then ended in accordance with accounting principles generally 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 schedule 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 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.

Other Reporting Required by *Government Auditing Standards*

In accordance with *Government Auditing Standards*, we have also issued our report dated June 6, 2014, 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.



June 6, 2014

CALIFORNIA STATE RAILROAD MUSEUM FOUNDATION

STATEMENTS OF FINANCIAL POSITION

December 31, 2013 and 2012

	<u>2013</u>	<u>2012</u>
ASSETS		
CURRENT ASSETS		
Cash and cash equivalents	\$ 1,073,917	\$ 754,220
Accounts receivable	5,136	33,157
Inventories	205,424	221,230
Deposits	27,627	31,170
Prepaid expenses and other assets	<u>27,624</u>	<u>26,233</u>
TOTAL CURRENT ASSETS	<u>1,339,728</u>	<u>1,066,010</u>
NONCURRENT ASSETS		
Investments	2,815,285	2,538,039
Property and equipment	<u>252,326</u>	<u>271,534</u>
TOTAL NONCURRENT ASSETS	<u>3,067,611</u>	<u>2,809,573</u>
TOTAL ASSETS	<u><u>\$ 4,407,339</u></u>	<u><u>\$ 3,875,583</u></u>
LIABILITIES AND NET ASSETS		
LIABILITIES		
Accounts payable and accrued liabilities	\$ 363,719	\$ 426,941
Accrued vacation payable	30,238	35,069
Retirement plan payable	35,303	33,964
Sales tax payable	10,902	9,590
Deferred revenue and other liabilities	<u>13,389</u>	<u>2,694</u>
TOTAL LIABILITIES	<u>453,551</u>	<u>508,258</u>
NET ASSETS		
Unrestricted		
Undesignated	1,369,083	1,049,530
Designated	<u>156,122</u>	<u>163,702</u>
	1,525,205	1,213,232
Temporarily restricted	708,331	598,731
Permanently restricted	<u>1,720,252</u>	<u>1,555,362</u>
TOTAL NET ASSETS	<u>3,953,788</u>	<u>3,367,325</u>
TOTAL LIABILITIES AND NET ASSETS	<u><u>\$ 4,407,339</u></u>	<u><u>\$ 3,875,583</u></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, 2013

	<u>Restricted</u>			
	<u>Unrestricted</u>	<u>Temporarily</u>	<u>Permanently</u>	<u>Total</u>
Revenues, gains and other support				
Museum store sales	\$ 923,275			\$ 923,275
Membership	770,660			770,660
Polar Express event	1,019,986			1,019,986
Contributions	190,177	\$ 87,359		277,536
Sacramento Southern Railroad operations	354,601			354,601
Railtown 1897 Railroad operations	169,283			169,283
Railtown Depot store sales	150,346			150,346
Facility rentals	13,319			13,319
Interpretive program support/exhibits	6,119			6,119
Huntington Hopkins Hardware store sales	27,855			27,855
Library reproductions	11,432			11,432
Railtown Donor Agreement	150,601			150,601
Opportunity acquisitions		4,217		4,217
Other income	15,157			15,157
Interest and dividends	8,026	9,674	\$ 27,215	44,915
Net realized and unrealized gains on investments	43,178	51,478	137,675	232,331
Net assets released from restriction	43,128	(43,128)		-
	<hr/>			<hr/>
Total revenues, gains and support	3,897,143	109,600	164,890	4,171,633
Expenses				
Program services:				
Retail operations	861,930			861,930
Polar Express event	641,898			641,898
Sacramento Southern Railroad operations	392,201			392,201
Restoration projects	234,141			234,141
Railtown Depot Store	202,603			202,603
Railtown 1897 Railroad operations	155,227			155,227
Railroad Technology Museum	175,437			175,437
Museum administration	26,876			26,876
Educational and interpretive programs	86,819			86,819
Facility rental	38,185			38,185
Library operations and acquisitions	34,235			34,235
Exhibits and events	42,952			42,952
Sefton Toy Train Exhibit	18,812			18,812
Supporting services:				
Management and general	184,599			184,599
Membership and development	430,167			430,167
Marketing and promotions	59,088			59,088
	<hr/>			<hr/>
Total expenses	3,585,170	-	-	3,585,170
	<hr/>			<hr/>
Change in net assets	311,973	109,600	164,890	586,463
Net assets at the beginning of the year	1,213,232	598,731	1,555,362	3,367,325
	<hr/>			<hr/>
Net assets at end of year	\$ 1,525,205	\$ 708,331	\$ 1,720,252	\$ 3,953,788
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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			10,323
Opportunity acquisitions		3,443		3,443
Other income	1,839	65		1,904
Interest and dividends	8,592	10,489	\$ 30,391	49,472
Net realized and unrealized gains (losses) on investments	26,329	32,216	89,173	147,718
Net assets released from restriction	11,042	(11,042)		-
	<u>3,560,939</u>	<u>45,736</u>	<u>119,564</u>	<u>3,726,239</u>
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	7,373			7,373
Supporting services:				
Management and general	203,651			203,651
Membership and development	418,705			418,705
Marketing and promotions	42,196			42,196
	<u>3,319,343</u>	<u>-</u>	<u>-</u>	<u>3,319,343</u>
Change in net assets	241,596	45,736	119,564	406,896
Net assets at the beginning of the year	<u>971,636</u>	<u>552,995</u>	<u>1,435,798</u>	<u>2,960,429</u>
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

