

**CALIFORNIA STATE RAILROAD
MUSEUM FOUNDATION**

Audited Financial Statements

December 31, 2014

CALIFORNIA STATE RAILROAD MUSEUM FOUNDATION

AUDITED FINANCIAL STATEMENTS

December 31, 2014 and 2013

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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, 2014 and 2013 and the related statements of activities and cash flows for the years then ended, and the related notes to the financial statements.

Management's Responsibility for the Financial Statements

Management is responsible for the preparation and fair presentation of these financial statements in accordance with accounting principles generally accepted in the United States of America; this includes the design, implementation, and maintenance of internal control relevant to the preparation and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error.

Auditor's Responsibility

Our responsibility is to express an opinion on these financial statements based on our audits. We conducted our audits in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Opinion

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of the Foundation as of December 31, 2014 and 2013, and the changes in its net assets and its cash flows for the years then ended in accordance with accounting principles generally accepted in the United States of America.

Other Matter

Our audit was conducted for the purpose of forming an opinion on the financial statements as a whole. The schedule of functional expenses on page 16 and 17 is presented for purposes of additional analysis and is not a required part of the financial statements. Such information is the responsibility of management and was derived from and relates directly to the underlying accounting and other records used to prepare the financial statements. The information has been subjected to the auditing procedures applied in the audit of the financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the financial statements or to the financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the information is fairly stated in all material respects in relation to the financial statements as a whole.

Other Reporting Required by *Government Auditing Standards*

In accordance with *Government Auditing Standards*, we have also issued our report dated May 27, 2015, on our consideration of the Foundation's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the Foundation's internal control over financial reporting and compliance.

Richardson & Company, LLP

May 27, 2015

CALIFORNIA STATE RAILROAD MUSEUM FOUNDATION

STATEMENTS OF FINANCIAL POSITION

December 31, 2014 and 2013

	<u>2014</u>	<u>2013</u>
ASSETS		
CURRENT ASSETS		
Cash and cash equivalents	\$ 1,691,435	\$ 1,073,917
Accounts receivable	14,705	5,136
Inventories	190,509	205,424
Deposits	19,697	27,627
Prepaid expenses and other assets	23,416	27,624
TOTAL CURRENT ASSETS	<u>1,939,762</u>	<u>1,339,728</u>
NONCURRENT ASSETS		
Investments	3,133,870	2,815,285
Property and equipment, net	276,381	252,326
TOTAL NONCURRENT ASSETS	<u>3,410,251</u>	<u>3,067,611</u>
TOTAL ASSETS	<u>\$ 5,350,013</u>	<u>\$ 4,407,339</u>
LIABILITIES AND NET ASSETS		
LIABILITIES		
Accounts payable and accrued liabilities	\$ 537,708	\$ 363,719
Accrued vacation payable	44,017	30,238
Retirement plan payable	50,525	35,303
Sales tax payable	21,308	10,902
Deferred revenue and other liabilities	16,239	13,389
TOTAL LIABILITIES	<u>669,797</u>	<u>453,551</u>
NET ASSETS		
Unrestricted		
Undesignated	2,057,423	1,369,083
Designated	159,736	156,122
	<u>2,217,159</u>	<u>1,525,205</u>
Temporarily restricted	741,251	708,331
Permanently restricted	1,721,806	1,720,252
TOTAL NET ASSETS	<u>4,680,216</u>	<u>3,953,788</u>
TOTAL LIABILITIES AND NET ASSETS	<u>\$ 5,350,013</u>	<u>\$ 4,407,339</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, 2014

