

**CALIFORNIA STATE RAILROAD
MUSEUM FOUNDATION**

Audited Financial Statements

December 31, 2018

CALIFORNIA STATE RAILROAD MUSEUM FOUNDATION

AUDITED FINANCIAL STATEMENTS

December 31, 2018 and 2017

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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, 2018 and 2017 and the related statements of activities, functional expenses 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, 2018 and 2017, 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 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

April 30, 2019

CALIFORNIA STATE RAILROAD MUSEUM FOUNDATION

STATEMENTS OF FINANCIAL POSITION

December 31, 2018 and 2017

	<u>2018</u>	<u>2017</u>
ASSETS		
CURRENT ASSETS		
Cash and cash equivalents	\$ 3,161,043	\$ 2,567,382
Accounts receivable	7,222	11,603
Inventories	181,759	188,586
Deposits	24,354	32,602
Prepaid expenses and other assets	<u>50,870</u>	<u>49,993</u>
TOTAL CURRENT ASSETS	3,425,248	2,850,166
NONCURRENT ASSETS		
Investments	4,925,260	5,167,544
Property and equipment, net	<u>219,747</u>	<u>230,570</u>
TOTAL NONCURRENT ASSETS	<u>5,145,007</u>	<u>5,398,114</u>
TOTAL ASSETS	<u>\$ 8,570,255</u>	<u>\$ 8,248,280</u>
LIABILITIES AND NET ASSETS		
LIABILITIES		
Accounts payable and accrued liabilities	\$ 827,146	\$ 735,184
Accrued vacation payable	66,960	54,985
Sales tax payable	264	13,012
Deferred revenue and other liabilities	<u>6,282</u>	<u>6,298</u>
TOTAL LIABILITIES	900,652	809,479
NET ASSETS		
Without donor restrictions		
Undesignated	4,376,024	3,972,363
Designated by the Board	<u>811,740</u>	<u>800,452</u>
Without donor restrictions	5,187,764	4,772,815
With donor restrictions		
Purpose restrictions	721,312	918,270
Perpetual in nature	<u>1,760,527</u>	<u>1,747,716</u>
TOTAL NET ASSETS	<u>7,669,603</u>	<u>7,438,801</u>
TOTAL LIABILITIES AND NET ASSETS	<u>\$ 8,570,255</u>	<u>\$ 8,248,280</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, 2018

	Without Donor Restrictions	With Donor Purpose Restrictions	With Donor Perpetual Restrictions	Total
Revenues, gains and other support				
Museum store sales	\$ 888,253			\$ 888,253
Membership	833,213			833,213
Polar Express event	1,602,284			1,602,284
Contributions	488,734	\$ 206		488,940
Sacramento Southern Railroad operations	637,668			637,668
Railtown 1897 Railroad operations	144,352			144,352
Railtown 1897 Membership	65,902			65,902
Railtown Depot store sales	195,347			195,347
Railtown 1897 Polar Express event	505,363			505,363
Interpretive program support/exhibits	48,790			48,790
Huntington Hopkins Hardware store sales	22,445			22,445
Library reproductions		7,884		7,884
Other income	32,935			32,935
Net Interest and dividends	29,289	27,985	\$ 12,811	70,085
Net realized and unrealized losses on investments	(158,736)	(100,306)		(259,042)
Net assets released from restriction	132,727	(132,727)		-
	<hr/>	<hr/>	<hr/>	<hr/>
Total revenues, gains and support	5,468,566	(196,958)	12,811	5,284,419
Expenses				
Program services:				
Retail operations	879,830			879,830
Polar Express event	993,011			993,011
Sacramento Southern Railroad operations	602,495			602,495
Railtown Depot Store	256,691			256,691
Railtown 1897 Railroad operations	437,272			437,272
Railtown 1897 Polar Express event	357,842			357,842
Railroad Technology Museum	15,731			15,731
Museum administration	56,282			56,282
Educational and interpretive programs	80,420			80,420
Facility rental	3,009			3,009
Library operations and acquisitions	28,236			28,236
Exhibits and events	93,590			93,590
Sefton Toy Train Exhibit	73,976			73,976
Supporting services:				
Management and general	423,938			423,938
Membership and development	603,129			603,129
Marketing and promotions	148,165			148,165
	<hr/>	<hr/>	<hr/>	<hr/>
Total expenses	5,053,617	-	-	5,053,617
Change in net assets	414,949	(196,958)	12,811	230,802
Net assets at the beginning of the year	4,772,815	918,270	1,747,716	7,438,801
	<hr/>	<hr/>	<hr/>	<hr/>
Net assets at end of year	\$ 5,187,764	\$ 721,312	\$ 1,760,527	\$ 7,669,603
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The accompanying notes are an integral part of these financial statements.

