

**CALIFORNIA STATE RAILROAD
MUSEUM FOUNDATION**

Audited Financial Statements

December 31, 2017

CALIFORNIA STATE RAILROAD MUSEUM FOUNDATION

AUDITED FINANCIAL STATEMENTS

December 31, 2017 and 2016

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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, 2017 and 2016 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, 2017 and 2016, 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 23, 2018, 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 23, 2018

CALIFORNIA STATE RAILROAD MUSEUM FOUNDATION

STATEMENTS OF FINANCIAL POSITION

December 31, 2017 and 2016

	<u>2017</u>	<u>2016</u>
ASSETS		
CURRENT ASSETS		
Cash and cash equivalents	\$ 2,567,382	\$ 2,323,499
Accounts receivable	11,603	7,668
Inventories	188,586	194,753
Deposits	32,602	28,576
Prepaid expenses and other assets	49,993	27,110
TOTAL CURRENT ASSETS	<u>2,850,166</u>	<u>2,581,606</u>
NONCURRENT ASSETS		
Investments	5,167,544	4,667,877
Property and equipment, net	230,570	227,349
TOTAL NONCURRENT ASSETS	<u>5,398,114</u>	<u>4,895,226</u>
TOTAL ASSETS	<u>\$ 8,248,280</u>	<u>\$ 7,476,832</u>
LIABILITIES AND NET ASSETS		
LIABILITIES		
Accounts payable and accrued liabilities	\$ 735,184	\$ 655,046
Accrued vacation payable	54,985	50,697
Sales tax payable	13,012	14,872
Deferred revenue and other liabilities	6,298	5,653
TOTAL LIABILITIES	<u>809,479</u>	<u>726,268</u>
NET ASSETS		
Unrestricted		
Undesignated	3,972,363	3,470,524
Designated	800,452	849,211
	<u>4,772,815</u>	<u>4,319,735</u>
Temporarily restricted	918,270	692,352
Permanently restricted	1,747,716	1,738,477
TOTAL NET ASSETS	<u>7,438,801</u>	<u>6,750,564</u>
TOTAL LIABILITIES AND NET ASSETS	<u>\$ 8,248,280</u>	<u>\$ 7,476,832</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, 2017

	Restricted			Total
	Unrestricted	Temporarily	Permanently	
Revenues, gains and other support				
Museum store sales	\$ 900,620			\$ 900,620
Membership	805,008			805,008
Polar Express event	1,576,622			1,576,622
Contributions	377,887	\$ 1,000		378,887
Sacramento Southern Railroad operations	575,147			575,147
Railtown 1897 Railroad operations	127,955			127,955
Railtown 1897 Membership	75,604			75,604
Railtown Depot store sales	186,944			186,944
Railtown 1897 Polar Express event	445,117			445,117
Interpretive program support/exhibits	30,381			30,381
Huntington Hopkins Hardware store sales	23,175			23,175
Library reproductions		9,229		9,229
Other income	24,212			24,212
Interest and dividends	21,632	11,143	\$ 9,239	42,014
Net realized and unrealized gains on investments	76,883	284,720		361,603
Net assets released from restriction	80,174	(80,174)		-
	5,327,361	225,918	9,239	5,562,518
Total revenues, gains and support				
Expenses				
Program services:				
Retail operations	887,319			887,319
Polar Express event	1,003,272			1,003,272
Sacramento Southern Railroad operations	628,494			628,494
Railtown Depot Store	241,535			241,535
Railtown 1897 Railroad operations	364,662			364,662
Railtown 1897 Polar Express event	310,661			310,661
Railroad Technology Museum	44,298			44,298
Museum administration	105,582			105,582
Educational and interpretive programs	80,865			80,865
Facility rental	4,620			4,620
Library operations and acquisitions	23,837			23,837
Exhibits and events	77,468			77,468
Sefton Toy Train Exhibit	59,385			59,385
Supporting services:				
Management and general	284,730			284,730
Membership and development	570,338			570,338
Marketing and promotions	187,215			187,215
	4,874,281	-	-	4,874,281
Total expenses				
Change in net assets	453,080	225,918	9,239	688,237
Net assets at the beginning of the year	4,319,735	692,352	1,738,477	6,750,564
Net assets at end of year	\$ 4,772,815	\$ 918,270	\$ 1,747,716	\$ 7,438,801

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

		Restricted		
	Unrestricted	Temporarily	Permanently	Total
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)		-
	5,603,333	76,614	8,258	5,688,205
Total revenues, gains and support				
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
	4,597,619	-	-	4,597,619
Total expenses				
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	\$ 4,319,735	\$ 692,352	\$ 1,738,477	\$ 6,750,564