		Restricted		
	Unrestricted	Temporarily	Permanently	Total
Revenues, gains and other support				
Museum store sales	\$ 921,105			\$ 921,105
Membership	813,292			813,292
Polar Express event	1,293,985			1,293,985
Contributions	365,803	\$ 5,300		371,103
Sacramento Southern Railroad operations	350,273			350,273
Railtown 1897 Railroad operations	126,212			126,212
Railtown Depot store sales	183,916			183,916
Railtown 1897 Polar Express event	296,574			296,574
Facility rentals	5,400			5,400
Interpretive program support/exhibits	27,440			27,440
Huntington Hopkins Hardware store sales	26,506			26,506
Library reproductions	7,694	700		8,394
Opportunity acquisitions		4,585		4,585
Other income	8,466			8,466
Interest and dividends	5,341	26,913	\$ 1,554	33,808
Net realized and unrealized gains on investments	49,436	113,700		163,136
Net assets released from restriction	118,278	(118,278)		-
Total revenues, gains and support	4,599,721	32,920	1,554	4,634,195
Expenses				
Program services:				
Retail operations	866,675			866,675
Polar Express event	840,389			840,389
Sacramento Southern Railroad operations	368,444			368,444
Restoration projects	82,859			82,859
Railtown Depot Store	232,278			232,278
Railtown 1897 Railroad operations	144,472			144,472
Railtown 1897 Polar Express event	238,405			238,405
Railroad Technology Museum	17,611			17,611
Museum administration	30,542			30,542
Educational and interpretive programs	137,748			137,748
Facility rental	7,210			7,210
Library operations and acquisitions	15,804			15,804
Exhibits and events	23,887			23,887
Sefton Toy Train Exhibit	45,391			45,391
Supporting services:				
Management and general	253,465			253,465
Membership and development	529,477			529,477
Marketing and promotions	73,110			73,110
Total expenses	3,907,767	-	-	3,907,767
Change in net assets	691,954	32,920	1,554	726,428
Net assets at the beginning of the year	1,525,205	708,331	1,720,252	3,953,788
Net assets at end of year	<u>\$ 2,217,159</u>	<u>\$ 741,251</u>	<u>\$ 1,721,806</u>	<u>\$ 4,680,216</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, 2013

	Restricted			Total
	Unrestricted	Temporarily	Permanently	
Revenues, gains and other support				
Museum store sales	\$ 923,275			\$ 923,275
Membership	770,660			770,660
Polar Express event	1,019,986			1,019,986
Contributions	190,177	\$ 87,359		277,536
Sacramento Southern Railroad operations	354,601			354,601
Railtown 1897 Railroad operations	169,283			169,283
Railtown Depot store sales	150,346			150,346
Facility rentals	13,319			13,319
Interpretive program support/exhibits	6,119			6,119
Huntington Hopkins Hardware store sales	27,855			27,855
Library reproductions	11,432			11,432
Railtown Donor Agreement	150,601			150,601
Opportunity acquisitions		4,217		4,217
Other income	15,157			15,157
Interest and dividends	8,026	9,674	\$ 27,215	44,915
Net realized and unrealized gains on investments	43,178	51,478	137,675	232,331
Net assets released from restriction	43,128	(43,128)		-
Total revenues, gains and support	3,897,143	109,600	164,890	4,171,633
Expenses				
Program services:				
Retail operations	861,930			861,930
Polar Express event	641,898			641,898
Sacramento Southern Railroad operations	392,201			392,201
Restoration projects	234,141			234,141
Railtown Depot Store	202,603			202,603
Railtown 1897 Railroad operations	155,227			155,227
Railroad Technology Museum	175,437			175,437
Museum administration	26,876			26,876
Educational and interpretive programs	86,819			86,819
Facility rental	38,185			38,185
Library operations and acquisitions	34,235			34,235
Exhibits and events	42,952			42,952
Sefton Toy Train Exhibit	18,812			18,812
Supporting services:				
Management and general	184,599			184,599
Membership and development	430,167			430,167
Marketing and promotions	59,088			59,088
Total expenses	3,585,170	-	-	3,585,170
Change in net assets	311,973	109,600	164,890	586,463
Net assets at the beginning of the year	1,213,232	598,731	1,555,362	3,367,325
Net assets at end of year	\$ 1,525,205	\$ 708,331	\$ 1,720,252	\$ 3,953,788