CALIFORNIA STATE RAILROAD MUSEUM FOUNDATION

STATEMENT OF ACTIVITIES

For the Year Ended December 31, 2017

	Without Donor Restrictions	With Donor Purpose Restrictions	With Donor Perpetual Restrictions	Total
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)		-
Total revenues, gains and support	5,327,361	225,918	9,239	5,562,518
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
Total expenses	4,874,281	-	-	4,874,281
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 FUNCTIONAL EXPENSES

**For the Year Ended December 31, 2018
(With Comparative Totals for 2017)**

	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	Facility Rental
Compensation and related expenses										
Salaries	\$ 248,513	\$ 98,150	\$ 174,811	\$ 97,279	\$ 95,426	\$ 59,190	\$ 11,162	\$ 12,756	\$ 8,504	\$ 2,666
Employee benefits	40,960	2,829	15,173	24,791	15,213	1,864	126	416	277	139
Payroll taxes	17,704	6,759	12,312	6,713	6,641	4,004	629	756	504	204
Total compensation and related expenses	<u>307,177</u>	<u>107,738</u>	<u>202,296</u>	<u>128,783</u>	<u>117,280</u>	<u>65,058</u>	<u>11,917</u>	<u>13,928</u>	<u>9,285</u>	<u>3,009</u>
Other expenses:										
Events and programs		642,145	37,342		7,386	235,850		3,977	31,857	
Cost of goods sold	437,322	40,149	2,214	93,269						
Supplies and office expense	62,174	156,604	76,123	14,198	21,940	54,680	2,328	14,488	3,119	
Marketing and advertising	13,281	-	18,941	32	76,739			11,524	6,640	
Outside services	482	31,396	562	121	241			3,535	80	
Repairs and maintenance	1,332	21	97,438	311	68,201	1,097	195	581	207	
Maintenance of way			16,908		46,181					
Exhibit design										
Contributions			27,340							
Rent expense	44,159			13,493						
Fuel			42,827		35,426					
Printing	-	5,383	1,638	43	3,407	404			617	
Railroad operational expenses			38,235		20,710					
Insurance	2,511	2,511	3,515	753	1,757	753	1,291	753	502	
Legal		-						693		
Depreciation	4,534	3,055	4,277	916	2,729			916	306	
Mechanical			27,510		14,362					
Accounting	4,758	3,399	4,758	1,020	2,379			1,019	680	
Volunteer enhancement					5,614				27,127	
On Track newsletter										
Postage	713	22	455	34	133	-		71		
Travel		588	116	3,718	2,319			2,502		
Premiums					1,335					
Training					9,133			2,295		
Product development	1,387			-						
Interest expense										
Point of sale	-									
Collection purchases										
Total expenses	<u>\$ 879,830</u>	<u>\$ 993,011</u>	<u>\$ 602,495</u>	<u>\$ 256,691</u>	<u>\$ 437,272</u>	<u>\$ 357,842</u>	<u>\$ 15,731</u>	<u>\$ 56,282</u>	<u>\$ 80,420</u>	<u>\$ 3,009</u>

