

**CALIFORNIA STATE RAILROAD
MUSEUM FOUNDATION**

Audited Financial Statements

December 31, 2022

CALIFORNIA STATE RAILROAD MUSEUM FOUNDATION

AUDITED FINANCIAL STATEMENTS

December 31, 2022 and 2021

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INDEPENDENT AUDITOR'S REPORT

To the Board of Directors
California State Railroad Museum Foundation
Sacramento, California

Report on the Audit of the Financial Statements

Opinion

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, 2022 and 2021 and the related statements of activities, functional expenses, and cash flows for the years then ended, and the related notes to the financial statements.

In our opinion, the financial statements present fairly, in all material respects, the financial position of California State Railroad Museum Foundation as of December 31, 2022 and 2021, 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.

Basis for Opinion

We conducted our audit 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. Our responsibilities under those standards are further described in the Auditor's Responsibilities for the Audit of the Financial Statements section of our report. We are required to be independent of the Foundation and to meet our other ethical responsibilities in accordance with the relevant ethical requirements relating to our audit. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Change in Accounting Principle

As described in Note 8 to the financial statements, the Foundation adopted Accounting Standard Update 842 related to the accounting for leases during the year ended December 31, 2022. Due to the implementation of this ASU, the Foundation recognized a right-of-use asset and operating lease liability in the financial statements as of January 1, 2021. Our opinion is not modified with respect to this matter.

Responsibilities of Management for the Financial Statements

Management is responsible for the preparation and fair presentation of the financial statements in accordance with accounting principles generally accepted in the United States of America, and for 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.

In preparing the financial statements, management is required to evaluate whether there are conditions or events, considered in the aggregate, that raise substantial doubt about the Foundation's ability to continue as a going concern within one year after the date that the financial statements are available to be issued.

Auditor's Responsibilities for the Audit of the Financial Statements

Our objectives are to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion. Reasonable assurance is a high level of assurance but is not absolute assurance and therefore is not a guarantee that an audit conducted in accordance with generally accepted auditing standards and *Government Auditing Standards* will always detect a material misstatement when it exists. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control. Misstatements are considered material if there is a substantial likelihood that, individually or in the aggregate, they would influence the judgment made by a reasonable user based on the financial statements.

In performing an audit in accordance with generally accepted auditing standards and *Government Auditing Standards*, we:

- Exercise professional judgment and maintain professional skepticism throughout the audit.
- Identify and assess the risks of material misstatement of the financial statements, whether due to fraud or error, and design and perform audit procedures responsive to those risks. Such procedures include examining, on a test basis, evidence regarding the amounts and disclosures in the financial statements.
- Obtain an understanding of internal control relevant to the audit 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 Foundation's internal control. Accordingly, no such opinion is expressed.
- Evaluate the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluate the overall presentation of the financial statements.
- Conclude whether, in our judgment, there are conditions or events, considered in the aggregate, that raise substantial doubt about the Foundation's ability to continue as a going concern for a reasonable period of time.

We are required to communicate with those charged with governance regarding, among other matters, the planned scope and timing of the audit, significant audit findings, and certain internal control related matters that we identified during the audit.

Other Reporting Required by *Government Auditing Standards*

In accordance with *Government Auditing Standards*, we have also issued our report dated May 30, 2023, 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 solely 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 the effectiveness of the Foundation's 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 30, 2023

