

**CALIFORNIA STATE RAILROAD  
MUSEUM FOUNDATION**

Audited Financial Statements

December 31, 2015

**CALIFORNIA STATE RAILROAD MUSEUM FOUNDATION**

**AUDITED FINANCIAL STATEMENTS**

**December 31, 2015 and 2014**

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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, 2015 and 2014 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, 2015 and 2014, 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 16 and 17 is presented for purposes of additional analysis and is 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 May 18, 2016, 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.

*Richardson & Company, LLP*

May 18, 2016

**CALIFORNIA STATE RAILROAD MUSEUM FOUNDATION**

**STATEMENTS OF FINANCIAL POSITION**

**December 31, 2015 and 2014**

	<u>2015</u>	<u>2014</u>
ASSETS		
CURRENT ASSETS		
Cash and cash equivalents	\$ 1,850,364	\$ 1,691,435
Accounts receivable	12,668	14,705
Inventories	214,233	190,509
Deposits	21,424	19,697
Prepaid expenses and other assets	17,328	23,416
TOTAL CURRENT ASSETS	<u>2,116,017</u>	<u>1,939,762</u>
NONCURRENT ASSETS		
Investments	3,901,688	3,133,870
Property and equipment, net	256,999	276,381
TOTAL NONCURRENT ASSETS	<u>4,158,687</u>	<u>3,410,251</u>
TOTAL ASSETS	<u><u>\$ 6,274,704</u></u>	<u><u>\$ 5,350,013</u></u>
LIABILITIES AND NET ASSETS		
LIABILITIES		
Accounts payable and accrued liabilities	\$ 546,685	\$ 537,708
Accrued vacation payable	47,153	44,017
Retirement plan payable	-	50,525
Sales tax payable	15,414	21,308
Deferred revenue and other liabilities	5,474	16,239
TOTAL LIABILITIES	<u>614,726</u>	<u>669,797</u>
NET ASSETS		
Unrestricted		
Undesignated	2,466,506	2,057,423
Designated	847,515	159,736
	<u>3,314,021</u>	<u>2,217,159</u>
Temporarily restricted	615,738	741,251
Permanently restricted	1,730,219	1,721,806
TOTAL NET ASSETS	<u>5,659,978</u>	<u>4,680,216</u>
TOTAL LIABILITIES AND NET ASSETS	<u><u>\$ 6,274,704</u></u>	<u><u>\$ 5,350,013</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, 2015**

	Restricted			Total
	Unrestricted	Temporarily	Permanently	
Revenues, gains and other support				
Museum store sales	\$ 981,635			\$ 981,635
Membership	786,011			786,011
Polar Express event	1,398,027			1,398,027
Contributions	1,015,996	\$ 700		1,016,696
Sacramento Southern Railroad operations	516,862			516,862
Railtown 1897 Railroad operations	131,817			131,817
Railtown 1897 Membership	74,426			74,426
Railtown Depot store sales	198,198			198,198
Railtown 1897 Polar Express event	321,158			321,158
Facility rentals	12,450			12,450
Interpretive program support/exhibits	39,215			39,215
Huntington Hopkins Hardware store sales	24,981			24,981
Library reproductions	15,548			15,548
Opportunity acquisitions		973		973
Other income	44,746			44,746
Interest and dividends	8,372	20,919	\$ 8,413	37,704
Net realized and unrealized gains on investments	(37,872)	(78,068)		(115,940)
Net assets released from restriction	70,037	(70,037)		-
Total revenues, gains and support	5,601,607	(125,513)	8,413	5,484,507
Expenses				
Program services:				
Retail operations	920,215			920,215
Polar Express event	930,772			930,772
Sacramento Southern Railroad operations	536,774			536,774
Restoration projects	38,998			38,998
Railtown Depot Store	242,419			242,419
Railtown 1897 Railroad operations	196,709			196,709
Railtown 1897 Polar Express event	261,933			261,933
Railroad Technology Museum	60,902			60,902
Museum administration	35,730			35,730
Educational and interpretive programs	109,807			109,807
Facility rental	8,830			8,830
Library operations and acquisitions	18,601			18,601
Exhibits and events	49,389			49,389
Sefton Toy Train Exhibit	50,415			50,415
Supporting services:				
Management and general	302,356			302,356
Membership and development	623,569			623,569
Marketing and promotions	117,326			117,326
Total expenses	4,504,745	-	-	4,504,745
Change in net assets	1,096,862	(125,513)	8,413	979,762
Net assets at the beginning of the year	2,217,159	741,251	1,721,806	4,680,216
Net assets at end of year	\$ 3,314,021	\$ 615,738	\$ 1,730,219	\$ 5,659,978