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

CALIFORNIA STATE RAILROAD MUSEUM FOUNDATION

STATEMENTS OF CASH FLOWS

For the Years Ended December 31, 2014 and 2013

	<u>2014</u>	<u>2013</u>
CASH FLOWS FROM OPERATING ACTIVITIES		
Change in net assets	\$ 726,428	\$ 586,463
Adjustments to reconcile change in net assets to net cash provided by operating activities:		
Depreciation	30,497	31,061
Unrealized and realized gain on investments	(163,136)	(232,331)
Changes in operating assets and liabilities:		
Accounts receivable	(9,569)	28,021
Inventories	14,915	15,806
Deposits	7,930	3,543
Prepaid expenses and other assets	4,208	(1,391)
Accounts payable, deferred revenue, and accrued and other liabilities	176,839	(52,527)
Accrued vacation payable	13,779	(4,831)
Retirement plan payable	15,222	1,339
Sales tax payable	10,406	1,312
Net cash provided by operating activities	<u>827,519</u>	<u>376,465</u>
 CASH FLOWS FROM INVESTING ACTIVITIES		
Acquisition of property and equipment	(54,552)	(11,853)
Purchase of investments	(1,194,001)	(661,277)
Proceeds from sale of investments	1,038,552	616,362
Net cash used by investing activities	<u>(210,001)</u>	<u>(56,768)</u>
 Increase in cash and cash equivalents	617,518	319,697
 Cash and cash equivalents, beginning of the year	<u>1,073,917</u>	<u>754,220</u>
 Cash and cash equivalents, end of year	<u>\$ 1,691,435</u>	<u>\$ 1,073,917</u>
 SUPPLEMENTAL DISCLOSURE OF CASH FLOW INFORMATION		
Interest paid	<u>\$ 417</u>	<u>\$ 231</u>

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

CALIFORNIA STATE RAILROAD MUSEUM FOUNDATION

NOTES TO FINANCIAL STATEMENTS

December 31, 2014 and 2013

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Organization and Operation

California State Railroad Museum Foundation (the Foundation) is a not-for-profit organization incorporated under the laws of the State of California whose purpose is to promote and further the educational and interpretive activities of the California State Railroad Museum. In addition, the Foundation supports the preservation of railroad historical artifacts through its various acquisition and maintenance programs. The Foundation is a cooperating association of the California State Railroad Museum and therefore solicits contributions and grants and incurs expenditures for and on behalf of the Museum. Included in these financial statements are the activities of the Boiler Shop, LLC, which is described in Note 11.

Method of Accounting

The financial statements of the Foundation are presented on the accrual basis of accounting and maintained in accordance with accounting principles generally accepted in the United States of America (GAAP). This is the procedure by which resources are classified for accounting and reporting purposes into funds established according to their nature and objectives.

Contributions received are recorded as unrestricted, temporarily restricted, or permanently restricted support, depending on the existence and/or nature of any donor restrictions. Support that is restricted by the donor is reported as an increase in unrestricted net assets if the restriction expires in the reporting period in which the support is recognized. All other donor-restricted donations are reported as an increase in temporarily or permanently restricted net assets, depending on the nature of the restriction. When a restriction expires, temporarily restricted net assets are reclassified to unrestricted net assets and reported in the Statement of Activities as net assets released from restrictions. Investment income related to temporarily or permanently restricted net assets is classified as either temporarily restricted or unrestricted based on the intent of the donor, or is added to permanently restricted net assets if required by the donor.

Cash and Cash Equivalents

Cash and cash equivalents include demand deposits, money market accounts and short-term investments with original maturities of three months or less.

Donated and Purchased Collection Items

Any collection items, which were acquired through purchases or contributions since the Foundation's inception, are not recognized as assets on the statement of financial position as all collections are passed through to the State. The purchase of collection items by the Foundation are recorded as decreases in unrestricted net assets in the year in which the items are acquired, or recorded as decreases in temporarily or permanently restricted net assets if the funds used to purchase the items are restricted by donors. Any collection items contributed to the Foundation are likewise not reflected on the Foundation's financial statements as they pass directly to the State.

CALIFORNIA STATE RAILROAD MUSEUM FOUNDATION

NOTES TO FINANCIAL STATEMENTS (continued)

December 31, 2014 and 2013

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 \$500. 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, 2014 and 2013. The Foundation is not a private foundation.