CALIFORNIA STATE RAILROAD MUSEUM FOUNDATION

STATEMENTS OF FINANCIAL POSITION

December 31, 2022 and 2021

	2022	2021 As Restated
ASSETS		
CURRENT ASSETS		
Cash and cash equivalents	\$ 1,765,970	\$ 2,148,322
Accounts receivable	-	78,376
Inventories	224,195	141,552
Deposits	2,927	11,654
Prepaid expenses and other assets	28,122	26,680
TOTAL CURRENT ASSETS	<u>2,021,214</u>	<u>2,406,584</u>
NONCURRENT ASSETS		
Investments	7,499,858	8,525,438
Operating lease right-of-use asset	685,386	251,543
Property and equipment, net	536,080	542,579
TOTAL NONCURRENT ASSETS	<u>8,721,324</u>	<u>9,319,560</u>
TOTAL ASSETS	<u><u>\$ 10,742,538</u></u>	<u><u>\$ 11,726,144</u></u>
LIABILITIES AND NET ASSETS		
LIABILITIES		
<u>Current Liabilities</u>		
Accounts payable and accrued liabilities	\$ 911,270	\$ 746,943
Accrued vacation payable	101,780	84,268
Short term portion of operating lease liability	97,012	70,469
TOTAL CURRENT LIABILITIES	<u>1,110,062</u>	<u>901,680</u>
<u>Long Term Liabilities</u>		
Operating lease liability	584,856	191,255
TOTAL LIABILITIES	<u>1,694,918</u>	<u>1,092,935</u>
NET ASSETS		
Without donor restrictions		
Undesignated	4,127,912	4,439,154
Designated by the Board	1,001,538	1,313,079
	<u>5,129,450</u>	<u>5,752,233</u>
With donor restrictions		
Purpose restrictions	2,096,336	3,083,821
Perpetual in nature	1,821,834	1,797,155
TOTAL NET ASSETS	<u>9,047,620</u>	<u>10,633,209</u>
TOTAL LIABILITIES AND NET ASSETS	<u><u>\$ 10,742,538</u></u>	<u><u>\$ 11,726,144</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, 2022

	Without Donor Restrictions	With Donor Purpose Restrictions	With Donor Perpetual Restrictions	Total
Revenues, gains and other support				
Polar Express	\$ 2,047,166			\$ 2,047,166
Museum store sales	863,586			863,586
Sacramento Southern Railroad operations	628,207			628,207
Membership	779,816			779,816
Railtown 1897 Polar Express event	475,102			475,102
Contributions	279,885	\$ 172,801		452,686
Grants	16,077			16,077
Railtown Depot store sales	234,497			234,497
Railtown 1897 Railroad operations	213,698			213,698
Railtown 1897 Membership	56,500			56,500
Passenger Station Store	15,452			15,452
Library reproductions		9,620		9,620
Other income	174,868			174,868
Net Interest and dividends	31,297	41,563	\$ 24,679	97,539
Net realized and unrealized losses on investments	(388,376)	(964,502)		(1,352,878)
Net assets released from restriction	246,967	(246,967)		-
Total revenues, gains and support	5,674,742	(987,485)	24,679	4,711,936
Expenses				
Program services:				
Polar Express event	1,376,763			1,376,763
Sacramento Southern Railroad operations	1,254,262			1,254,262
Retail operations	976,392			976,392
Railtown 1897 Railroad operations	499,653			499,653
Railtown 1897 Polar Express event	381,725			381,725
Railtown Depot Store	325,721			325,721
Educational and interpretive programs	209,769			209,769
Museum administration	116,118			116,118
Exhibits and events	50,904			50,904
The Shops Project	30,800			30,800
Library operations and acquisitions	22,034			22,034
Sefton Toy Train Exhibit	772			772
Supporting services:				
Membership and development	701,142			701,142
Management and general	308,938			308,938
Marketing and promotions	42,532			42,532
Total expenses	6,297,525	-	-	6,297,525
Change in net assets	(622,783)	(987,485)	24,679	(1,585,589)
Net assets at the beginning of the year	5,752,233	3,083,821	1,797,155	10,633,209
Net assets at end of year	\$ 5,129,450	\$ 2,096,336	\$ 1,821,834	\$ 9,047,620