STATEMENTS OF CASH FLOWS

For the Years Ended December 31, 2013 and 2012

	<u>2013</u>	<u>2012</u>
CASH FLOWS FROM OPERATING ACTIVITIES		
Change in net assets	\$ 586,463	\$ 406,896
Adjustments to reconcile change in net assets to net cash (used) provided by operating activities:		
Depreciation	31,061	34,083
Unrealized and realized gain on investments	(232,331)	(147,718)
Donation of property and equipment	-	(3,500)
Changes in operating assets and liabilities:		
Accounts receivable	28,021	(20,848)
Inventories	15,806	(5,539)
Deposits	3,543	(10,212)
Prepaid expenses and other assets	(1,391)	(2,652)
Accounts payable, deferred revenue, and accrued and other liabilities	(52,527)	46,272
Accrued vacation payable	(4,831)	(1,468)
Retirement plan payable	1,339	5,206
Sales tax payable	1,312	(177)
Net cash provided by operating activities	<u>376,465</u>	<u>300,343</u>
CASH FLOWS FROM INVESTING ACTIVITIES		
Acquisition of property and equipment	(11,853)	(22,176)
Purchase of investments	(661,277)	(594,151)
Proceeds from sale of investments	616,362	544,679
Net cash used by investing activities	<u>(56,768)</u>	<u>(71,648)</u>
 Increase in cash and cash equivalents	 319,697	 228,695
Cash and cash equivalents, beginning of the year	<u>754,220</u>	<u>525,525</u>
Cash and cash equivalents, end of year	<u>\$ 1,073,917</u>	<u>\$ 754,220</u>
 SUPPLEMENTAL DISCLOSURE OF CASH FLOW INFORMATION		
Interest paid	<u>\$ 231</u>	<u>\$ 521</u>

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

CALIFORNIA STATE RAILROAD MUSEUM FOUNDATION

NOTES TO FINANCIAL STATEMENTS

December 31, 2013 and 2012

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. Included in these financial statements are activities of the Boiler Shop, LLC, which is described in Note 11.

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, 2013 and 2012

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, 2013 and 2012. The Foundation is not a private foundation.

Advertising

The Foundation expenses advertising costs when incurred. Total advertising costs charged to various activities during the year ended December 31, 2013 and 2012 were \$64,368 and \$67,455, respectively, and are included in marketing and advertising on the Statement 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.

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.

CALIFORNIA STATE RAILROAD MUSEUM FOUNDATION

NOTES TO FINANCIAL STATEMENTS (continued)

December 31, 2013 and 2012

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

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.

The investment objective is growth and income with a goal of long-term growth, while maintaining the preservation of principal. The Foundation targets a diversified investment allocation that places emphasis on prudent risk constraints that would otherwise be created through concentrations to any one investment, fund manager or industry sector.

CALIFORNIA STATE RAILROAD MUSEUM FOUNDATION

NOTES TO FINANCIAL STATEMENTS (continued)

December 31, 2013 and 2012

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

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 statement 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 on 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.