Advertising

The Foundation expenses advertising costs when incurred. Total advertising costs charged to various activities during the year ended December 31, 2014 and 2013 were \$78,200 and \$64,368, respectively, and are included in marketing and advertising on the schedule of functional expenses.

Net Assets

The Foundation classified its net assets as unrestricted, temporarily restricted and permanently restricted.

Unrestricted, undesignated — Includes unrestricted contributions, income earned on unrestricted net assets and amounts for which temporary restrictions have expired.

CALIFORNIA STATE RAILROAD MUSEUM FOUNDATION

NOTES TO FINANCIAL STATEMENTS (continued)

December 31, 2014 and 2013

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Net Assets (continued)

Unrestricted, designated — Unrestricted net assets may be designated for use by the Board of Directors. Such designations limit the area of the Foundation's operations for which expenditures of unrestricted net assets may be made. Designated net assets as of December 31 consist of the following:

	2014	2013
SSRR Signal Repair	\$ 120,456	\$ 117,335
Railtown Interpretive	21,425	21,425
Museum Improvements	13,428	9,935
Keep CA beautiful	4,427	4,427
Railroad Technology Museum	-	3,000
	<u>\$ 159,736</u>	<u>\$ 156,122</u>

Temporarily restricted — Net assets subject to externally imposed stipulations that can be fulfilled by the actions of the Foundation pursuant to those stipulations or the passage of time.

Permanently restricted — Net assets subject to externally imposed restrictions to be held in perpetuity that neither can be fulfilled by the actions of the Foundation, nor expire with the passage of time.

Endowment Funds

The Foundation accounts for endowment gifts under the Uniform Prudent Management of Institutional Funds Act of 2006 (UPMIFA). UPMIFA allows an institution to spend or accumulate as the board determines is prudent for the uses, benefits, purposes and duration of the endowment fund unless the gift instrument states a particular spending rate or formula. UPMIFA considers spending 7% or less of the average fair market value (calculated at least quarterly over a minimal period of three years) to be prudent.

The Foundation's endowment consists of two donor-restricted endowment funds established for the purposes of expanding and preserving specific museum collections. Net assets associated with endowment funds are classified and reported based on the existence or absence of donor-imposed restrictions.

The Foundation classifies as permanently restricted net assets the original value of gifts donated to the permanent endowment and accumulations required by the donor to remain in the endowment, net of distributions made according to the spending policy of the Foundation, not to exceed 7% of the value of the endowment. The remaining portion of the donor-restricted endowment fund that is not classified in permanently restricted net assets is classified as temporarily restricted net assets until those amounts are expended for purposes outlined by the donor or are appropriated for expenditure by the Foundation in a manner consistent with the standard prudence prescribed by UPMIFA.

CALIFORNIA STATE RAILROAD MUSEUM FOUNDATION

NOTES TO FINANCIAL STATEMENTS (continued)

December 31, 2014 and 2013

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Endowment Funds (continued)

The Foundation follows the adopted investment and spending policies for endowment assets that attempt to provide a predictable stream of funding to programs supported by its endowment while seeking to maintain purchasing power of the endowment assets. The Foundation's policy for the Sefton endowment provides for annual expenditures allocated to the extent that the fund had investment earnings during the year, up to the sum of the investment earnings and 7% of the endowment balance. During years that the endowment incurs losses, expenditures are not permitted and expenditures in following years are permitted only after amounts available exceed the cumulative balance of losses, as long as the balance does not drop below the annual 7% reduction in the endowment balance permitted by UPMIFA. The Shrader endowment agreement requires investment returns equal to the three-year average of the CPI index plus 1% be retained in the endowment. The Board has not adopted a spending plan for the Shrader endowment.

The investment objective is growth and income with a goal of long-term growth, while maintaining the preservation of principal. The Foundation targets a diversified investment allocation that places emphasis on prudent risk constraints that would otherwise be created through concentrations to any one investment, fund manager or industry sector.

Functional Allocation of Expenses

The Foundation allocates its expenses on a functional basis among its various program and supporting services and reports these allocations on the schedule of functional expenses. Expenses that can be identified with a specific program are allocated directly to their natural expenditure classification. Other expenses and supporting services that are common to several functions are allocated based on the proportional share of direct expenses.