CALIFORNIA STATE RAILROAD MUSEUM FOUNDATION

STATEMENT OF FUNCTIONAL EXPENSES

**For the Year Ended December 31, 2018
(With Comparative Totals for 2017)**

	Program Services				Supporting Services					2017 Total All Expenses
	Library Operations and Acquisitions	Exhibits and Events	Sefton Toy Train Exhibit	Total All Programs	Management and General	Membership and Development	Marketing and Promotions	Total All Supporting	Total All Expenses	
Compensation and related expenses										
Salaries	\$ 3,721	\$ 9,301		\$ 821,479	\$ 76,804	\$ 320,820	\$ 35,342	\$ 432,966	\$ 1,254,445	\$ 1,131,135
Employee benefits	42	422		102,252	40,648	50,048	1,987	92,683	194,935	176,631
Payroll taxes	210	567		57,003	4,384	23,214	2,206	29,804	86,807	78,255
Total compensation and related expenses	3,973	10,290	-	980,734	121,836	394,082	39,535	555,453	1,536,187	1,386,021
Other expenses:										
Events and programs	270	2,127		960,954	6,873	22,392		29,265	990,219	975,560
Cost of goods sold				572,954					572,954	571,033
Supplies and office expense	20,158	1,765		427,577	90,177	52,010	7,030	149,217	576,794	489,565
Marketing and advertising		11,621		138,778	450	15,050	94,627	110,127	248,905	328,236
Outside services	40	80		36,537	30,325	442	281	31,048	67,585	168,961
Repairs and maintenance	103	207	\$ 2,750	172,443	5,176	21,176		26,352	198,795	185,632
Maintenance of way				63,089				-	63,089	98,717
Exhibit design		65,669	71,217	136,886				-	136,886	81,049
Contributions				27,340	23,028			23,028	50,368	83,586
Rent expense				57,652	54,030			54,030	111,682	87,668
Fuel				78,253				-	78,253	47,496
Printing				11,492	495	32,646		33,141	44,633	51,627
Railroad operational expenses				58,945				-	58,945	61,336
Insurance	251	502		15,099	6,779	2,762	1,758	11,299	26,398	36,795
Legal				693	38,320			38,320	39,013	27,377
Depreciation		611		17,344	9,164	3,360	2,138	14,662	32,006	29,724
Mechanical				41,872				-	41,872	16,956
Accounting	340	680		19,033	8,836	3,738	2,379	14,953	33,986	20,470
Volunteer enhancement				32,741				-	32,741	36,147
On Track newsletter				-		27,221		27,221	27,221	26,414
Postage	24	22	9	1,483	730	17,223		17,953	19,436	18,315
Travel		16		9,259	23,150	1,210		24,360	33,619	30,796
Premiums				1,335		9,643		9,643	10,978	9,076
Training	60			11,488	4,569	174	417	5,160	16,648	2,244
Product development				1,387				-	1,387	198
Interest expense				-				-	-	-
Point of sale				-				-	-	-
Collection purchases	3,017			3,017				-	3,017	3,282
Total expenses	\$ 28,236	\$ 93,590	\$ 73,976	\$ 3,878,385	\$ 423,938	\$ 603,129	\$ 148,165	\$ 1,175,232	\$ 5,053,617	\$ 4,874,281

CALIFORNIA STATE RAILROAD MUSEUM FOUNDATION

STATEMENT 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	Facility Rental
Compensation and related expenses										
Salaries	\$ 233,995	\$ 97,460	\$ 160,407	\$ 88,918	\$ 86,216	\$ 48,091	\$ 10,132	\$ 19,314	\$ 7,896	\$ 4,143
Employee benefits	45,592	3,963	11,969	25,031	15,316	1,793	206	2,393	303	160
Payroll taxes	16,728	6,769	11,310	6,102	5,982	3,198	569	1,258	467	317
Total compensation and related expenses	296,315	108,192	183,686	120,051	107,514	53,082	10,907	22,965	8,666	4,620
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	\$ 887,319	\$ 1,003,272	\$ 628,494	\$ 241,535	\$ 364,662	\$ 310,661	\$ 44,298	\$ 105,582	\$ 80,865	\$ 4,620

CALIFORNIA STATE RAILROAD MUSEUM FOUNDATION

STATEMENT OF FUNCTIONAL EXPENSES

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

	Program Services				Supporting Services				2016 Total All Expenses	
	Library Operations and Acquisitions	Exhibits and Events	Sefton Toy Train Exhibit	Total All Programs	Management and General	Membership and Development	Marketing and Promotions	Total All Supporting		Total All Expenses
Compensation and related expenses										
Salaries	\$ 3,377	\$ 8,752		\$ 768,701	\$ 70,117	\$ 258,690	\$ 33,627	\$ 362,434	\$ 1,131,135	\$ 1,093,515
Employee benefits	69	428		107,223	31,066	36,410	1,932	69,408	176,631	169,836
Payroll taxes	190	532		53,422	3,991	18,750	2,092	24,833	78,255	77,585
Total compensation and related expenses	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	\$ 23,837	\$ 77,468	\$ 59,385	\$ 3,831,998	\$ 284,730	\$ 570,338	\$ 187,215	\$ 1,042,283	\$ 4,874,281	\$ 4,597,619