Reclassifications

Certain prior year balances have been reclassified to conform to current year financial statement presentation. Reclassifications had no effect on previously reported assets, liabilities, net assets, or changes in net assets.

2. INVESTMENT SECURITIES

Investments at December 31, 2013 and 2012 consisted of the following:

	<u>2013</u>	<u>2012</u>
Money market funds	\$ 120,829	\$ 108,184
Corporate stocks	722,179	573,597
Mutual funds	1,555,629	1,552,624
Corporate bonds	271,753	172,193
Real asset funds	144,895	131,441
	<u>\$ 2,815,285</u>	<u>\$ 2,538,039</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.

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 600 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.

CALIFORNIA STATE RAILROAD MUSEUM FOUNDATION

NOTES TO FINANCIAL STATEMENTS (continued)

December 31, 2013 and 2012

2. INVESTMENT SECURITIES (continued)

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

	<u>2013</u>	<u>2012</u>
Net, Interest and dividends	\$ 44,915	\$ 49,472
Net unrealized (losses) gains	208,951	166,578
Net realized gains (losses)	<u>23,380</u>	<u>(18,860)</u>
	<u>\$ 277,246</u>	<u>\$ 197,190</u>

As of December 31, 2013 and 2012, the total of investment advisory fees were \$30,169 and \$28,375, respectively, and are included in the net, interest and dividends amount.

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 \$208,951 in 2013 and \$166,578 in 2012.

4. PROPERTY AND EQUIPMENT

Property and equipment at December 31, 2013 and 2012 consisted of the following:

	<u>2013</u>	<u>2012</u>
Furniture and fixtures	\$ 192,294	\$ 192,294
Equipment	614,551	602,698
Building improvements	<u>429,421</u>	<u>429,421</u>
	1,236,266	1,224,413
Less accumulated depreciation and amortization	<u>(983,940)</u>	<u>(952,879)</u>
	<u>\$ 252,326</u>	<u>\$ 271,534</u>

CALIFORNIA STATE RAILROAD MUSEUM FOUNDATION

NOTES TO FINANCIAL STATEMENTS (continued)

December 31, 2013 and 2012

5. RESTRICTED NET ASSETS

Temporarily Restricted Net Assets

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

	<u>2013</u>	<u>2012</u>
Sefton Catalog Fund — To support the acquisition of unique and historical toy train memorabilia and to publish a catalog.	\$ 213,568	\$ 190,205
Sefton Toy Train Exhibit Fund — To support the long-term maintenance and preservation of toy train exhibits and related acquisitions.	236,646	225,475
Opportunity Acquisition Fund — To support the acquisition and care of collections.	87,413	93,498
Shrader Fund — To support the acquisition and care of collections.	11,255	10,144
Other — Miscellaneous contributions and fund restrictions to be used for Foundation programs.	<u>159,449</u>	<u>79,409</u>
Total	<u><u>\$ 708,331</u></u>	<u><u>\$ 598,731</u></u>

Permanently Restricted Net Assets

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

	<u>2013</u>	<u>2012</u>
Sefton Endowment — To support the long-term maintenance and preservation of toy train exhibits and related acquisitions.	\$ 1,262,100	\$ 1,142,435
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>458,152</u>	<u>412,927</u>
Totals	<u><u>\$ 1,720,252</u></u>	<u><u>\$ 1,555,362</u></u>

CALIFORNIA STATE RAILROAD MUSEUM FOUNDATION

NOTES TO FINANCIAL STATEMENTS (continued)

December 31, 2013 and 2012

5. RESTRICTED NET ASSETS (Continued)

Changes in endowment net assets consisted of the following:

