

**CALIFORNIA STATE RAILROAD
MUSEUM FOUNDATION**

Audited Financial Statements

December 31, 2020



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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, 2020 and 2019 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.

Board of Directors
California State Railroad Museum Foundation

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, 2020 and 2019, and the changes in its net assets and its cash flows for the years then ended in accordance with accounting principles generally accepted in the United States of America.

Other Reporting Required by *Government Auditing Standards*

In accordance with *Government Auditing Standards*, we have also issued our report dated May 26, 2021, 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 26, 2021

CALIFORNIA STATE RAILROAD MUSEUM FOUNDATION

STATEMENTS OF FINANCIAL POSITION

December 31, 2020 and 2019

	<u>2020</u>	<u>2019</u>
ASSETS		
CURRENT ASSETS		
Cash and cash equivalents	\$ 1,042,167	\$ 1,761,825
Accounts receivable	10,000	3,527
Inventories	205,861	191,472
Deposits	5,648	33,389
Prepaid expenses and other assets	27,828	55,727
TOTAL CURRENT ASSETS	<u>1,291,504</u>	<u>2,045,940</u>
NONCURRENT ASSETS		
Investments	7,034,820	6,626,876
Property and equipment, net	612,691	203,520
TOTAL NONCURRENT ASSETS	<u>7,647,511</u>	<u>6,830,396</u>
TOTAL ASSETS	<u>\$ 8,939,015</u>	<u>\$ 8,876,336</u>
LIABILITIES AND NET ASSETS		
LIABILITIES		
Accounts payable and accrued liabilities	\$ 28,779	\$ 825,632
Accrued vacation payable	88,868	47,732
Deferred revenue and other liabilities	11,172	11,017
TOTAL LIABILITIES	<u>128,819</u>	<u>884,381</u>
NET ASSETS		
Without donor restrictions		
Undesignated	4,327,208	4,328,497
Designated by the Board	628,432	621,067
	<u>4,955,640</u>	<u>4,949,564</u>
With donor restrictions		
Purpose restrictions	2,071,016	1,267,830
Perpetual in nature	1,783,540	1,774,561
TOTAL NET ASSETS	<u>8,810,196</u>	<u>7,991,955</u>
TOTAL LIABILITIES AND NET ASSETS	<u>\$ 8,939,015</u>	<u>\$ 8,876,336</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, 2020

	Without Donor Restrictions	With Donor Purpose Restrictions	With Donor Perpetual Restrictions	Total
Revenues, gains and other support				
Contributions	\$ 1,176,111	\$ 138,475		\$ 1,314,586
Membership	474,718			474,718
Grants	339,236	10,000		349,236
Museum store sales	241,388			241,388
Railtown Depot store sales	68,218			68,218
Railtown 1897 Membership	37,235			37,235
Railtown 1897 Railroad operations	29,037			29,037
Polar Express	21,837			21,837
Sacramento Southern Railroad operations	20,713			20,713
Interpretive program support/exhibits	10,415			10,415
Huntington Hopkins Hardware store sales	6,531			6,531
Library reproductions	3,874			3,874
Railtown 1897 Polar Express event	1,062			1,062
Other income	27,474			27,474
Interest and dividends	21,835	51,352	\$ 8,979	82,166
Net realized and unrealized gains on investments	264,067	650,655		914,722
Net assets released from restriction	47,296	(47,296)		-
Total revenues, gains and support	2,791,047	803,186	8,979	3,603,212
Expenses				
Program services:				
Retail operations	500,204			500,204
Polar Express event	66,496			66,496
Sacramento Southern Railroad operations	391,239			391,239
Restoration projects	39,368			39,368
Railtown Depot Store	175,122			175,122
Railtown 1897 Railroad operations	275,259			275,259
Railtown 1897 Polar Express event	31,806			31,806
The Shops Project	10,598			10,598
Museum administration	98,771			98,771
Educational and interpretive programs	19,010			19,010
Facility rental	342			342
Library operations and acquisitions	18,579			18,579
Exhibits and events	95,252			95,252
Sefton Toy Train Exhibit	680			680
Supporting services:				
Management and general	472,033			472,033
Membership and development	469,648			469,648
Marketing and promotions	120,564			120,564
Total expenses	2,784,971	-	-	2,784,971
Change in net assets	6,076	803,186	8,979	818,241
Net assets at the beginning of the year	4,949,564	1,267,830	1,774,561	7,991,955
Net assets at end of year	\$ 4,955,640	\$ 2,071,016	\$ 1,783,540	\$ 8,810,196