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, 2021

	Without Donor Restrictions	With Donor Purpose Restrictions	With Donor Perpetual Restrictions	2021 As Restated
Revenues, gains and other support				
Polar Express event	\$ 1,826,512			\$ 1,826,512
Museum store sales	687,297			687,297
Sacramento Southern Railroad operations	540,893			540,893
Membership	539,850			539,850
Contributions	295,541	\$ 203,775		499,316
Railtown 1897 Polar Express event	452,550			452,550
Grants	254,308	2,500		256,808
Railtown Depot store sales	224,209			224,209
Railtown 1897 Railroad operations	194,042			194,042
Railtown 1897 Membership	52,054			52,054
Passenger Station store sales	10,895			10,895
Library reproductions		12,168		12,168
Other income	1,176			1,176
Net Interest and dividends	23,420	41,096	\$ 13,615	78,131
Net realized and unrealized gains on investments	326,714	901,502		1,228,216
Net assets released from restriction	148,236	(148,236)		-
Total revenues, gains and support	5,577,697	1,012,805	13,615	6,604,117
Expenses				
Program services:				
Polar Express event	1,196,630			1,196,630
Sacramento Southern Railroad operations	670,496			670,496
Retail operations	779,630			779,630
Railtown 1897 Railroad operations	342,623			342,623
Railtown 1897 Polar Express event	283,559			283,559
Railtown Depot Store	282,816			282,816
Educational and interpretive programs	43,766			43,766
Museum administration	73,025			73,025
Restoration projects	44,107			44,107
Exhibits and events	36,113			36,113
The Shops Project	800			800
Library operations and acquisitions	18,684			18,684
Sefton Toy Train Exhibit	10			10
Supporting services:				
Management and general	311,534			311,534
Membership and development	564,296			564,296
Marketing and promotions	133,015			133,015
Total expenses	4,781,104	-	-	4,781,104
Change in net assets	796,593	1,012,805	13,615	1,823,013
Net assets at the beginning of the year	4,955,640	2,071,016	1,783,540	8,810,196
Net assets at end of year	\$ 5,752,233	\$ 3,083,821	\$ 1,797,155	\$ 10,633,209

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, 2022
(With Comparative Totals for 2021)**

	Program Services								
	Polar Express Event	Sacramento Southern Railroad Operations	Retail Operations	Railtown 1897 Railroad Operations	Railtown 1897 Polar Express	Railtown Depot Store	Educational and Interpretive Programs	Museum Administration	Exhibits and Events
Compensation and related expenses:									
Salaries	\$ 159,881	\$ 346,881	\$ 291,446	\$ 174,690	\$ 63,550	\$ 129,799	\$ 7,528	\$ 64,589	\$ 18,323
Employee benefits	4,685	44,254	41,947	15,313	2,387	16,950	437	1,195	987
Payroll taxes	10,464	25,771	21,830	13,303	4,847	9,640	575	4,935	1,397
Total compensation and related expenses	<u>175,030</u>	<u>416,906</u>	<u>355,223</u>	<u>203,306</u>	<u>70,784</u>	<u>156,389</u>	<u>8,540</u>	<u>70,719</u>	<u>20,707</u>
Other expenses:									
Events and programs	915,752	4,570		31,948	221,072	2,658	6,079	6,326	
Supplies and office expense	130,833	155,443	93,385	75,970	80,209	22,886	3,168	16,725	11,008
Cost of goods sold	53,741		437,033			97,723			
Outside services	47,304	345,170							
Exhibit design							178,405		2,410
Repairs and maintenance		72,556	719	55,340	696	180	60	240	180
Mechanical		114,224							
Marketing and advertising	4,519	14,161	9,038	15,331	4,519	4,617	4,519	9,038	9,038
Depreciation & Amortization	24,969	32,652	23,048	28,811		5,762		7,683	5,762
Fuel		50,835		45,648					
Rent expense			48,720			19,140			
Insurance	4,478	5,856	3,444	5,167	3,445	1,033	344	1,378	1,033
Postage	7,849	321	2,654	547	1,000	9,628		128	96
Travel	255	16,155		4,934		5,035		2,987	
Printing	9,128	955							
Legal	-			6,256					
Accounting	2,905	3,799	3,128	3,352		670	224	894	670
Lease expense									
Volunteer enhancement				8,415			8,430		
Maintenance of way		7,364		9,603					
Railroad operational expenses		7,843		5,025					
Training		5,452							
Contributions									
On Track newsletter									
Premiums									
Total expenses	<u>\$ 1,376,763</u>	<u>\$ 1,254,262</u>	<u>\$ 976,392</u>	<u>\$ 499,653</u>	<u>\$ 381,725</u>	<u>\$ 325,721</u>	<u>\$ 209,769</u>	<u>\$ 116,118</u>	<u>\$ 50,904</u>

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, 2022
(With Comparative Totals for 2021)**