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, 2014**

	Restricted			Total
	Unrestricted	Temporarily	Permanently	
Revenues, gains and other support				
Museum store sales	\$ 921,105			\$ 921,105
Membership	753,289			753,289
Polar Express event	1,293,985			1,293,985
Contributions	365,803	\$ 5,300		371,103
Sacramento Southern Railroad operations	350,273			350,273
Railtown 1897 Railroad operations	126,212			126,212
Railtown 1897 Membership	60,003			60,003
Railtown Depot store sales	183,916			183,916
Railtown 1897 Polar Express event	296,574			296,574
Facility rentals	5,400			5,400
Interpretive program support/exhibits	27,440			27,440
Huntington Hopkins Hardware store sales	26,506			26,506
Library reproductions	7,694	700		8,394
Opportunity acquisitions		4,585		4,585
Other income	8,466			8,466
Interest and dividends	5,341	26,913	\$ 1,554	33,808
Net realized and unrealized gains on investments	49,436	113,700		163,136
Net assets released from restriction	118,278	(118,278)		-
Total revenues, gains and support	4,599,721	32,920	1,554	4,634,195
Expenses				
Program services:				
Retail operations	866,675			866,675
Polar Express event	840,389			840,389
Sacramento Southern Railroad operations	368,444			368,444
Restoration projects	82,859			82,859
Railtown Depot Store	232,278			232,278
Railtown 1897 Railroad operations	144,472			144,472
Railtown 1897 Polar Express event	238,405			238,405
Railroad Technology Museum	17,611			17,611
Museum administration	30,542			30,542
Educational and interpretive programs	137,748			137,748
Facility rental	7,210			7,210
Library operations and acquisitions	15,804			15,804
Exhibits and events	23,887			23,887
Sefton Toy Train Exhibit	45,391			45,391
Stanford Mansion store				-
Supporting services:				
Management and general	253,465			253,465
Membership and development	529,477			529,477
Marketing and promotions	73,110			73,110
Total expenses	3,907,767	-	-	3,907,767
Change in net assets	691,954	32,920	1,554	726,428
Net assets at the beginning of the year	1,525,205	708,331	1,720,252	3,953,788
Net assets at end of year	\$ 2,217,159	\$ 741,251	\$ 1,721,806	\$ 4,680,216

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, 2015 and 2014**

	<u>2015</u>	<u>2014</u>
<b>CASH FLOWS FROM OPERATING ACTIVITIES</b>		
Change in net assets	\$ 979,762	\$ 726,428
Adjustments to reconcile change in net assets to net cash (used) provided by operating activities:		
Depreciation	35,761	30,497
Unrealized and realized gain on investments	115,940	(163,136)
Investment fees paid	34,201	32,717
Changes in operating assets and liabilities:		
Accounts receivable	2,037	(9,569)
Inventories	(23,724)	14,915
Deposits	(1,727)	7,930
Prepaid expenses and other assets	6,088	4,208
Accounts payable, deferred revenue, and accrued and other liabilities	(1,788)	176,839
Accrued vacation payable	3,136	13,779
Retirement plan payable	(50,525)	15,222
Sales tax payable	(5,894)	10,406
Net cash provided by operating activities	<u>1,093,267</u>	<u>860,236</u>
<b>CASH FLOWS FROM INVESTING ACTIVITIES</b>		
Acquisition of property and equipment	(16,379)	(54,552)
Purchase of investments	(1,417,078)	(1,194,001)
Proceeds from sale of investments	499,119	1,005,835
Net cash used by investing activities	<u>(934,338)</u>	<u>(242,718)</u>
Increase in cash and cash equivalents	158,929	617,518
Cash and cash equivalents, beginning of the year	<u>1,691,435</u>	<u>1,073,917</u>
Cash and cash equivalents, end of year	<u>\$ 1,850,364</u>	<u>\$ 1,691,435</u>
<b>SUPPLEMENTAL DISCLOSURE OF CASH FLOW INFORMATION</b>		
Interest paid	<u>\$ -</u>	<u>\$ 417</u>