CALIFORNIA STATE RAILROAD MUSEUM FOUNDATION

STATEMENTS OF CASH FLOWS

For the Years Ended December 31, 2018 and 2017

	<u>2018</u>	<u>2017</u>
CASH FLOWS FROM OPERATING ACTIVITIES		
Change in net assets	\$ 230,802	\$ 688,237
Adjustments to reconcile change in net assets to net cash (used) provided by operating activities:		
Depreciation	32,006	29,724
Unrealized and realized gain on investments	259,042	(361,603)
Investment fees paid	(70,085)	35,866
Changes in operating assets and liabilities:		
Accounts receivable	4,381	(3,935)
Inventories	6,827	6,167
Prepaid expenses and other assets	7,371	(26,909)
Accounts payable, deferred revenue, and accrued and other liabilities	91,946	80,783
Accrued vacation payable	11,975	4,288
Sales tax payable	(12,748)	(1,860)
Net cash provided by operating activities	<u>561,517</u>	<u>450,758</u>
CASH FLOWS FROM INVESTING ACTIVITIES		
Acquisition of property and equipment	(21,183)	(32,943)
Purchase of investments	(2,641,377)	(2,109,903)
Proceeds from sale of investments	2,694,704	1,935,971
Net cash provided (used) by investing activities	<u>32,144</u>	<u>(206,875)</u>
Increase in cash and cash equivalents	593,661	243,883
Cash and cash equivalents, beginning of the year	<u>2,567,382</u>	<u>2,323,499</u>
Cash and cash equivalents, end of year	<u>\$ 3,161,043</u>	<u>\$ 2,567,382</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, 2018 and 2017

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 12.

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 net assets without donor restrictions or net assets with donor restrictions, depending on the existence and/or nature of any donor-imposed restrictions. Contributions that are restricted by the donor are reported as an increase in net assets without donor restrictions if the restriction expires in the reporting period in which the contribution is recognized. All other donor restricted contributions are reported as an increase in net assets with donor restrictions, depending on the nature of restriction. When a restriction expires (that is, when a stipulated time restriction ends or purpose restriction is accomplished), net assets with donor restrictions are reclassified to net assets without donor restrictions and reported in the statements of activities as net assets released from restrictions.

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 net assets without donor restriction in the year in which the items are acquired, or as net assets with donor restrictions if the assets used to purchase the items are restricted by donors. Contributed collection items are not reflected on the financial statements.

CALIFORNIA STATE RAILROAD MUSEUM FOUNDATION

NOTES TO FINANCIAL STATEMENTS (continued)

December 31, 2018 and 2017

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

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.

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, 2018 and 2017. The Foundation is not a private foundation.

The Foundation's federal returns for the years ended December 31, 2017, 2016 and 2015 could be subject to examination by federal taxing authorities, generally for three years after they are filed. The Foundation's state returns for the years ended December 31, 2017, 2016, 2015 and 2014 could be subject to examination by state taxing authorities, generally accepted for four years after they are filed.

Advertising

The Foundation expenses advertising costs when incurred. Total advertising costs charged to various activities during the year ended December 31, 2018 and 2017 were \$248,905 and \$328,236, respectively, and are included in marketing and advertising on the schedule of functional expenses

CALIFORNIA STATE RAILROAD MUSEUM FOUNDATION

NOTES TO FINANCIAL STATEMENTS (continued)

December 31, 2018 and 2017

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Net Assets

Net assets, revenues, gains, and losses are classified based on the existence or absence of donor imposed restrictions. Accordingly, net assets and changes therein are classified and reported as follows:

Net Assets Without Donor Restrictions — Includes contributions without donor restrictions, income earned on net assets without donor restrictions, and amounts for which donor restrictions have expired. Net assets without donor restrictions may be designated for use by the Board of Directors for a specific purpose. Such designations limit the area of the Foundation's operations for which expenditures of these net assets may be made. Designated net assets as of December 31 consist of the following:

	2018	2017
Railroad Technology Museum	\$ 645,165	\$ 642,359
SSRR Signal Repair	131,277	122,191
Railtown Interpretive	15,626	18,114
Museum Improvements	19,672	17,787
	<u>\$ 811,740</u>	<u>\$ 800,451</u>

Net Assets With Donor Restrictions — Some donor-imposed restrictions are temporary in nature, such as those that will be met by the passage of time or other events specified by the donor. Other donor-imposed restrictions are perpetual in nature, where the donor stipulates that resources be maintained in perpetuity.