	Program Services			Supporting Services				Total All Expenses	2021 Total All Expenses Restated	
	The Shops Project	Library Operations and Acquisitions	Sefton Toy Train Exhibit	Total All Programs	Management and General	Membership and Development	Marketing and Promotions			
Compensation and related expenses:										
Salaries		\$ 6,533		\$ 1,263,220	\$ 39,196	\$ 439,600	\$ 17,048	\$ 495,844	\$ 1,759,064	\$ 1,449,494
Employee benefits		224		128,379	43,947	63,507	1,300	108,754	237,133	181,755
Payroll taxes		497		93,259	2,981	33,089	1,304	37,374	130,633	102,730
Total compensation and related expenses	-	7,254	-	1,484,858	86,124	536,196	19,652	641,972	2,126,830	1,733,979
Other expenses:										
Events and programs				1,188,405	39	18,909		18,948	1,207,353	968,561
Supplies and office expense	\$ 800	13,524		603,951	108,063	79,638	4,804	192,505	796,456	627,706
Cost of goods sold				588,497				-	588,497	493,033
Outside services	30,000			422,474	953			953	423,427	132,083
Exhibit design				180,815				-	180,815	26,517
Repairs and maintenance		120	\$ 772	130,863	6,113	599		6,712	137,575	101,984
Mechanical				114,224				-	114,224	27,621
Marketing and advertising				74,780		9,038	18,076	27,114	101,894	140,074
Depreciation & Amortization				128,687	44,176	19,207		63,383	192,070	169,781
Fuel				96,483				-	96,483	76,131
Rent expense				67,860				-	67,860	49,500
Insurance		689		26,867	4,133	3,445		7,578	34,445	32,238
Postage				22,223	1,766	9,509		11,275	33,498	35,346
Travel				29,366	3,301	600		3,901	33,267	18,180
Printing				10,083	1,587	18,058		19,645	29,728	18,488
Legal				6,256	17,462	862		18,324	24,580	33,798
Accounting		447		16,089	4,022	2,235		6,257	22,346	28,462
Lease expense				-	18,880			18,880	18,880	14,148
Volunteer enhancement				16,845		1,893		1,893	18,738	1,893
Maintenance of way				16,967				-	16,967	26,167
Railroad operational expenses				12,868				-	12,868	10,995
Training				5,452	4,319	905		5,224	10,676	5,171
Contributions				-	8,000			8,000	8,000	7,500
On Track newsletter				-		48		48	48	-
Premiums				-				-	-	1,748
Total expenses	\$ 30,800	\$ 22,034	\$ 772	\$ 5,244,913	\$ 308,938	\$ 701,142	\$ 42,532	\$ 1,052,612	\$ 6,297,525	\$ 4,781,104

