

**CALIFORNIA STATE RAILROAD
MUSEUM FOUNDATION**

Audited Financial Statements

December 31, 2016

CALIFORNIA STATE RAILROAD MUSEUM FOUNDATION

AUDITED FINANCIAL STATEMENTS

December 31, 2016 and 2015

TABLE OF CONTENTS

Independent Auditor’s Report.....	1
Financial Statements	
Statements of Financial Position.....	3
Statement of Activities - 2016	4
Statement of Activities - 2015	5
Statements of Cash Flows	6
Notes to Financial Statements.....	7
Supplemental Information	
Schedule of Functional Expenses – 2016	16
Other Reports	
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 <i>Government Auditing Standards</i>	18



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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, 2016 and 2015 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, 2016 and 2015, 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.

Report on Supplementary Information

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 31, 2017, 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 31, 2017

CALIFORNIA STATE RAILROAD MUSEUM FOUNDATION

STATEMENTS OF FINANCIAL POSITION

December 31, 2016 and 2015

	<u>2016</u>	<u>2015</u>
ASSETS		
CURRENT ASSETS		
Cash and cash equivalents	\$ 2,323,499	\$ 1,850,364
Accounts receivable	7,668	12,668
Inventories	194,753	214,233
Deposits	28,576	21,424
Prepaid expenses and other assets	27,110	17,328
TOTAL CURRENT ASSETS	<u>2,581,606</u>	<u>2,116,017</u>
NONCURRENT ASSETS		
Investments	4,667,877	3,901,688
Property and equipment, net	227,349	256,999
TOTAL NONCURRENT ASSETS	<u>4,895,226</u>	<u>4,158,687</u>
TOTAL ASSETS	<u><u>\$ 7,476,832</u></u>	<u><u>\$ 6,274,704</u></u>
LIABILITIES AND NET ASSETS		
LIABILITIES		
Accounts payable and accrued liabilities	\$ 655,046	\$ 546,685
Accrued vacation payable	50,697	47,153
Sales tax payable	14,872	15,414
Deferred revenue and other liabilities	5,653	5,474
TOTAL LIABILITIES	<u>726,268</u>	<u>614,726</u>
NET ASSETS		
Unrestricted		
Undesignated	3,470,524	2,466,506
Designated	849,211	847,515
	<u>4,319,735</u>	<u>3,314,021</u>
Temporarily restricted	692,352	615,738
Permanently restricted	1,738,477	1,730,219
TOTAL NET ASSETS	<u>6,750,564</u>	<u>5,659,978</u>
TOTAL LIABILITIES AND NET ASSETS	<u><u>\$ 7,476,832</u></u>	<u><u>\$ 6,274,704</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, 2016

	Unrestricted	Restricted		Total
		Temporarily	Permanently	
Revenues, gains and other support				
Museum store sales	\$ 931,820			\$ 931,820
Membership	809,258			809,258
Polar Express event	1,404,429			1,404,429
Contributions	961,686	\$ 456		962,142
Sacramento Southern Railroad operations	520,777			520,777
Railtown 1897 Railroad operations	120,338			120,338
Railtown 1897 Membership	76,947			76,947
Railtown Depot store sales	192,742			192,742
Railtown 1897 Polar Express event	358,504			358,504
Interpretive program support/exhibits	41,255			41,255
Huntington Hopkins Hardware store sales	22,909			22,909
Library reproductions	7,122			7,122
Opportunity acquisitions		1,183		1,183
Other income	23,672			23,672
Interest and dividends	11,990	21,374	\$ 8,258	41,622
Net realized and unrealized gains on investments	54,722	118,763		173,485
Net assets released from restriction	65,162	(65,162)		-
Total revenues, gains and support	5,603,333	76,614	8,258	5,688,205
Expenses				
Program services:				
Retail operations	883,751			883,751
Polar Express event	868,821			868,821
Sacramento Southern Railroad operations	590,592			590,592
Railtown Depot Store	246,185			246,185
Railtown 1897 Railroad operations	307,148			307,148
Railtown 1897 Polar Express event	263,467			263,467
Railroad Technology Museum	29,070			29,070
Museum administration	196,881			196,881
Educational and interpretive programs	82,055			82,055
Facility rental	3,815			3,815
Library operations and acquisitions	20,162			20,162
Exhibits and events	78,665			78,665
Sefton Toy Train Exhibit	56,672			56,672
Supporting services:				
Management and general	282,784			282,784
Membership and development	522,722			522,722
Marketing and promotions	164,829			164,829
Total expenses	4,597,619	-	-	4,597,619
Change in net assets	1,005,714	76,614	8,258	1,090,586
Net assets at the beginning of the year	3,314,021	615,738	1,730,219	5,659,978
Net assets at end of year	<u>\$ 4,319,735</u>	<u>\$ 692,352</u>	<u>\$ 1,738,477</u>	<u>\$ 6,750,564</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