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

# CALIFORNIA STATE RAILROAD MUSEUM FOUNDATION

## NOTES TO FINANCIAL STATEMENTS

December 31, 2015 and 2014

### 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 the 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 donations are 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

The collections, which were acquired through purchases and contributions since the Foundation's inception, are not recognized as assets on the statement of financial position. Purchases of collection items are recorded as decreases in unrestricted net assets in the year in which the items are acquired, or as temporarily or permanently restricted net assets if the assets used to purchase the items are restricted by donors. Contributed collection items are not reflected on the financial statements.

#### 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, 2015 and 2014

### 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 \$1,000. 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, 2015 and 2014. 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, 2015 and 2014 were \$127,555 and \$78,200, 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, 2015 and 2014

### 1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

#### Net Assets (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 as of December 31 consist of the following:

	<u>2015</u>	<u>2014</u>
Railroad Technology Museum	\$ 691,774	
SSRR Signal Repair	115,357	\$ 120,456
Railtown Interpretive	21,425	21,425
Museum Improvements	14,532	13,428
Keep CA Beautiful	4,427	4,427
	<u>\$ 847,515</u>	<u>\$ 159,736</u>

*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.

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.

# CALIFORNIA STATE RAILROAD MUSEUM FOUNDATION

## NOTES TO FINANCIAL STATEMENTS (continued)

December 31, 2015 and 2014

### 1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

#### Endowment Funds (continued)

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.

#### 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 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 reclassifications have been made to prior year amounts to conform to the current year presentation. The reclassification had no effect on the Foundation's net assets.

# CALIFORNIA STATE RAILROAD MUSEUM FOUNDATION

## NOTES TO FINANCIAL STATEMENTS (continued)

December 31, 2015 and 2014

### 2. INVESTMENT SECURITIES

Investments at December 31, 2015 and 2014 consisted of the following:

	2015	2014
Corporate stocks	\$ 1,418,852	\$ 1,395,922
Money market funds	997,480	121,695
Corporate bonds	767,919	672,910
Mutual funds	669,044	763,522
Real asset funds	48,393	58,187
Certificates of deposit		121,634
	<u>\$ 3,901,688</u>	<u>\$ 3,133,870</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 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.

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

	2015	2014
Net, interest and dividends	\$ 37,704	\$ 33,808
Net unrealized (losses) gains	(195,540)	71,638
Net realized gains	79,600	91,498
	<u>\$ (78,236)</u>	<u>\$ 196,944</u>

As of December 31, 2015 and 2014, the total of investment advisory fees were \$34,201 and \$32,717, 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 (losses)/gains were (\$195,540) in 2015 and \$71,638 in 2014.

**CALIFORNIA STATE RAILROAD MUSEUM FOUNDATION**

**NOTES TO FINANCIAL STATEMENTS (continued)**

**December 31, 2015 and 2014**

**4. PROPERTY AND EQUIPMENT**

Property and equipment at December 31, 2015 and 2014 consisted of the following:

	<u>2015</u>	<u>2014</u>
Furniture and fixtures	\$ 180,537	\$ 192,294
Equipment	607,640	669,103
Building improvements	<u>429,421</u>	<u>429,421</u>
	1,217,598	1,290,818
Less accumulated depreciation and amortization	<u>(960,599)</u>	<u>(1,014,437)</u>
Property and equipment, net	<u>\$ 256,999</u>	<u>\$ 276,381</u>