CALIFORNIA STATE RAILROAD MUSEUM FOUNDATION

STATEMENT OF FUNCTIONAL EXPENSES

**For the Year Ended December 31, 2021
(With Comparative Totals for 2020)**

	Program Services									
	Retail Operations	Polar Express Event	Sacramento Southern Railroad Operations	Sacramento Restoration Project	Railtown Depot Store	Railtown 1897 Railroad Operations	Railtown 1897 Polar Express	The Shops Project	Museum Administration	Educational and Interpretive Programs
Compensation and related expenses:										
Salaries	\$ 247,668	\$ 130,303	\$ 274,356		\$ 114,952	\$ 108,129	\$ 50,569		\$ 20,108	\$ 6,957
Employee benefits	40,561	3,649	34,648		18,272	11,705	1,366		1,072	459
Payroll taxes	18,602	9,938	20,254		8,501	8,207	3,848		1,527	529
Total compensation and related expenses	<u>306,831</u>	<u>143,890</u>	<u>329,258</u>	<u>-</u>	<u>141,725</u>	<u>128,041</u>	<u>55,783</u>	<u>-</u>	<u>22,707</u>	<u>7,945</u>
Other expenses:										
Events and programs		736,576	14,893			30,814	169,110		12,208	1,960
Supplies and office expense	58,153	210,204	66,446		10,780	40,223	56,181	\$ 800	24,208	1,359
Cost of goods sold	349,482	43,935			99,616					
Depreciation & Amortization	11,318	9,432	16,034		2,830	9,432			3,773	
Marketing and advertising	6,975		8,718		42	51,497			6,103	3,487
Outside services		35,398	95,000						844	
Repairs and maintenance	1,193		32,461	\$ 44,107	298	14,679	228		398	100
Fuel			44,281			31,850				
Rent expense	34,346				13,493					
Postage	3,995	5,802	405		8,026	583			162	
Legal										
Insurance	3,224	3,224	5,480		967	3,224	2,257		1,289	322
Accounting	3,985	2,846	4,839		854	2,846			1,138	285
Mechanical			27,621							
Exhibit design										26,415
Maintenance of way			1,600			24,567				
Printing	128	5,323	3,269		39	199				
Travel			12,114		4,146	1,500				
Lease expense										
Railroad operational expenses			7,827			3,168				
Contributions										
Training			250						195	
Volunteer enhancement										1,893
Premiums										
Product development										
Total expenses	<u>\$ 779,630</u>	<u>\$ 1,196,630</u>	<u>\$ 670,496</u>	<u>\$ 44,107</u>	<u>\$ 282,816</u>	<u>\$ 342,623</u>	<u>\$ 283,559</u>	<u>\$ 800</u>	<u>\$ 73,025</u>	<u>\$ 43,766</u>

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, 2021
(With Comparative Totals for 2020)**

	Program Services				Supporting Services				Total All Expenses As Restated	2020 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		
Compensation and related expenses:										
Salaries	\$ 7,052	\$ 17,440		\$ 977,534	\$ 50,125	\$ 367,130	\$ 54,705	\$ 471,960	\$ 1,449,494	\$ 1,216,118
Employee benefits	146	991		112,869	34,008	30,989	3,889	68,886	181,755	225,735
Payroll taxes	533	1,326		73,265	3,797	21,503	4,165	29,465	102,730	81,913
Total compensation and related expenses	7,731	19,757	-	1,163,668	87,930	419,622	62,759	570,311	1,733,979	1,523,766
Other expenses:										
Events and programs				965,561		3,000		3,000	968,561	35,318
Supplies and office expense	9,540	4,210		482,104	78,988	55,639	10,975	145,602	627,706	275,782
Cost of goods sold				493,033				-	493,033	170,385
Depreciation & Amortization		2,829		55,648	95,270	12,261	6,602	114,133	169,781	63,254
Marketing and advertising		6,975		83,797		7,847	48,430	56,277	140,074	69,525
Outside services				131,242	841			841	132,083	68,756
Repairs and maintenance	199	298	\$ 10	93,971	4,176	3,837		8,013	101,984	150,978
Fuel				76,131				-	76,131	16,059
Rent expense				47,839	1,661			1,661	49,500	134,311
Postage		121		19,094	2,390	13,862		16,252	35,346	13,479
Legal				-	8,687	25,111		33,798	33,798	30,114
Insurance	645	967		21,599	4,191	4,191	2,257	10,639	32,238	39,591
Accounting	569	854		18,216	4,554	3,700	1,992	10,246	28,462	26,405
Mechanical				27,621				-	27,621	34,724
Exhibit design		102		26,517				-	26,517	69,125
Maintenance of way				26,167				-	26,167	835
Printing				8,958	286	9,244		9,530	18,488	23,630
Travel				17,760	304	116		420	18,180	11,451
Lease expense				-	14,148			14,148	14,148	
Railroad operational expenses				10,995				-	10,995	17,671
Contributions				-	7,500			7,500	7,500	-
Training				445	608	4,118		4,726	5,171	919
Volunteer enhancement				1,893				-	1,893	1,428
Premiums				-		1,748		1,748	1,748	7,423
Product development				-				-	-	42
Total expenses	\$ 18,684	\$ 36,113	\$ 10	\$ 3,772,259	\$ 311,534	\$ 564,296	\$ 133,015	\$ 1,008,845	\$ 4,781,104	\$ 2,784,971