Use of Estimates

The preparation of financial statements in conformity with accounting principles generally accepted in the United States of America requires management to make estimates and assumptions. These estimates and assumptions affect the reported amounts of assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from these estimates. Estimates are used in the following: the valuation of inventory, the depreciable lives and methods used for property and equipment, the value of donated rent and the allocation of costs to programs.

CALIFORNIA STATE RAILROAD MUSEUM FOUNDATION

NOTES TO FINANCIAL STATEMENTS (continued)

December 31, 2014 and 2013

2. INVESTMENT SECURITIES

Investments at December 31, 2014 and 2013 consisted of the following:

	2014	2013
Money market funds	\$ 121,695	\$ 120,829
Corporate stocks	1,395,922	722,179
Mutual funds	763,522	1,555,629
Corporate bonds	672,910	271,753
Real asset funds	58,187	144,895
Certificates of deposit	121,634	-
	<u>\$ 3,133,870</u>	<u>\$ 2,815,285</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 55-60% for equities, 35-40% for fixed income, and 5-7.5% for complementary assets such as real estate related or private equity investments.

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

	2014	2013
Net, Interest and dividends	\$ 33,808	\$ 44,915
Net unrealized gains	71,638	208,951
Net realized gains	91,498	23,380
	<u>\$ 196,944</u>	<u>\$ 277,246</u>

As of December 31, 2014 and 2013, the total of investment advisory fees were \$32,717 and \$30,169, respectively, and are included in the net, interest and dividends amount.

3. FAIR VALUE MEASUREMENTS

The Foundation groups its assets and liabilities measured at fair value in three levels, based on the markets in which the assets and liabilities are traded and the reliability of the assumptions used to determine fair value: using quoted market prices for identical instruments traded in active exchange markets (Level 1), using significant other observable inputs (Level 2) and using significant unobservable inputs (Level 3). The Foundation's investment securities described in Note 2 are measured at fair value on a recurring basis. These investments are classified within Level 1 of the fair value hierarchy because they are valued using quoted market prices for identical assets. Net unrealized gains were \$71,638 in 2014 and \$208,951 in 2013.

CALIFORNIA STATE RAILROAD MUSEUM FOUNDATION

NOTES TO FINANCIAL STATEMENTS (continued)

December 31, 2014 and 2013

4. PROPERTY AND EQUIPMENT

Property and equipment at December 31, 2014 and 2013 consisted of the following:

	<u>2014</u>	<u>2013</u>
Furniture and fixtures	\$ 192,294	\$ 192,294
Equipment	669,103	614,551
Building improvements	429,421	429,421
	<u>1,290,818</u>	<u>1,236,266</u>
Less accumulated depreciation and amortization	<u>(1,014,437)</u>	<u>(983,940)</u>
Property and equipment, net	<u>\$ 276,381</u>	<u>\$ 252,326</u>

5. RESTRICTED NET ASSETS

Temporarily Restricted Net Assets

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

	<u>2014</u>	<u>2013</u>
Sefton Catalog Fund — To support the acquisition of unique and historical toy train memorabilia and to publish a catalog.	\$ 228,291	\$ 213,568
Sefton Toy Train Exhibit Fund — To support the long-term maintenance and preservation of toy train exhibits and related acquisitions.	232,612	236,646
Opportunity Acquisition Fund — To support the acquisition and care of collections.	96,919	87,413
Shrader Fund — To support the acquisition and care of collections.	90,369	11,255
Other — Miscellaneous contributions and fund restrictions to be used for Foundation programs.	<u>93,060</u>	<u>159,449</u>
Total	<u>\$ 741,251</u>	<u>\$ 708,331</u>

CALIFORNIA STATE RAILROAD MUSEUM FOUNDATION

NOTES TO FINANCIAL STATEMENTS (continued)

December 31, 2014 and 2013

5. RESTRICTED NET ASSETS (Continued)

Permanently Restricted Net Assets

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

	<u>2014</u>	<u>2013</u>
Sefton Endowment — To support the long-term maintenance and preservation of toy train exhibits and related acquisitions.	\$ 1,313,665	\$ 1,262,100
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>408,141</u>	<u>458,152</u>
Totals	<u><u>\$ 1,721,806</u></u>	<u><u>\$ 1,720,252</u></u>