	Unrestricted	Restricted		Total
		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)		-
	<u>5,601,607</u>	<u>(125,513)</u>	<u>8,413</u>	<u>5,484,507</u>
Total revenues, gains and support				
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
	<u>4,504,745</u>	<u>-</u>	<u>-</u>	<u>4,504,745</u>
Total expenses				
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	<u>\$ 3,314,021</u>	<u>\$ 615,738</u>	<u>\$ 1,730,219</u>	<u>\$ 5,659,978</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, 2016 and 2015

	<u>2016</u>	<u>2015</u>
CASH FLOWS FROM OPERATING ACTIVITIES		
Change in net assets	\$ 1,090,586	\$ 979,762
Adjustments to reconcile change in net assets to net cash (used) provided by operating activities:		
Depreciation	34,353	35,761
Unrealized and realized gain on investments	(173,485)	115,940
Investment fees paid	34,472	34,201
Changes in operating assets and liabilities:		
Accounts receivable	5,000	2,037
Inventories	19,480	(23,724)
Prepaid expenses and other assets	(16,934)	4,361
Accounts payable, deferred revenue, and accrued and other liabilities	108,540	(1,788)
Accrued vacation payable	3,544	3,136
Retirement plan payable	-	(50,525)
Sales tax payable	(542)	(5,894)
Net cash provided by operating activities	<u>1,105,014</u>	<u>1,093,267</u>
CASH FLOWS FROM INVESTING ACTIVITIES		
Acquisition of property and equipment	(4,703)	(16,379)
Purchase of investments	(2,286,334)	(1,417,078)
Proceeds from sale of investments	1,659,158	499,119
Net cash used by investing activities	<u>(631,879)</u>	<u>(934,338)</u>
Increase in cash and cash equivalents	473,135	158,929
Cash and cash equivalents, beginning of the year	<u>1,850,364</u>	<u>1,691,435</u>
Cash and cash equivalents, end of year	<u>\$ 2,323,499</u>	<u>\$ 1,850,364</u>
SUPPLEMENTAL DISCLOSURE OF CASH FLOW INFORMATION		
Interest paid	<u>\$ -</u>	<u>\$ -</u>

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

CALIFORNIA STATE RAILROAD MUSEUM FOUNDATION

NOTES TO FINANCIAL STATEMENTS

December 31, 2016 and 2015

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 organization'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, 2016 and 2015

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, 2016 and 2015. 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, 2016 and 2015 were \$253,862 and \$127,555, 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, 2016 and 2015

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>2016</u>	<u>2015</u>
Railroad Technology Museum	\$ 684,109	\$ 691,774
SSRR Signal Repair	124,495	115,357
Railtown Interpretive	19,333	21,425
Museum Improvements	16,847	14,532
Keep CA Beautiful	4,427	4,427
	<u>\$ 849,211</u>	<u>\$ 847,515</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.

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

CALIFORNIA STATE RAILROAD MUSEUM FOUNDATION

NOTES TO FINANCIAL STATEMENTS (continued)

December 31, 2016 and 2015

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Endowment Funds (continued)

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.

New Pronouncements

In August 2016, the Financial Accounting Standards Board issued ASU No. 2016-14 that will simplify and improve how not-for-profit entities classify net assets as well as the information presented in financial statements and notes about liquidity, financial performance and cash flows. This statement will be effective for the year ended December 31, 2018. The Foundation is in the process of determining the impact of the implementation of this ASU.

CALIFORNIA STATE RAILROAD MUSEUM FOUNDATION

NOTES TO FINANCIAL STATEMENTS (continued)

December 31, 2016 and 2015

2. INVESTMENT SECURITIES

Investments at December 31, 2016 and 2015 consisted of the following:

	<u>2016</u>	<u>2015</u>
Money market funds	\$ 1,545,747	\$ 997,480
Corporate stocks	1,249,154	1,418,852
Mutual funds	1,089,676	669,044
Corporate bonds	714,224	767,919
Real asset funds	69,076	48,393
	<u>\$ 4,667,877</u>	<u>\$ 3,901,688</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:

	<u>2016</u>	<u>2015</u>
Net, Interest and dividends	\$ 41,622	\$ 37,704
Net unrealized losses	(2,590)	(195,540)
Net realized gains	176,075	79,600
	<u>\$ 215,107</u>	<u>\$ (78,236)</u>

As of December 31, 2016 and 2015, the total of investment advisory fees were \$32,873 and \$32,020, 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 were \$2,590 in 2016 and \$195,540 in 2015.