**5. RESTRICTED NET ASSETS**

Temporarily Restricted Net Assets

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

	<u>2015</u>	<u>2014</u>
Sefton Catalog Fund — To support the acquisition of unique and historical toy train memorabilia and to publish a catalog.	\$ 223,816	\$ 228,291
Sefton Toy Train Exhibit Fund — To support the long-term maintenance and preservation of toy train exhibits and related acquisitions.	150,243	232,612
Opportunity Acquisition Fund — To support the acquisition and care of collections.	93,837	96,919
Shrader Fund — To support the acquisition and care of collections.	71,654	90,369
Other — Miscellaneous contributions and fund restrictions to be used for Foundation programs.	<u>76,188</u>	<u>93,060</u>
Total	<u>\$ 615,738</u>	<u>\$ 741,251</u>

**CALIFORNIA STATE RAILROAD MUSEUM FOUNDATION**

**NOTES TO FINANCIAL STATEMENTS (continued)**

**December 31, 2015 and 2014**

**5. RESTRICTED NET ASSETS (Continued)**

Permanently Restricted Net Assets

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

	<u>2015</u>	<u>2014</u>
Sefton Endowment — To support the long-term maintenance and preservation of toy train exhibits and related acquisitions.	\$ 1,313,665	\$ 1,313,665
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>416,554</u>	<u>408,141</u>
Totals	<u><u>\$ 1,730,219</u></u>	<u><u>\$ 1,721,806</u></u>

Changes in endowment net assets consisted of the following:

	Sefton Toy Train and Shrader		
	<u>Temporarily Restricted</u>	<u>Permanently Restricted</u>	<u>Total</u>
Endowment net assets, January 1, 2014	\$ 247,901	\$ 1,720,252	\$ 1,968,153
Investment return:			
Net, Investment income	23,506	1,554	25,060
Net appreciation (realized and unrealized)	96,965		96,965
Total investment return	<u>120,471</u>	<u>1,554</u>	<u>122,025</u>
Expenditures	<u>(45,391)</u>		<u>(45,391)</u>
Endowment net assets, December 31, 2014	322,981	1,721,806	2,044,787
Investment return:			
Net, Investment income	17,592	8,413	26,005
Net appreciation (realized and unrealized)	<u>(68,262)</u>		<u>(68,262)</u>
Total investment return	<u>(50,670)</u>	<u>8,413</u>	<u>(42,257)</u>
Expenditures	<u>(50,414)</u>		<u>(50,414)</u>
Endowment net assets, December 31, 2015	<u><u>\$ 221,897</u></u>	<u><u>\$ 1,730,219</u></u>	<u><u>\$ 1,952,116</u></u>

# CALIFORNIA STATE RAILROAD MUSEUM FOUNDATION

## NOTES TO FINANCIAL STATEMENTS (continued)

December 31, 2015 and 2014

### 5. RESTRICTED NET ASSETS (Continued)

Endowment net assets were restored to original gift value in 2014, and net investment returns are now being recorded as temporarily restricted assets in accordance with the specifications of donor-imposed restrictions.

### 6. CONCENTRATIONS

At December 31, 2015 and 2014 the carrying amounts of the Foundation's deposits were \$1,842,294 and \$1,683,550 and the balances in a financial institution were \$1,969,927 and \$1,840,158, respectively. The balance maintained in the financial institution is insured by the Federal Deposit Insurance Corporation up to \$250,000. At December 31, 2015 and 2014 the Foundation's uninsured cash balances totaled \$1,719,927 and \$1,590,158, respectively.

### 7. LINE OF CREDIT

In 2014 the Foundation merged two previous lines of credit, which expired in October 2014 into one new \$550,000 revolving line of credit with a financial institution that renews annually and currently matures on November 10, 2016. Interest is payable monthly at the institution's prime rate plus 1.5% per annum with a floor of 5.00% per annum. The line of credit is secured by the Foundation's investments held by the same financial institution which are detailed in Note 2. No line of credit balances were outstanding as of December 31, 2015 and 2014.