Changes in endowment net assets consisted of the following:

	Sefton Toy Train and Shrader		
	Temporarily Restricted	Permanently Restricted	Total
	<u> </u>	<u> </u>	<u> </u>
Endowment net assets, January 1, 2013	\$ 235,619	\$ 1,555,362	\$ 1,790,981
Investment return:			
Net, Investment income	5,014	27,215	32,229
Net appreciation (realized and unrealized)	25,364	137,675	163,039
Total investment return	<u>30,378</u>	<u>164,890</u>	<u>195,268</u>
Expenditures	<u>(18,096)</u>		<u>(18,096)</u>
Endowment net assets, December 31, 2013	247,901	1,720,252	1,968,153
Investment return:			
Net, Investment income	23,506	1,554	25,060
Net appreciation (realized and unrealized)	96,965		96,965
Total investment return	<u>120,471</u>	<u>1,554</u>	<u>122,025</u>
Expenditures	<u>(45,391)</u>		<u>(45,391)</u>
Endowment net assets, December 31, 2014	<u><u>\$ 322,981</u></u>	<u><u>\$ 1,721,806</u></u>	<u><u>\$ 2,044,787</u></u>

CALIFORNIA STATE RAILROAD MUSEUM FOUNDATION

NOTES TO FINANCIAL STATEMENTS (continued)

December 31, 2014 and 2013

5. RESTRICTED NET ASSETS (Continued)

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

6. CONCENTRATIONS

At December 31, 2014 and 2013 the carrying amounts of the Foundation's deposits were \$1,683,550 and \$1,066,322 and the balances in a financial institution were \$1,840,158 and \$1,098,696 respectively. The balance maintained in the financial institution is insured by the Federal Deposit Insurance Corporation up to \$250,000. At December 31, 2014 and 2013 the Foundation's uninsured cash balances totaled \$1,590,158 and \$848,696, respectively.

7. LINE OF CREDIT

In 2014 the Foundation merged two previous lines of credit, which expired in October 2014 into one new \$550,000 revolving line of credit with a financial institution that matures on October 10, 2015. Interest is payable monthly at the institution's prime rate plus 1.5% per annum with a floor of 5.00% per annum. The line of credit is secured by the Foundation's investments held by the same financial institution which are detailed in Note 2. No line of credit balances were outstanding as of December 31, 2014 and 2013.

8. RETIREMENT BENEFITS

The Foundation provides retirement benefits to employees meeting specified service requirements. At the discretion of the Executive Board, the benefits typically equal between five and seven percent of the employee's base pay and are deposited annually to a retirement plan administered by an institution selected by the Foundation. In 2014 the deposit was made to a 401(k) retirement plan which replaces the previous Simplified Employee Pension/Individual Retirement Account plan. Contributions are fully vested when made, and totaled \$50,525 and \$35,303 for the years ended December 31, 2014 and 2013, respectively.

9. SUBSEQUENT EVENTS

The Foundation has evaluated the effects of subsequent events that have occurred subsequent to December 31, 2014 and through May 27, 2015, 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.

CALIFORNIA STATE RAILROAD MUSEUM FOUNDATION

NOTES TO FINANCIAL STATEMENTS (continued)

December 31, 2014 and 2013

10. DONATED FACILITIES AND EQUIPMENT

The Foundation occupies a small amount of office and retail space within the California Department of Parks and Recreation buildings. The Foundation has quantified and recorded the value of these donated facilities, which is reflected as contribution revenue and as rent expense allocated to retail operations, Railtown Depot, and management and general. For the years ending December 31, 2014 and 2013, the in-kind contribution recorded for use of property amounted to \$77,278 and \$77,278 respectively. There was an additional in-kind contribution recorded for 2014 in exchange for a fuel purchase in the amount of \$13,360. This amount is included in the schedule of functional expenses as fuel in the Railtown 1897 Railroad Operations program. There was no equipment donated as of December 31, 2014 or 2013.