CALIFORNIA STATE RAILROAD MUSEUM FOUNDATION

NOTES TO FINANCIAL STATEMENTS (continued)

December 31, 2016 and 2015

4. PROPERTY AND EQUIPMENT

Property and equipment at December 31, 2016 and 2015 consisted of the following:

	<u>2016</u>	<u>2015</u>
Furniture and fixtures	\$ 166,646	\$ 180,537
Equipment	610,218	607,640
Building improvements	<u>429,421</u>	<u>429,421</u>
	1,206,285	1,217,598
Less accumulated depreciation and amortization	<u>(978,936)</u>	<u>(960,599)</u>
Property and equipment, net	<u>\$ 227,349</u>	<u>\$ 256,999</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>2016</u>	<u>2015</u>
Sefton Catalog Fund — To support the acquisition of unique and historical toy train memorabilia and to publish a catalog.	\$ 238,106	\$ 223,816
Sefton Toy Train Exhibit Fund — To support the long-term maintenance and preservation of toy train exhibits and related	189,524	150,243
Opportunity Acquisition Fund — To support the acquisition and care of collections.	101,627	93,837
Shrader Fund — To support the acquisition and care of collections.	95,396	71,654
Other — Miscellaneous contributions and fund restrictions to be used for Foundation programs.	<u>67,699</u>	<u>76,188</u>
Total	<u>\$ 692,352</u>	<u>\$ 615,738</u>

CALIFORNIA STATE RAILROAD MUSEUM FOUNDATION

NOTES TO FINANCIAL STATEMENTS (continued)

December 31, 2016 and 2015

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>2016</u>	<u>2015</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	<u>424,812</u>	<u>416,554</u>
Totals	<u><u>\$ 1,738,477</u></u>	<u><u>\$ 1,730,219</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, 2015	\$ 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>	8,413	<u>(42,257)</u>
Expenditures	<u>(50,414)</u>		<u>(50,414)</u>
Endowment net assets, December 31, 2015	221,897	1,730,219	1,952,116
Investment return:			
Net, Investment income	17,592	8,258	25,850
Net appreciation (realized and unrealized)	<u>102,103</u>		<u>102,103</u>
Total investment return	<u>119,695</u>	8,258	<u>127,953</u>
Expenditures	<u>(56,672)</u>		<u>(56,672)</u>
Endowment net assets, December 31, 2016	<u><u>\$ 284,920</u></u>	<u><u>\$ 1,738,477</u></u>	<u><u>\$ 2,023,397</u></u>

CALIFORNIA STATE RAILROAD MUSEUM FOUNDATION

NOTES TO FINANCIAL STATEMENTS (continued)

December 31, 2016 and 2015

5. RESTRICTED NET ASSETS (Continued)

Net investment returns are recorded as temporarily restricted assets in accordance with the specifications of donor-imposed restrictions.

6. CONCENTRATIONS

At December 31, 2016 and 2015 the carrying amounts of the Foundation's deposits were \$2,315,069 and \$1,842,294 and the balances in a financial institution were \$2,479,036 and \$1,969,927 respectively. The balance maintained in the financial institution is insured by the Federal Deposit Insurance Corporation up to \$250,000. At December 31, 2016 and 2015 the Foundation's uninsured cash balances totaled \$2,229,036 and \$1,719,927, respectively.

7. LINE OF CREDIT

The Foundation has a \$550,000 revolving line of credit with a financial institution that currently matures on March 9, 2017. 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, 2016 and 2015. The Foundation is in the process of replacing the current line of credit with a \$250,000 unsecured line of credit with said financial institution. The agreement had not been finalized as of May 31, 2017, which is the date the financial statements were available to be issued.

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 \$58,979 and \$59,370 for the years ended December 31, 2016 and 2015, respectively.

9. SUBSEQUENT EVENTS

The Foundation has evaluated the effects of subsequent events that have occurred subsequent to December 31, 2016 and through May 31, 2017, 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 ending December 31, 2016, and 2015 the in-kind contribution recorded for use of property amounted to \$77,278. There was no equipment donated as of December 31, 2016 or 2015.

CALIFORNIA STATE RAILROAD MUSEUM FOUNDATION

NOTES TO FINANCIAL STATEMENTS (continued)

December 31, 2016 and 2015

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 2016 and 2015. 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, 2016
(With Comparative Totals for 2015)**