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, 2017 and 2016

	<u>2017</u>	<u>2016</u>
CASH FLOWS FROM OPERATING ACTIVITIES		
Change in net assets	\$ 688,237	\$ 1,090,586
Adjustments to reconcile change in net assets to net cash (used) provided by operating activities:		
Depreciation	29,724	34,353
Unrealized and realized gain on investments	(361,602)	(173,485)
Investment fees paid	35,865	34,472
Changes in operating assets and liabilities:		
Accounts receivable	(3,935)	5,000
Inventories	6,167	19,480
Prepaid expenses and other assets	(26,909)	(16,934)
Accounts payable, deferred revenue, and accrued and other liabilities	80,783	108,540
Accrued vacation payable	4,288	3,544
Sales tax payable	(1,860)	(542)
Net cash provided by operating activities	<u>450,758</u>	<u>1,105,014</u>
CASH FLOWS FROM INVESTING ACTIVITIES		
Acquisition of property and equipment	(32,943)	(4,703)
Purchase of investments	(2,109,903)	(2,286,334)
Proceeds from sale of investments	1,935,971	1,659,158
Net cash used by investing activities	<u>(206,875)</u>	<u>(631,879)</u>
 Increase in cash and cash equivalents	 243,883	 473,135
Cash and cash equivalents, beginning of the year	<u>2,323,499</u>	<u>1,850,364</u>
Cash and cash equivalents, end of year	<u><u>\$ 2,567,382</u></u>	<u><u>\$ 2,323,499</u></u>
 SUPPLEMENTAL DISCLOSURE OF CASH FLOW INFORMATION		
Interest paid	<u><u>\$ -</u></u>	<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, 2017 and 2016

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, 2017 and 2016

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, 2017 and 2016. 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, 2017 and 2016 were \$328,236 and \$253,862, 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, 2017 and 2016

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:

	2017	2016
Railroad Technology Museum	\$ 642,359	\$ 684,109
SSRR Signal Repair	122,191	124,495
Railtown Interpretive	18,114	19,333
Museum Improvements	17,787	16,847
Keep CA Beautiful	-	4,427
	<u>\$ 800,451</u>	<u>\$ 849,211</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, 2017 and 2016

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, 2017 and 2016

2. INVESTMENT SECURITIES

Investments at December 31, 2017 and 2016 consisted of the following:

	2017	2016
Money market funds	\$ 1,670,427	\$ 1,545,747
Corporate stocks	1,813,230	1,249,154
Mutual funds	736,907	1,089,676
Corporate bonds	946,980	714,224
Real asset funds	-	69,076
	<u>\$ 5,167,544</u>	<u>\$ 4,667,877</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 60% for equities and 40% for fixed income.

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

	2017	2016
Net, Interest and dividends	\$ 42,014	\$ 41,622
Net unrealized gains (losses)	45,646	(2,590)
Net realized gains	315,957	176,075
	<u>\$ 403,617</u>	<u>\$ 215,107</u>

As of December 31, 2017 and 2016, the total of investment advisory fees were \$35,571 and \$32,873, 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 were \$45,646 in 2017 and losses were \$2,590 in 2016.

CALIFORNIA STATE RAILROAD MUSEUM FOUNDATION

NOTES TO FINANCIAL STATEMENTS (continued)

December 31, 2017 and 2016

4. PROPERTY AND EQUIPMENT

Property and equipment at December 31, 2017 and 2016 consisted of the following:

	<u>2017</u>	<u>2016</u>
Furniture and fixtures	\$ 68,283	\$ 166,646
Equipment	603,953	610,218
Building improvements	404,584	429,421
	<u>1,076,820</u>	<u>1,206,285</u>
Less accumulated depreciation and amortization	<u>(846,250)</u>	<u>(978,936)</u>
Property and equipment, net	<u>\$ 230,570</u>	<u>\$ 227,349</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>2017</u>	<u>2016</u>
Sefton Catalog Fund — To support the acquisition of unique and historical toy train memorabilia and to publish a catalog.	\$ 270,807	\$ 238,106
Sefton Toy Train Exhibit Fund — To support the long-term maintenance and preservation of toy train exhibits and related acquisitions.	322,976	189,524
Opportunity Acquisition Fund — To support the acquisition and care of collections.	111,704	101,627
Shrader Fund — To support the acquisition and care of collections.	152,893	95,396
Other — Miscellaneous contributions and fund restrictions to be used for Foundation programs.	<u>59,890</u>	<u>67,699</u>
Total	<u>\$ 918,270</u>	<u>\$ 692,352</u>