	Sefton Toy Train and Shrader		
	Temporarily Restricted	Permanently Restricted	Total
	<u> </u>	<u> </u>	<u> </u>
Endowment net assets, January 1, 2012	\$ 220,964	\$ 1,435,798	\$ 1,656,762
Investment return:			
Net, Investment income	5,599	30,391	35,990
Net appreciation (realized and unrealized)	16,429	89,173	105,602
Total investment return	<u>22,028</u>	<u>119,564</u>	<u>141,592</u>
Expenditures	<u>(7,373)</u>		<u>(7,373)</u>
Endowment net assets, December 31, 2012	235,619	1,555,362	1,790,981
Investment return:			
Net, Investment income	5,014	27,215	32,229
Net appreciation (realized and unrealized)	25,364	137,675	163,039
Total investment return	<u>30,378</u>	<u>164,890</u>	<u>195,268</u>
Expenditures	<u>(18,096)</u>		<u>(18,096)</u>
Endowment net assets, December 31, 2013	<u>\$ 247,901</u>	<u>\$ 1,720,252</u>	<u>\$ 1,968,153</u>

6. CONCENTRATIONS

At December 31, 2013, the carrying amount of CSRMF's deposits was \$1,066,322 and the balance in a financial institution was \$1,098,696. The balance maintained in the financial institution is insured by the Federal Deposit Insurance Corporation up to \$250,000. At December 31, 2013, CSRMF's uninsured cash balance totaled \$848,696.

CALIFORNIA STATE RAILROAD MUSEUM FOUNDATION

NOTES TO FINANCIAL STATEMENTS (continued)

December 31, 2013 and 2012

7. LINE OF CREDIT

The Foundation has a \$200,000 revolving line of credit with a financial institution that matures on October 10, 2014. 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 unsecured. No balances were outstanding as of December 31, 2013 and 2012.

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 endowment. No balances were outstanding as of December 31, 2013 and 2012.

8. 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 \$35,303 and \$33,825 for the years ended December 31, 2013 and 2012, respectively.

9. SUBSEQUENT EVENTS

The Foundation has evaluated the effects of subsequent events that have occurred subsequent to December 31, 2013, and through June 6, 2014, 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.

10. 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, 2013, and 2012, the in-kind contribution recorded for use of property amounted to \$77,278 and \$75,600 respectively. There was no equipment donated as of December 31, 2013. Equipment donated as of December 31, 2012 was \$3,500.

11. 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 the Boiler Shop, LLC has not yet occurred, the entity only had minimal expenses during 2013. In 2012, the LLC activities were also minimal except for a donation of \$25,000 from the Foundation to the LLC and the payment of legal expenses related to the property transfers. 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, 2013
(With Comparative Totals for 2012)**

	Program Services																																																																																																																																																																																																																																																																																																																																																																																																																					
	Retail Operations	Polar Express Event	Sacramento Southern Railroad Operations	Sacramento Restoration Project	Railtown Restoration Project	Railtown Depot Store	Railtown 1897 Operations	Railroad Technology Museum	Museum Administration	Educational and Interpretive Programs																																																																																																																																																																																																																																																																																																																																																																																																												
Compensation and related expenses:											Salaries	\$ 193,156	\$ 44,677	\$ 109,624	\$ 16,280	\$ 15,903	\$ 62,288	\$ 9,266	\$ 14,787	\$ 3,870	\$ 3,675	Employee benefits	36,920	3,401	11,061	501	510	18,642	905	1,380	389	362	Payroll taxes	14,676	3,558	8,580	1,245	1,216	4,577	774	1,241	326	310	Total compensation and related expenses	244,752	51,636	129,265	18,026	17,629	85,507	10,945	17,408	4,585	4,347	Other expenses:											Cost of goods sold	476,058	25,027	17,309			73,007	3,531		3,693	28,528	Events and programs	63,908	92,849	21,126			13,116	16,917	808	8,177	1,927	Office expense	4	38,989	3	215	1		2	95,727	1	496	Outside services			38,848				39,698				Fuel			459	3,271	264		25,582		609	16,213	Repairs and maintenance	924	66	2,619		1,047		2,074		786	262	Depreciation	7,775	1,309	3,068		1,227		1,534		920	614	Accounting	4,295	1,534	10,500		195,000		2,000	42,520	24		Contributions			3,575			10,902	11,526		2,017	773	Marketing and advertising	3,477	147					7,959	17,788			Legal							12,847			33,329	Volunteer enhancement							725				Printing		10,381	6,754				440		543		Postage	698	1,329	129			68					Travel	999	454	874			3,075	123		2,438		On Track newsletter											Railroad operational expenses			56,610			641	802	1,186	481	321	Mechanical			36,885				18,207				Insurance	2,245	802	1,604								Maintenance of way			62,573								Interest expense											Exhibit design									285		Point of sale	8,264					26					Direct mail											Rent expense	44,159		13,493								Utilities											Premiums											Collection purchases							315		2,317	9	Training						229					Product development	4,372										Total expenses	\$ 861,930	\$ 641,898	\$ 392,201	\$ 21,512	\$ 212,629	\$ 202,603	\$ 155,227	\$ 175,437	\$ 26,876	\$ 86,819
Salaries	\$ 193,156	\$ 44,677	\$ 109,624	\$ 16,280	\$ 15,903	\$ 62,288	\$ 9,266	\$ 14,787	\$ 3,870	\$ 3,675																																																																																																																																																																																																																																																																																																																																																																																																												
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CALIFORNIA STATE RAILROAD MUSEUM FOUNDATION