	Program Services								
	Retail Operations	Polar Express Event	Sacramento Southern Railroad Operations	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	\$ 224,709	\$ 64,563	\$ 159,194	\$ 83,913	\$ 64,925	\$ 42,005	\$ 17,483	\$ 47,987	\$ 9,029
Employee benefits	45,738	3,193	12,241	24,794	9,246	1,697	410	10,628	384
Payroll taxes	16,324	4,488	11,488	5,869	4,545	2,868	1,042	3,499	592
Total compensation and related expenses	<u>286,771</u>	<u>72,244</u>	<u>182,923</u>	<u>114,576</u>	<u>78,716</u>	<u>46,570</u>	<u>18,935</u>	<u>62,114</u>	<u>10,005</u>
Other expenses:									
Events and programs	17	568,654	20,274		9,298	156,352		3,231	33,976
Cost of goods sold	463,159	32,294	1,828	93,447					
Supplies and office expense	58,525	140,541	43,062	16,111	17,819	40,572	1,241	2,433	4,032
Marketing and advertising	16,623	67	14,047	1,353	83,945	112		9,083	7,292
Outside services	-	46,925	-	-		15,325		108,854	
Repairs and maintenance	1,535		75,765	384	37,626			1,471	256
Maintenance of way			90,069		27,216				
Exhibit design									
Contributions		1,000	50,000		1,000				
Rent expense	44,159			13,493					
Fuel			33,701		21,050				
Printing	-	268	5,329	-	2,539	2,858			712
Railroad operational expenses			30,699		9,941				
Insurance	3,430	1,029	3,087	1,029	2,401	1,029	1,229	1,029	686
Legal		2,698					7,665	4,062	
Depreciation	4,435	1,313	2,955	985	3,324			985	328
Mechanical			32,888		767				
Accounting	4,526	1,293	2,909	970	2,263			970	647
Volunteer enhancement					7,059				23,916
On Track newsletter									
Postage	446	495	956	31	331	-		31	205
Travel		-		3,641	272	649		2,618	
Premiums					1,581				
Training			100						
Product development	125			165					
Interest expense									
Point of sale	-								
Collection purchases									
Total expenses	<u>\$ 883,751</u>	<u>\$ 868,821</u>	<u>\$ 590,592</u>	<u>\$ 246,185</u>	<u>\$ 307,148</u>	<u>\$ 263,467</u>	<u>\$ 29,070</u>	<u>\$ 196,881</u>	<u>\$ 82,055</u>

CALIFORNIA STATE RAILROAD MUSEUM FOUNDATION

SCHEDULE OF FUNCTIONAL EXPENSES

**For the Year Ended December 31, 2016
(With Comparative Totals for 2015)**

	Program Services				Supporting Services						2015 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	\$ 3,416	\$ 2,914	\$ 7,717		\$ 727,855	\$ 67,081	\$ 253,081	\$ 45,498	\$ 365,660	\$ 1,093,515	\$ 1,068,077
Employee benefits	138	68	438		108,975	25,663	32,578	2,620	60,861	169,836	163,234
Payroll taxes	261	174	541		51,691	4,146	18,615	3,133	25,894	77,585	80,527
Total compensation and related expenses	3,815	3,156	8,696	-	888,521	96,890	304,274	51,251	452,415	1,340,936	1,311,838
Other expenses:											
Events and programs			1,150		792,952		21,502		21,502	814,454	850,279
Cost of goods sold					590,728					590,728	618,014
Supplies and office expense		15,995	710		341,041	62,228	66,057	10,238	138,523	479,564	443,859
Marketing and advertising		100	9,893		142,515		15,717	95,630	111,347	253,862	127,555
Outside services					171,104	18,538			18,538	189,642	144,701
Repairs and maintenance		128	128	\$ 3,275	120,568	6,397	6,364		12,761	133,329	201,302
Maintenance of way					117,285				-	117,285	72,054
Exhibit design			30,634	53,397	84,031				-	84,031	74,871
Contributions			25,000		77,000	7,000			7,000	84,000	75,294
Rent expense					57,652	19,626			19,626	77,278	77,278
Fuel					54,751				-	54,751	66,538
Printing					11,706		30,599		30,599	42,305	75,372
Railroad operational expenses:					40,640				-	40,640	52,868
Insurance		343	343		15,635	11,661	4,802	3,430	19,893	35,528	33,032
Legal					14,425	20,334			20,334	34,759	32,936
Depreciation			328		14,653	11,820	4,597	3,283	19,700	34,353	35,762
Mechanical					33,655				-	33,655	11,515
Accounting		323	323		14,224	12,607	4,849	646	18,102	32,326	37,731
Volunteer enhancement					30,975		725		725	31,700	41,655
On Track newsletter					-		29,764		29,764	29,764	32,744
Postage		117	1,460		4,072	714	22,640		23,354	27,426	42,176
Travel					7,180	13,954	277		14,231	21,411	20,573
Premiums					1,581		10,209		10,209	11,790	10,559
Training					100	1,015	346	351	1,712	1,812	2,738
Product development					290				-	290	2,282
Interest expense					-				-	-	-
Point of sale					-				-	-	1,850
Collection purchases					-				-	-	7,369
Total expenses	\$ 3,815	\$ 20,162	\$ 78,665	\$ 56,672	\$ 3,627,284	\$ 282,784	\$ 522,722	\$ 164,829	\$ 970,335	\$ 4,597,619	\$ 4,504,745

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, 2016, 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 31, 2017.

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 31, 2017