### 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 between five and seven percent of the employee's base pay and are deposited annually to a retirement plan administered by an institution selected by the Foundation. In 2015 the deposit was made to a 401(k) retirement plan which replaces the previous Simplified Employee Pension/Individual Retirement Account plan. Contributions are fully vested when made, and totaled \$59,370 and \$50,525 for the years ended December 31, 2015 and 2014, respectively.

### 9. SUBSEQUENT EVENTS

The Foundation has evaluated the effects of subsequent events that have occurred subsequent to December 31, 2015 and through May 18, 2016, 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.

In August of 2015 the Foundation received \$750,000 from The Steven Ball Revocable Trust. The Board of Directors has elected to designate the distribution to be used for the Railroad Technology Museum Program, as is evidenced in Note 1 *Unrestricted, designated* Net Assets. At the time of this distribution it was estimated that a second distribution might occur in April or May of 2016. As of the date the financial statements were available to be issued, May 18, 2016, no additional monies have been received, but it is anticipated that an additional amount near \$500,000 will be received some time during 2016.

# **CALIFORNIA STATE RAILROAD MUSEUM FOUNDATION**

## **NOTES TO FINANCIAL STATEMENTS (continued)**

**December 31, 2015 and 2014**

### **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 ending December 31, 2015, and 2014, the in-kind contribution recorded for use of property amounted to \$77,278. There was no equipment donated as of December 31, 2015 or 2014.

### **11. RELATED PARTY TRANSACTION**

Boiler Shop, LLC, a California limited liability company, was formed in August 2009. Boiler Shop, LLC is a separate entity formed for the sole purpose of serving as an intermediary to hold title to potential certain real property until California State Parks could obtain the necessary authorizations and approvals to take title to such real property. As the potential transfer of the real property to the Boiler Shop, LLC has not yet occurred; the entity has only had minimal expenses in 2015 and 2014. 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, 2015  
(With Comparative Totals for 2014)**

	Program Services									
	Retail Operations	Polar Express Event	Sacramento Southern Railroad Operations	Sacramento Restoration Project	Railtown Depot Store	Railtown 1897 Railroad Operations	Railtown 1897 Polar Express	Railroad Technology Museum	Museum Administration	Educational and Interpretive Programs
Compensation and related expenses:										
Salaries	\$ 220,284	\$ 97,425	\$ 142,489	\$ 7,765	\$ 81,315	\$ 21,672	\$ 39,473	\$ 18,047	\$ 7,771	\$ 7,186
Employee benefits	46,913	6,037	11,009	4,364	25,170	664	1,782	382	1,307	229
Payroll taxes	16,458	7,447	10,914	594	5,892	1,433	3,027	1,387	596	552
Total compensation and related expenses	<u>283,655</u>	<u>110,909</u>	<u>164,412</u>	<u>12,723</u>	<u>112,377</u>	<u>23,769</u>	<u>44,282</u>	<u>19,816</u>	<u>9,674</u>	<u>7,967</u>
Other expenses:										
Cost of goods sold	492,494	35,526	2,168		93,579					
Events and programs		588,254	3,367	3,297			169,357		3,414	29,515
Supplies and office expense	64,898	144,724	41,624		13,490	25,589	36,838	1,050	3,622	2,129
Outside services	726	32,676	545	70	182	378	375	30,617	5,659	121
Fuel			42,748			25,301				
Repairs and maintenance	1,161		117,405	18,843	290	40,258	484		1,338	193
Depreciation	5,698	1,272	2,862		954	3,989			954	318
Accounting	5,282	1,509	3,396		1,132	2,264			1,132	755
Contributions			25,000			3,000				35,294
Marketing and advertising	8,215	970	11,647		424	26,011	1,666		4,455	3,804
Legal								8,233		
Volunteer enhancement						13,193				28,214
Printing	5,750	11,271	4,708	2,714	93	5,056	4,191			860
Postage	860	2,560	393	1,351	19	361	-		36	
Travel		146			5,431	276	3,785		3,814	
On Track newsletter										
Railroad operational expenses			43,563			15,552				
Mechanical			11,515			77				
Insurance	3,185	955	2,866		955	1,911	955	1,186	955	637
Maintenance of way			58,204			8,297				
Interest expense										
Exhibit design									677	
Point of sale	1,850									
Rent expense	44,159				13,493					
Premiums						397				
Collection purchases										
Training			351			1,030				
Product development	<u>2,282</u>									
Total expenses	<u>\$ 920,215</u>	<u>\$ 930,772</u>	<u>\$ 536,774</u>	<u>\$ 38,998</u>	<u>\$ 242,419</u>	<u>\$ 196,709</u>	<u>\$ 261,933</u>	<u>\$ 60,902</u>	<u>\$ 35,730</u>	<u>\$ 109,807</u>