SCHEDULE OF FUNCTIONAL EXPENSES

For the Year Ended December 31, 2013
(With Comparative Totals for 2012)

	Program Services						Supporting Services				2012 Total All Expenses	
	Facility Rental	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	\$ 31,312	\$ 1,643	\$ 2,422		\$ 508,903	\$ 46,972	\$ 188,908	\$ 20,398	\$ 256,278	\$ 765,181	\$ 696,572	
Employee benefits	1,098	153	264		75,586	6,612	25,391	1,977	33,980	109,566	126,251	
Payroll taxes	2,411	138	205		39,257	2,529	14,326	1,750	18,605	57,862	53,553	
Total compensation and related expenses	34,821	1,934	2,891	-	623,746	56,113	228,625	24,125	308,863	932,609	876,376	
Other expenses:												
Cost of goods sold		7,419	6,499		581,511	2,165	41,306		43,471	581,511	597,592	
Events and programs			1,772	\$ 716	476,935	9,530	32,107	4,310	45,947	520,406	465,159	
Office expense	545	6,286			227,431	10	754	3	767	273,378	264,066	
Outside services	1,722	11,629			149,505					150,272	181,598	
Fuel					78,546					78,546	82,573	
Repairs and maintenance	66	66	66	3,475	51,061	3,100	5,082		8,182	59,243	149,946	
Depreciation	262		262		16,396	8,642	3,666	2,357	14,665	31,061	34,083	
Accounting	307	307	307		14,113	11,658	4,602	306	16,566	30,679	52,478	
Contributions					250,044	1,140			1,140	251,184	46,150	
Marketing and advertising	301		1,545		34,263		3,561	26,544	30,105	64,368	67,455	
Legal					25,747	47,131			47,131	72,878	144,301	
Volunteer enhancement					46,176	11,639			11,639	57,815	42,109	
Printing					17,860	3,217	33,632		36,849	54,709	48,472	
Postage	1	111	128	8	3,455	1,139	21,174		22,313	25,768	29,628	
Travel		3,450	667		12,080	1,777	31		1,808	13,888	17,056	
On Track newsletter					-		38,173		38,173	38,173	26,998	
Railroad operational expenses		296			56,906					56,906	19,372	
Mechanical					36,885					36,885	12,076	
Insurance	160	160	160		8,562	4,972	2,245	1,443	8,660	17,222	13,033	
Maintenance of way					80,780					80,780	34,163	
Interest expense					-	73			73	73	521	
Exhibit design			28,155	14,613	43,053					43,053	16,272	
Point of sale					8,290					8,290	6,490	
Direct mail					-					-	412	
Rent expense					57,652	19,626			19,626	77,278	75,600	
Utilities					-	963			963	963	2,344	
Premiums					-		13,447		13,447	13,447	9,499	
Collection purchases		2,527	500		2,527	1,704	1,762		3,466	2,527	2,036	
Training		50			3,191					6,657		
Product development					4,601					4,601	1,485	
Total expenses	\$ 38,185	\$ 34,235	\$ 42,952	\$ 18,812	\$ 2,911,316	\$ 184,599	\$ 430,167	\$ 59,088	\$ 673,854	\$ 3,585,170	\$ 3,319,343	

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, a nonprofit organization), which comprise the statement of financial position as of December 31, 2013, 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 June 6, 2014.

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 Foundation'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 first paragraph of this section 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

June 6, 2014