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 2014 and 2013. Presently, several members of the Foundation Board of Directors also serve as the Directors of Boiler Shop, LLC.

CALIFORNIA STATE RAILROAD MUSEUM FOUNDATION

SCHEDULE OF FUNCTIONAL EXPENSES

**For the Year Ended December 31, 2014
(With Comparative Totals for 2013)**

	Program Services										
	Retail Operations	Polar Express Event	Sacramento Southern Railroad Operations	Sacramento Restoration Project	Railtown Restoration Project	Railtown Depot Store	Railtown 1897 Railroad Operations	Railtown 1897 Polar Express	Railroad Technology Museum	Museum Administration	Educational and Interpretive Programs
Compensation and related expenses:											
Salaries	\$ 198,577	\$ 62,256	\$ 120,025	\$ 28,800	\$ 2,261	\$ 67,553	\$ 15,793	\$ 32,854	\$ 10,382	\$ 4,973	\$ 5,789
Employee benefits	45,413	3,863	12,343	8,213	84	26,289	1,236	2,348	945	457	452
Payroll taxes	14,817	4,756	9,172	2,203	173	4,808	1,205	2,507	790	379	442
Total compensation and related expenses	<u>258,807</u>	<u>70,875</u>	<u>141,540</u>	<u>39,216</u>	<u>2,518</u>	<u>98,650</u>	<u>18,234</u>	<u>37,709</u>	<u>12,117</u>	<u>5,809</u>	<u>6,683</u>
Other expenses:											
Cost of goods sold	478,461	27,889				89,723					
Events and programs		547,056	12,868			380	78	132,300		1,639	27,728
Supplies and office expense	62,732	133,132	23,381			15,481	18,969	35,899	877	3,462	1,449
Outside services	300	47,539	215					18,700	440	6,736	
Fuel			33,463				25,022				
Repairs and maintenance	2,122	93	12,993	30,812	10,313	375	40,428			1,285	187
Depreciation	5,723	1,341	2,682			1,073	3,052			805	268
Accounting	4,606	1,645	3,290			1,316	1,645			987	658
Contributions			25,000						2,329	670	62,450
Marketing and advertising	4,868	550	6,033			6,724	7,909	8,455		2,349	986
Legal								982	662		346
Volunteer enhancement							17,479				36,232
Printing		6,985	6,982				239	90		3,083	
Postage	1,003	1,717	124			56	373			112	187
Travel	30	451	327			3,891		2,875		1,733	
On Track newsletter											
Railroad operational expenses			70,645				1,253				
Mechanical			8,606								
Insurance	3,348	1,116	2,790			1,116	1,395	1,395	1,186	837	558
Maintenance of way			17,262				8,089				
Interest expense			243								
Exhibit design											
Point of sale	336										
Rent expense	44,159					13,493					
Premiums											
Collection purchases											
Training							307			1,035	16
Product development	180										
Total expenses	<u>\$ 866,675</u>	<u>\$ 840,389</u>	<u>\$ 368,444</u>	<u>\$ 70,028</u>	<u>\$ 12,831</u>	<u>\$ 232,278</u>	<u>\$ 144,472</u>	<u>\$ 238,405</u>	<u>\$ 17,611</u>	<u>\$ 30,542</u>	<u>\$ 137,748</u>