CALIFORNIA STATE RAILROAD MUSEUM FOUNDATION

STATEMENTS OF CASH FLOWS

For the Years Ended December 31, 2022 and 2021

	2022	2021 As Restated
CASH FLOWS FROM OPERATING ACTIVITIES		
Change in net assets	\$ (1,585,589)	\$ 1,823,013
Adjustments to reconcile change in net assets to net cash provided (used) by operating activities:		
Depreciation and amortization	192,070	169,781
Gain on remeasurement of lease	(14,574)	
Donated property	(9,500)	
Unrealized and realized gain on investments	1,352,878	(1,228,215)
Net interest and dividends	(98,390)	(78,132)
Changes in operating assets and liabilities:		
Accounts receivable	78,376	(68,376)
Inventories	(82,643)	64,309
Prepaid expenses and other assets	7,285	(4,858)
Accounts payable, deferred revenue, and accrued and other liabilities	164,327	706,992
Accrued vacation payable	17,512	(4,600)
Operating lease liability	(91,795)	261,724
Net cash (used) provided by operating activities	<u>(70,043)</u>	<u>1,641,638</u>
CASH FLOWS FROM INVESTING ACTIVITIES		
Acquisition of property and equipment	(83,401)	(351,212)
Investment interest and dividends received	98,390	78,132
Purchase of investments	(2,046,000)	(1,611,653)
Proceeds from sale of investments	1,718,702	1,349,250
Net cash used by investing activities	<u>(312,309)</u>	<u>(535,483)</u>
(Decrease) increase in cash and cash equivalents	(382,352)	1,106,155
Cash and cash equivalents, beginning of the year	<u>2,148,322</u>	<u>1,042,167</u>
Cash and cash equivalents, end of year	<u>\$ 1,765,970</u>	<u>\$ 2,148,322</u>
SUPPLEMENTAL DISCLOSURES OF NONCASH ACTIVITIES:		
Right-of-use assets obtained in exchange for lease liabilities	\$ 721,459	\$ 327,006
Cash paid for amounts included in the measurement of lease liabilities:		
Operating cash outflows from operating leases	\$ 110,676	\$ 79,430

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

CALIFORNIA STATE RAILROAD MUSEUM FOUNDATION

NOTES TO FINANCIAL STATEMENTS

December 31, 2022 and 2021

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, as 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 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, 2022 and 2021

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, 2022 and 2021. The Foundation is not a private foundation.

The Foundation's federal returns for the years ended December 31, 2021, 2020 and 2019 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, 2021, 2020, 2019 and 2018 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, 2022 and 2021 were \$101,894 and \$140,074, 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, 2022 and 2021

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:

	<u>2022</u>	<u>2021</u>
Track Remediation Project	\$ 410,879	\$ 700,000
The Shops Project	419,739	449,739
SSRR Signal Repair	157,400	149,820
Railtown Interpretive	<u>13,520</u>	<u>13,520</u>
	<u>\$ 1,001,538</u>	<u>\$ 1,313,079</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, 2022 and 2021

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.

CALIFORNIA STATE RAILROAD MUSEUM FOUNDATION

NOTES TO FINANCIAL STATEMENTS (Continued)

December 31, 2022 and 2021

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:

	<u>2022</u>	<u>2021</u>
Cash and cash equivalents	\$ 1,765,970	\$ 2,148,322
Accounts receivable	-	78,376
Investments	<u>7,499,858</u>	<u>8,525,438</u>
Total financial assets	9,265,828	10,752,136
Less amounts not expected to be used within one year:		
Net assets with donor restrictions	3,918,170	4,880,976
Board designations	<u>1,001,538</u>	<u>1,313,079</u>
	<u>4,919,708</u>	<u>6,194,055</u>
Financial assets available to meet general expenditures	<u>\$ 4,346,120</u>	<u>\$ 4,558,081</u>

The Foundation's 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, 2022 and 2021 consisted of the following:

	<u>2022</u>	<u>2021</u>
Money market funds	\$ 1,923,672	\$ 1,870,918
Corporate stocks/Equities	3,580,227	5,488,740
Mutual funds	1,613,657	696,538
Corporate bonds/Fixed income	145,781	235,414
Certificate of deposit	<u>236,521</u>	<u>233,828</u>
	<u>\$ 7,499,858</u>	<u>\$ 8,525,438</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, 2022 and 2021

3 INVESTMENT SECURITIES (Continued)

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

	<u>2022</u>	<u>2021</u>
Net Interest and dividends	\$ 97,539	\$ 78,131
Net unrealized (losses) gains	(1,358,636)	752,576
Net realized gains	5,758	475,640
	<u>\$ (1,255,339)</u>	<u>\$ 1,306,347</u>

As of December 31, 2022 and 2021, the total of investment advisory fees were \$39,841 and \$38,022 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 \$1,358,636 in 2022. Net unrealized gains were \$752,576 in 2021.