CALIFORNIA STATE RAILROAD MUSEUM FOUNDATION

NOTES TO FINANCIAL STATEMENTS (continued)

December 31, 2017 and 2016

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>2017</u>	<u>2016</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>434,051</u>	<u>424,812</u>
Totals	<u>\$ 1,747,716</u>	<u>\$ 1,738,477</u>

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, 2016	\$ 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	119,695	8,258	127,953
Expenditures	<u>(56,672)</u>		<u>(56,672)</u>
Endowment net assets, December 31, 2016	284,920	1,738,477	2,023,397
Investment return:			
Net, Investment income	3,586	9,239	12,825
Net appreciation (realized and unrealized)	<u>246,749</u>		<u>246,749</u>
Total investment return	250,335	9,239	259,574
Expenditures	<u>(59,386)</u>		<u>(59,386)</u>
Endowment net assets, December 31, 2017	<u>\$ 475,869</u>	<u>\$ 1,747,716</u>	<u>\$ 2,223,585</u>

CALIFORNIA STATE RAILROAD MUSEUM FOUNDATION

NOTES TO FINANCIAL STATEMENTS (continued)

December 31, 2017 and 2016

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, 2017 and 2016 the carrying amounts of the Foundation's deposits were \$2,558,583 and \$2,315,069 and the balances in a financial institution were \$2,574,690 and \$2,479,036 respectively. The balance maintained in the financial institution is insured by the Federal Deposit Insurance Corporation up to \$250,000. At December 31, 2017 and 2016 the Foundation's uninsured cash balances totaled \$2,324,690 and \$2,229,036, respectively.

7. LINE OF CREDIT

The Foundation has a \$250,000 line of credit with a financial institution that matures on June 10, 2018. 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 unsecured. No line of credit balances were outstanding as of December 31, 2017 and 2016.

8. LEASE COMMITMENTS

The Foundation leases office space under an operating lease agreement starting January 15, 2018 that expires in May of 2025. The lease has scheduled minimum increases over the term of the lease. Rental expense under this agreement for the year ended December 31, 2017 was \$3,001. Future minimum lease payments are as follows:

Fiscal Year Ending	
December 31:	
2018	\$ 48,027
2019	67,769
2020	76,543
2021	79,314
2022	82,085
Thereafter	209,427
Total minimum lease payments	<u>\$ 563,165</u>

9. 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. Beginning in 2015 the deposit was made to a 401(k) retirement plan which replaced the previous Simplified Employee Pension/Individual Retirement Account plan. Contributions are fully vested when made, and totaled \$62,452 and \$58,979 for the years ended December 31, 2017 and 2016, respectively.

CALIFORNIA STATE RAILROAD MUSEUM FOUNDATION

NOTES TO FINANCIAL STATEMENTS (continued)

December 31, 2017 and 2016

10. SUBSEQUENT EVENTS

The Foundation has evaluated the effects of subsequent events that have occurred subsequent to December 31, 2017 and through May 23, 2018, 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.

11. 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, 2017, and 2016 the in-kind contribution recorded for use of property amounted to \$77,278. There was no equipment donated as of December 31, 2017 or 2016.

12. 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 2017 and 2016. 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, 2017
(With Comparative Totals for 2016)**