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 Net Assets with Donor Restrictions, perpetual in nature, the original value of gifts donated to the 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 Net Assets with Donor Restrictions, perpetual in nature, is classified as Net Assets with Donor Restrictions for specific purposes 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, 2018 and 2017

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 adopted a spending plan for the Shrader endowment in accordance with the donor-imposed restrictions.

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.

Change in Accounting Principle

In August 2016, the Financial Accounting Standards Board issued ASU 2016-14 that simplifies and improves 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 became effective for the year ended December 31, 2018. The Foundation has implemented ASU 2016-14 and has adjusted the presentation in these financial statements accordingly.

CALIFORNIA STATE RAILROAD MUSEUM FOUNDATION

NOTES TO FINANCIAL STATEMENTS (continued)

December 31, 2018 and 2017

2. LIQUIDITY AND AVAILABILITY

Financial assets available for general expenditure, that is, without donor or other restrictions limiting their use, within one year of the balance sheet date, comprise the following:

	2018	2017
Cash and cash equivalents	\$ 3,161,043	\$ 2,567,382
Accounts receivable	7,222	11,603
Operating investments	3,164,732	2,236,144
Financial assets availability to meet general expenditures	<u>\$ 6,332,997</u>	<u>\$ 4,815,129</u>

The Foundations endowment funds consist of donor-restricted endowments and funds designated by the board for specific purposes. Income from donor-restricted endowments is restricted for specific purposes, with the exception of amounts with the exception of amounts available for general use. Donor-restricted endowment funds are not available for general expenditure. These assets limited to use, which are more fully described in Note 6 are not available for general expenditure within the next year and are not included in the amounts above.

As part of the Foundation's liquidity management plan, cash in excess of daily requirements are invested in short-term investments and money market funds.

3. INVESTMENT SECURITIES

Investments at December 31, 2018 and 2017 consisted of the following:

	2018	2017
Money market funds	\$ 1,569,215	\$ 1,670,427
Corporate stocks/Equities	2,212,958	1,813,230
Mutual funds	134,551	736,907
Corporate bonds/Fixed income	908,536	946,980
Certificate of deposit	100,000	-
	<u>\$ 4,925,260</u>	<u>\$ 5,167,544</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, 40% for fixed income.

CALIFORNIA STATE RAILROAD MUSEUM FOUNDATION

NOTES TO FINANCIAL STATEMENTS (continued)

December 31, 2018 and 2017

3 INVESTMENT SECURITIES (Continued)

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

	2018	2017
Net, Interest and dividends	\$ 70,085	\$ 42,014
Net unrealized (losses) gains	(383,289)	45,646
Net realized gains	124,247	315,957
	<u>\$ (188,957)</u>	<u>\$ 403,617</u>

As of December 31, 2018 and 2017, the total of investment advisory fees were \$26,461 and \$35,571, respectively, and are included in the net, interest and dividends amount.

4. 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 \$383,289 in 2018 and net unrealized gains were \$45,646 in 2017.

5. PROPERTY AND EQUIPMENT

Property and equipment at December 31, 2018 and 2017 consisted of the following:

	2018	2017
Furniture and fixtures	\$ 69,570	\$ 68,283
Equipment	595,955	603,953
Building improvements	406,854	404,584
	<u>1,072,379</u>	<u>1,076,820</u>
Less accumulated depreciation and amortization	<u>(852,632)</u>	<u>(846,250)</u>
Property and equipment, net	<u>\$ 219,747</u>	<u>\$ 230,570</u>

CALIFORNIA STATE RAILROAD MUSEUM FOUNDATION

NOTES TO FINANCIAL STATEMENTS (continued)