5. PROPERTY AND EQUIPMENT

Property and equipment at December 31, 2022 and 2021 consisted of the following:

	<u>2022</u>	<u>2021</u>
Furniture and fixtures	\$ 85,308	\$ 63,405
Equipment	703,621	661,604
Building improvements	406,854	406,854
	<u>1,195,783</u>	<u>1,131,863</u>
Less accumulated depreciation and amortization	<u>(659,703)</u>	<u>(589,284)</u>
Property and equipment, net	<u>\$ 536,080</u>	<u>\$ 542,579</u>

CALIFORNIA STATE RAILROAD MUSEUM FOUNDATION

NOTES TO FINANCIAL STATEMENTS (Continued)

December 31, 2022 and 2021

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>2022</u>	<u>2021</u>
Sefton Toy Train Exhibit Fund — To support the long-term maintenance and preservation of toy train exhibits and related acquisitions.	\$ 1,002,110	\$ 1,568,455
Shrader Fund — To support the acquisition and care of collections. (Endowment)	317,560	543,837
Sefton Catalog Fund — To support the acquisition of unique and historical toy train memorabilia and to publish a catalog.	384,635	478,541
Museum Improvements -- To support improvements to and the redesign of the Museum.	34,024	197,404
Opportunity Acquisition Fund — To support the acquisition and care of collections.	153,990	189,492
Track Remediation Fund - To support the track remediation project at the Circle of Lights.	-	57,168
Restoration Projects Fund - To support the restoration of tracks and equipment.	105,000	-
Other — Miscellaneous contributions and fund restrictions to be used for Foundation programs.	<u>99,017</u>	<u>48,924</u>
Total	<u>\$ 2,096,336</u>	<u>\$ 3,083,821</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>2022</u>	<u>2021</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>508,169</u>	<u>483,490</u>
Totals	<u>\$ 1,821,834</u>	<u>\$ 1,797,155</u>

CALIFORNIA STATE RAILROAD MUSEUM FOUNDATION

NOTES TO FINANCIAL STATEMENTS (Continued)

December 31, 2022 and 2021

6. NET ASSETS WITH DONOR RESTRICTIONS (Continued)

Changes in endowment net assets consisted of the following:

	<u>With Donor Purpose Restrictions</u>	<u>With Donor Perpetual Restrictions</u>	<u>Total</u>
Endowment net assets, January 1, 2021	\$ 1,309,251	\$ 1,783,540	\$ 3,092,791
Investment return:			
Investment income, net	33,112	13,615	46,727
Net appreciation (realized and unrealized)	<u>769,938</u>		<u>769,938</u>
Total investment return	803,050	13,615	816,665
Expenditures	<u>(10)</u>		<u>(10)</u>
Endowment net assets, December 31, 2021	2,112,291	1,797,155	3,909,446
Investment return:			
Investment income, net	31,895	24,679	56,574
Net depreciation (realized and unrealized)	<u>(823,744)</u>		<u>(823,744)</u>
Total investment (loss) return	(791,849)	24,679	(767,170)
Expenditures	<u>(772)</u>		<u>(772)</u>
Endowment net assets, December 31, 2022	<u>\$ 1,319,670</u>	<u>\$ 1,821,834</u>	<u>\$ 3,141,504</u>

Endowment net assets with donor perpetual restrictions 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. Although the endowment assets with perpetual restriction were underwater as of December 31, 2022, these unrealized losses were applied to endowment net assets with purpose restriction. These deficiencies resulted from unfavorable market fluctuations and had no effect on appropriation for certain programs that was deemed prudent by the Board of Directors.