	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	\$ 233,995	\$ 97,460	\$ 160,407	\$ 88,918	\$ 86,216	\$ 48,091	\$ 10,132	\$ 19,314	\$ 7,896
Employee benefits	45,592	3,963	11,969	25,031	15,316	1,793	206	2,393	303
Payroll taxes	16,728	6,769	11,310	6,102	5,982	3,198	569	1,258	467
Total compensation and related expenses	<u>296,315</u>	<u>108,192</u>	<u>183,686</u>	<u>120,051</u>	<u>107,514</u>	<u>53,082</u>	<u>10,907</u>	<u>22,965</u>	<u>8,666</u>
Other expenses:									
Events and programs	40	660,784	10,031		7,737	206,218		15,114	30,214
Cost of goods sold	452,018	33,949	573	84,493					
Supplies and office expense	58,487	155,289	48,945	15,470	18,379	49,487	1,267	7,930	5,739
Marketing and advertising	21,423	-	21,289	-	79,530			14,193	9,462
Outside services	2,249	29,185	47,623	562	1,124		26,228	35,581	375
Repairs and maintenance	1,137	282	110,022	284	47,835			1,304	189
Maintenance of way			53,719		44,998				
Exhibit design									
Contributions		1,000	45,000						
Rent expense	44,159			13,493					
Fuel			29,701		17,795				
Printing	-	5,822	5,885	-	2,965	809			
Railroad operational expenses			48,372		12,964				
Insurance	3,552	3,552	4,972	1,065	2,486	1,065	1,281	1,065	710
Legal		-					4,615	2,828	
Depreciation	3,924	2,910	4,073	873	2,231			873	291
Mechanical			11,474		5,482				
Accounting	2,866	2,047	2,866	614	1,433			614	409
Volunteer enhancement					10,195				24,810
On Track newsletter									
Postage	951	-	71	24	160	-		24	
Travel		260		4,606	232			3,091	
Premiums					1,174				
Training			192		428				
Product development	198			-					
Interest expense									
Point of sale	-								
Collection purchases									
Total expenses	<u>\$ 887,319</u>	<u>\$ 1,003,272</u>	<u>\$ 628,494</u>	<u>\$ 241,535</u>	<u>\$ 364,662</u>	<u>\$ 310,661</u>	<u>\$ 44,298</u>	<u>\$ 105,582</u>	<u>\$ 80,865</u>

CALIFORNIA STATE RAILROAD MUSEUM FOUNDATION

SCHEDULE OF FUNCTIONAL EXPENSES

**For the Year Ended December 31, 2017
(With Comparative Totals for 2016)**

	Program Services				Supporting Services						
	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	2016 Total All Expenses
Compensation and related expenses											
Salaries	\$ 4,143	\$ 3,377	\$ 8,752		\$ 768,701	\$ 70,117	\$ 258,690	\$ 33,627	\$ 362,434	\$ 1,131,135	\$ 1,093,515
Employee benefits	160	69	428		107,223	31,066	36,410	1,932	69,408	176,631	169,836
Payroll taxes	317	190	532		53,422	3,991	18,750	2,092	24,833	78,255	77,585
Total compensation and related expenses	4,620	3,636	9,712	-	929,346	105,174	313,850	37,651	456,675	1,386,021	1,340,936
Other expenses:											
Events and programs		2,469			932,607	3,906	39,047		42,953	975,560	814,454
Cost of goods sold					571,033					571,033	590,728
Supplies and office expense		13,163	1,206		375,362	40,618	66,232	7,353	114,203	489,565	479,564
Marketing and advertising			16,558		162,455		30,952	134,829	165,781	328,236	253,862
Outside services		187	375		143,489	22,099	2,061	1,312	25,472	168,961	189,642
Repairs and maintenance		95	189	\$ 2,905	164,242	4,736	16,654		21,390	185,632	133,329
Maintenance of way					98,717				-	98,717	117,285
Exhibit design			24,569	56,480	81,049				-	81,049	84,031
Contributions			23,000		69,000	12,086	2,500		14,586	83,586	84,000
Rent expense					57,652	30,016			30,016	87,668	77,278
Fuel					47,496				-	47,496	54,751
Printing					15,481	650	35,496		36,146	51,627	42,305
Railroad operational expenses					61,336				-	61,336	40,640
Insurance		355	710		20,813	9,589	3,907	2,486	15,982	36,795	35,528
Legal					7,443	19,934			19,934	27,377	34,759
Depreciation			582		15,757	8,729	3,201	2,037	13,967	29,724	34,353
Mechanical					16,956				-	16,956	33,655
Accounting		205	409		11,463	5,322	2,252	1,433	9,007	20,470	32,326
Volunteer enhancement					35,005		1,142		1,142	36,147	31,700
On Track newsletter					-		26,414		26,414	26,414	29,764
Postage		75	158		1,463	509	16,343		16,852	18,315	27,426
Travel					8,189	20,607	2,000		22,607	30,796	21,411
Premiums					1,174		7,902		7,902	9,076	11,790
Training		370			990	755	385	114	1,254	2,244	1,812
Product development					198				-	198	290
Interest expense					-				-	-	-
Point of sale					-				-	-	-
Collection purchases		3,282			3,282				-	3,282	-
Total expenses	\$ 4,620	\$ 23,837	\$ 77,468	\$ 59,385	\$ 3,831,998	\$ 284,730	\$ 570,338	\$ 187,215	\$ 1,042,283	\$ 4,874,281	\$ 4,597,619

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, 2017, 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 23, 2018.

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 23, 2018