December 31, 2018 and 2017

6. NET ASSETS WITH DONOR RESTRICTIONS

Net assets with donor restrictions for specific purposes

Net assets with balances of unexpended funds restricted by donors exist for the following programs:

	<u>2018</u>	<u>2017</u>
Sefton Catalog Fund — To support the acquisition of unique and historical toy train memorabilia and to publish a catalog.	\$ 246,020	\$ 270,807
Sefton Toy Train Exhibit Fund — To support the long-term maintenance and preservation of toy train exhibits and related acquisitions.	240,449	322,976
Opportunity Acquisition Fund — To support the acquisition and care of collections.	97,977	111,704
Shrader Fund — To support the acquisition and care of collections.	83,809	152,893
Other — Miscellaneous contributions and fund restrictions to be used for Foundation programs.	<u>53,057</u>	<u>59,890</u>
Total	<u>\$ 721,312</u>	<u>\$ 918,270</u>

Net Assets with donor restrictions perpetual in nature

Net assets with unexpended funds restricted by donors of a perpetual nature exist for the following programs:

	<u>2018</u>	<u>2017</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>446,862</u>	<u>434,051</u>
Totals	<u>\$ 1,760,527</u>	<u>\$ 1,747,716</u>

CALIFORNIA STATE RAILROAD MUSEUM FOUNDATION

NOTES TO FINANCIAL STATEMENTS (continued)

December 31, 2018 and 2017

6. NET ASSETS WITH DONOR RESTRICTIONS (Continued)

Changes in endowment net assets consisted of the following:

	Sefton Toy Train and Shrader		
	With Donor Purpose Restrictions	With Donor Perpetual Restrictions	Total
Endowment net assets, January 1, 2017	\$ 284,920	\$ 1,738,477	\$ 2,023,397
Investment return:			
Net, Investment income	3,586	9,239	12,825
Net appreciation (realized and unrealized)	246,749		246,749
Total investment return	250,335	9,239	259,574
Expenditures	(59,386)		(59,386)
Endowment net assets, December 31, 2017	475,869	1,747,716	2,223,585
Investment return:			
Net, Investment income	10,606	12,811	23,417
Net appreciation (realized and unrealized)	(88,240)		(88,240)
Total investment return	(77,634)	12,811	(64,823)
Expenditures	(73,976)		(73,976)
Endowment net assets, December 31, 2018	<u>\$ 324,259</u>	<u>\$ 1,760,527</u>	<u>\$ 2,084,786</u>

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

7. CONCENTRATIONS

At December 31, 2018 and 2017 the carrying amounts of the Foundation's deposits were \$3,252,598 and \$2,558,583 and the balances in a financial institution were \$3,362,519 and \$2,574,690, respectively. The balance maintained in the financial institution is insured by the Federal Deposit Insurance Corporation up to \$250,000. At December 31, 2018 and 2017 the Foundation's uninsured cash balances totaled \$2,827,332 and \$2,324,690, respectively.

CALIFORNIA STATE RAILROAD MUSEUM FOUNDATION

NOTES TO FINANCIAL STATEMENTS (continued)

December 31, 2018 and 2017

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, 2018 was \$54,031. Future minimum lease payments are as follows:

Fiscal Year Ending December 31:	
2019	\$ 67,885
2020	76,659
2021	79,430
2022	82,200
2023	84,971
Thereafter	120,992
Total minimum lease payments	<u>\$ 512,137</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 \$69,895 and \$62,452 for the years ended December 31, 2018 and 2017, respectively.

10. SUBSEQUENT EVENTS

The Foundation has evaluated the effects of subsequent events that have occurred subsequent to December 31, 2018 and through April 30, 2019, 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 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 and Railtown Depot. For the years ending December 31, 2018 and 2017, the in-kind contribution recorded for use of property amounted to \$57,652 and \$77,278, respectively.

CALIFORNIA STATE RAILROAD MUSEUM FOUNDATION

NOTES TO FINANCIAL STATEMENTS (continued)

December 31, 2018 and 2017

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 2018 and 2017. Presently, several members of the Foundation Board of Directors also serve as the Directors of Boiler Shop, LLC.

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, 2018, 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 April 30, 2019.

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

April 30, 2019