7. CONCENTRATIONS

At December 31, 2022 and 2021 the carrying amounts of the Foundation's deposits were \$1,994,698 and \$2,374,990 and the balances in financial institutions were \$1,994,698 and \$2,379,996 respectively. The balances maintained in financial institutions are insured by the Federal Deposit Insurance Corporation up to \$250,000. At December 31, 2022 and 2021 the Foundation's uninsured cash balances totaled \$1,387,141 and \$1,596,194, respectively.

CALIFORNIA STATE RAILROAD MUSEUM FOUNDATION

NOTES TO FINANCIAL STATEMENTS (Continued)

December 31, 2022 and 2021

8. LEASES

The Foundation evaluated current contracts to determine which met the criteria of a lease. The right-of-use (ROU) assets represent the Foundation's right to use underlying assets for the lease term, and the lease liability represent the Foundation's obligation to make lease payments arising from leases. The ROU asset and lease liability, both of which arise from an operating lease, was calculated based on the present value of future lease payments over the lease term and discounted using the Foundation's estimated incremental borrowing rate. The weighted-average discount rate applied to calculate the lease liability as of December 31, 2022 and 2021, was 8.00% and 5.00% respectively. As of December 31, 2022 and 2021, the weighted-average remaining lease term for the Foundation's operating lease was approximately 4.75 years and 5.75 years, respectively.

The Foundation leases office space under an operating lease that has been renewed through May 2027. Monthly rent is adjusted annually at approximately 6%. The right-of-use asset is recorded net of accumulated amortization of \$36,073 and \$75,463 at December 31, 2022 and 2021, respectively.

Future minimum lease payments are as follows:

Fiscal Year Ending December 31:	
2023	\$ 144,414
2024	167,964
2025	178,629
2026	189,293
2027	147,969
Total lease payments	<u>828,268</u>
Less interest	<u>(146,400)</u>
Present value of lease liability	<u>\$ 681,868</u>

Right-of-use asset and lease liability, and the associated balance sheet classifications, are as follows for the years ended December 31:

<u>Asset Classification</u>	<u>2022</u>	<u>2021</u>
Operating lease right of use asset	\$ 685,386	\$ 251,543
Operating lease liability	\$ 681,868	\$ 261,724

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 401(k) retirement plan. Contributions are fully vested when made and totaled \$81,102 and \$60,967 for the years ended December 31, 2022 and 2021, respectively.

CALIFORNIA STATE RAILROAD MUSEUM FOUNDATION

NOTES TO FINANCIAL STATEMENTS (Continued)

December 31, 2022 and 2021

10. 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 the rental of these donated facilities, which is reflected as contribution revenue and as rent expense allocated to Retail Operations and Railtown Depot. The Foundation used the price per square foot it is currently paying on its office space to value the contributed retail space. For the years ending December 31, 2022 and 2021, the in-kind contribution recorded for use of property amounted to \$67,860 and \$47,839, respectively.

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 2022 and 2021. Presently, several members of the Foundation Board of Directors or Advisory Board also serve as the Directors of Boiler Shop, LLC.

12. RESTATEMENT DUE TO ADOPTION OF ASU NO. 2016-02 LEASES (TOPIC 842)

During the year ended December 31, 2022, the Foundation adopted ASU No. 2016-02 Leases (Topic 842) and subsequent amendments thereto, which required the Foundation to recognize most leases on the Statements of Financial Position. Adoption of the Update resulted in the recognition of a right-of-use asset and operating lease liabilities of \$327,222 as of January 1, 2021. These amounts were determined based on the present value of remaining lease payments, discounted using the Foundation's incremental borrowing rate of 5.0% as of January 1, 2021.

Net lease expense for the year ended December 31, 2021 increased and net assets decreased by \$10,241 as of December 31, 2021 due to the implementation of this ASU. Additional information about the Foundation's leasing activities is disclosed in Note 8.



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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, 2022, and the related statements of activities, functional expenses, and cash flows for the year then ended, and the related notes to the financial statements, and have issued our report thereon dated May 30, 2023.

Report on 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) as a basis for designing 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.

Report on 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 financial statements. However, providing an opinion on compliance with those 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 30, 2023