**CALIFORNIA STATE RAILROAD MUSEUM FOUNDATION**

**SCHEDULE OF FUNCTIONAL EXPENSES**

**For the Year Ended December 31, 2015  
(With Comparative Totals for 2014)**

	Program Services				Supporting Services						2014 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	\$ 6,152	\$ 3,008	\$ 6,098		\$ 658,685	\$ 66,593	\$ 304,277	\$ 38,522	\$ 409,392	\$ 1,068,077	\$ 868,933
Employee benefits	183	64	266		98,370	18,567	44,089	2,156	64,812	163,182	168,228
Payroll taxes	472	231	467		49,470	5,114	22,811	3,184	31,109	80,579	63,361
Total compensation and related expenses	6,807	3,303	6,831	-	806,525	90,274	371,177	43,862	505,313	1,311,838	1,100,522
Other expenses:											
Cost of goods sold					623,767					623,767	596,074
Events and programs			3,372		800,576	2,890	46,340		49,230	849,806	761,031
Supplies and office expense	812	6,474	1,198		342,448	38,166	56,145	9,976	104,287	446,735	375,617
Outside services	61	61	61		71,532	71,430	1,219	605	73,254	144,786	117,970
Fuel					68,049				-	68,049	59,141
Repairs and maintenance	97	97	97	\$ 3,175	183,438	4,837	12,297		17,134	200,572	161,355
Depreciation	318		318		16,683	11,447	4,451	3,180	19,078	35,761	30,498
Accounting	377	377	377		16,601	14,715	5,660	755	21,130	37,731	32,901
Contributions			5,500		68,794	6,500			6,500	75,294	92,069
Marketing and advertising			3,651		60,843		8,591	54,062	62,653	123,496	77,138
Legal					8,233	24,703			24,703	32,936	51,225
Volunteer enhancement					41,407		211		211	41,618	53,711
Printing					34,643	1,310	39,419	216	40,945	75,588	49,972
Postage	39	506	17	18	6,160	845	26,699	8	27,552	33,712	36,136
Travel					13,452	4,031	3,090	807	7,928	21,380	14,071
On Track newsletter					-		32,744		32,744	32,744	39,267
Railroad operational expenses					59,115				-	59,115	39,753
Mechanical					11,592				-	11,592	10,800
Insurance	319	319	318		14,561	10,829	4,459	3,185	18,473	33,034	29,084
Maintenance of way					66,501				-	66,501	24,273
Interest expense					-				-	-	417
Exhibit design			27,649	47,222	75,548				-	75,548	56,915
Point of sale					1,850				-	1,850	336
Rent expense					57,652	19,626			19,626	77,278	77,278
Premiums					397		10,162		10,162	10,559	10,654
Collection purchases		7,414			7,414				-	7,414	5,823
Training		50			1,431	753	905	670	2,328	3,759	3,556
Product development					2,282				-	2,282	180
Total expenses	\$ 8,830	\$ 18,601	\$ 49,389	\$ 50,415	\$ 3,461,494	\$ 302,356	\$ 623,569	\$ 117,326	\$ 1,043,251	\$ 4,504,745	\$ 3,907,767

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, 2015, 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 18, 2016.

**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 Foundation'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 Foundation's internal control and compliance. Accordingly, this communication is not suitable for any other purpose.

*Richardson & Company, LLP*

May 18, 2016