CALIFORNIA STATE RAILROAD MUSEUM FOUNDATION

SCHEDULE OF FUNCTIONAL EXPENSES

**For the Year Ended December 31, 2014
(With Comparative Totals for 2013)**

	Program Services				Supporting Services						
	Facility Rental	Library Operations and Acquisitions	Exhibits and Events	Sefton Toy Train Exhibit	Total All Programs	Management and General	Membership and Development	Marketing and Promotions	Total All Supporting	Total All Expenses	2013 Total All Expenses
Compensation and related expenses:											
Salaries	\$ 4,964	\$ 1,730	\$ 3,747		\$ 559,704	\$ 56,501	\$ 224,702	\$ 28,026	\$ 309,229	\$ 868,933	\$ 765,181
Employee benefits	315	158	346		102,462	27,328	35,839	2,650	65,817	168,279	109,566
Payroll taxes	379	132	286		42,049	2,399	16,774	2,088	21,261	63,310	57,862
Total compensation and related expenses	5,658	2,020	4,379	-	704,215	86,228	277,315	32,764	396,307	1,100,522	932,609
Other expenses:											
Cost of goods sold		102			596,175					596,175	581,511
Events and programs					722,049		51,619		51,619	773,668	520,406
Supplies and office expense	582	6,173	1,739		303,876	10,467	55,494	4,803	70,764	374,640	274,341
Outside services		499			74,429	42,406	1,134		43,540	117,969	150,272
Fuel					58,485				-	58,485	78,546
Repairs and maintenance	94	94	94	\$ 3,125	102,015	4,404	11,880		16,284	118,299	59,243
Depreciation	268		268		15,480	8,850	3,754	2,413	15,017	30,497	31,061
Accounting	329	329	329		15,134	12,503	4,935	329	17,767	32,901	30,679
Contributions					90,449	1,620			1,620	92,069	251,184
Marketing and advertising			2,116		39,990	4,525	3,395	30,290	38,210	78,200	64,368
Legal					1,990	49,233			49,233	51,223	72,878
Volunteer enhancement					53,711				-	53,711	57,815
Printing					17,379		32,594		32,594	49,973	54,709
Postage		71	34		3,677	1,386	30,973		32,359	36,036	25,768
Travel					9,307	2,980	1,784		4,764	14,071	13,888
On Track newsletter					-		39,267		39,267	39,267	38,173
Railroad operational expenses					71,898				-	71,898	56,906
Mechanical					8,606				-	8,606	36,885
Insurance	279	279	279		14,578	8,090	3,906	2,511	14,507	29,085	17,222
Maintenance of way					25,351				-	25,351	80,780
Interest expense					243	174			174	417	73
Exhibit design			14,649	42,266	56,915				-	56,915	43,053
Point of sale					336				-	336	8,290
Rent expense					57,652	19,626			19,626	77,278	77,278
Premiums					-		10,654		10,654	10,654	13,447
Collection purchases		6,038			6,038				-	6,038	2,527
Training		199			1,557	973	773		1,746	3,303	6,657
Product development					180				-	180	4,601
Total expenses	\$ 7,210	\$ 15,804	\$ 23,887	\$ 45,391	\$ 3,051,715	\$ 253,465	\$ 529,477	\$ 73,110	\$ 856,052	\$ 3,907,767	\$ 3,585,170

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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, 2014, and the related statements of activities, and cash flows for the year then ended, and the related notes to the financial statements, and have issued our report thereon dated May 27, 2015.

Internal Control Over Financial Reporting

In planning and performing our audit of the financial statements, we considered the Foundation's internal control over financial reporting (internal control) to determine the audit procedures that are appropriate in the circumstances for the purpose of expressing our opinion on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the Foundation's internal control. Accordingly, we do not express an opinion on the effectiveness of the Foundation's internal control.

A *deficiency in internal control* exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct, misstatements on a timely basis. A *material weakness* is a deficiency, or a combination of deficiencies, in internal control such that there is a reasonable possibility that a material misstatement of the Foundation's financial statements will not be prevented, or detected and corrected on a timely basis. A *significant deficiency* is a deficiency, or a combination of deficiencies, in internal control that is less severe than a material weakness, yet important enough to merit attention by those charged with governance.

Our consideration of internal control was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control that might be material weaknesses or significant deficiencies. Given these limitations, during our audit we did not identify any deficiencies in internal control that we consider to be material weaknesses. However, material weaknesses may exist that have not been identified.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether the Foundation's financial statements are free from material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with these provisions was not an objective of our audit and, accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards*.

Purpose of this Report

The purpose of this report is solely to describe the scope of our testing of internal control and compliance and the result of that testing, and not to provide an opinion on the effectiveness of the Foundation's internal control or on compliance. This report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the Foundation's internal control and compliance. Accordingly, this communication is not suitable for any other purpose.

Richardson & Company, LLP

May 27, 2015