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, 2019

	Without Donor Restrictions	With Donor Purpose Restrictions	With Donor Perpetual Restrictions	Total
Revenues, gains and other support				
Contributions	\$ 513,439	\$ 80,825		\$ 594,264
Membership	818,385			818,385
Museum store sales	906,287			906,287
Railtown Depot store sales	201,447			201,447
Railtown 1897 Membership	67,417			67,417
Railtown 1897 Railroad operations	151,081			151,081
Polar Express	1,699,348			1,699,348
Sacramento Southern Railroad operations	609,771			609,771
Interpretive program support/exhibits	46,883			46,883
Huntington Hopkins Hardware store sales	20,021			20,021
Library reproductions		8,220		8,220
Railtown 1897 Polar Express event	530,182			530,182
Other income	2,997	1,170		4,167
Net Interest and dividends	57,890	36,134	\$ 7,965	101,989
Net realized and unrealized gains on investments	216,546	515,575	6,069	738,190
Net assets released from restriction	95,406	(95,406)		-
	<hr/>	<hr/>	<hr/>	<hr/>
Total revenues, gains and support	5,937,100	546,518	14,034	6,497,652
Expenses				
Program services:				
Retail operations	926,535			926,535
Polar Express event	1,087,365			1,087,365
Sacramento Southern Railroad operations	667,576			667,576
Railtown Depot Store	245,461			245,461
Railtown 1897 Railroad operations	433,169			433,169
Railtown 1897 Polar Express event	373,551			373,551
The Shops Project	214,040			214,040
Museum administration	150,222			150,222
Educational and interpretive programs	83,520			83,520
Facility rental	2,848			2,848
Library operations and acquisitions	239,485			239,485
Exhibits and events	473,414			473,414
Sefton Toy Train Exhibit	79,966			79,966
Supporting services:				
Management and general	386,573			386,573
Membership and development	597,593			597,593
Marketing and promotions	213,982			213,982
	<hr/>	<hr/>	<hr/>	<hr/>
Total expenses	6,175,300	-	-	6,175,300
Change in net assets	(238,200)	546,518	14,034	322,352
Net assets at the beginning of the year	5,187,764	721,312	1,760,527	7,669,603
Net assets at end of year	<u>\$ 4,949,564</u>	<u>\$ 1,267,830</u>	<u>\$ 1,774,561</u>	<u>\$ 7,991,955</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, 2020
(With Comparative Totals for 2019)**

	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	Facility Rental
Compensation and related expenses:											
Salaries	\$ 209,763	\$ 20,917	\$ 218,454		\$ 92,797	\$ 121,367	\$ 20,317	\$ 7,887	\$ 68,292	\$ 7,121	\$ 299
Employee benefits	41,205	611	27,024		16,814	19,102	456	182	7,516	760	20
Payroll taxes	15,255	1,186	14,937		6,211	8,504	1,140	438	4,841	462	23
Total compensation and related expenses	266,223	22,714	260,415	-	115,822	148,973	21,913	8,507	80,649	8,343	342
Other expenses:											
Events and programs		9,005	1,481			14,331	3,013			6,603	
Cost of goods sold	129,288	9,173			31,924						
Supplies and office expense	35,664	15,006	22,171		7,750	15,469	4,094	800	4,325	414	
Marketing and advertising	5,305		6,631			260			7,597	2,652	
Outside services	2,760	1,150	3,450		690	1,380			1,787	230	
Repairs and maintenance	1,450		61,693	\$ 39,368	362	23,721			363	121	
Maintenance of way			35			800					
Exhibit design											
Contributions											
Rent expense	44,159				13,493						
Fuel			5,120			10,939					
Printing	-		1,440			2,452					
Railroad operational expenses			5,147			11,653	871				
Insurance	3,830	1,915	5,745		1,149	3,447	1,915	1,291	1,149	383	
Legal		-									
Depreciation	7,590	3,163	9,488		1,898	5,693			1,898		
Mechanical			4,084			30,640					
Accounting	3,697	1,320	3,961		792	2,377			792	264	
Volunteer enhancement						1,428					
On Track newsletter											
Postage	238	935	228		62	368			62		
Travel		2,115			1,138						
Premiums						1,178					
Training			150			150			149		
Product development					42						
Collection purchases											
Total expenses	\$ 500,204	\$ 66,496	\$ 391,239	\$ 39,368	\$ 175,122	\$ 275,259	\$ 31,806	\$ 10,598	\$ 98,771	\$ 19,010	\$ 342

CALIFORNIA STATE RAILROAD MUSEUM FOUNDATION

STATEMENT OF FUNCTIONAL EXPENSES

**For the Year Ended December 31, 2020
(With Comparative Totals for 2019)**

	Program Services				Supporting Services				2019 Total All Expenses	
	Library Operations and Acquisitions	Exhibits and Events	Sefton Toy Train Exhibit	Total All Programs	Management and General	Membership and Development	Marketing and Promotions	Total All Supporting		Total All Expenses
Compensation and related expenses:										
Salaries	\$ 7,887	\$ 14,242		\$ 789,343	\$ 74,952	\$ 296,417	\$ 55,406	\$ 426,775	\$ 1,216,118	\$ 1,472,215
Employee benefits	182	1,520		115,392	71,200	32,651	6,492	110,343	225,735	177,672
Payroll taxes	438	924		54,359	4,243	19,652	3,659	27,554	81,913	102,943
Total compensation and related expenses	8,507	16,686	-	959,094	150,395	348,720	65,557	564,672	1,523,766	1,752,830
Other expenses:										
Events and programs		11		34,444		295	579	874	35,318	1,106,293
Cost of goods sold				170,385				170,385	170,385	580,439
Supplies and office expense	8,076	1,002		114,771	121,391	31,996	7,624	161,011	275,782	646,035
Marketing and advertising		5,305		27,750		5,968	35,807	41,775	69,525	302,338
Outside services	460	460		12,367	50,340	4,140	1,909	56,389	68,756	328,104
Repairs and maintenance	242	242	\$ 500	128,062	4,834	18,082		22,916	150,978	142,889
Maintenance of way				835				-	835	63,125
Exhibit design		68,945	180	69,125				-	69,125	335,347
Contributions				-				-	-	47,374
Rent expense				57,652	76,659			76,659	134,311	125,537
Fuel				16,059				-	16,059	96,620
Printing				3,892	262	19,345	131	19,738	23,630	48,774
Railroad operational expenses				17,671				-	17,671	90,006
Insurance	766	766		22,356	7,660	6,894	2,681	17,235	39,591	30,328
Legal				-	30,114			30,114	30,114	42,855
Depreciation		1,265		30,995	16,446	11,385	4,428	32,259	63,254	32,518
Mechanical				34,724				-	34,724	12,588
Accounting	528	528		14,259	5,545	4,753	1,848	12,146	26,405	25,966
Volunteer enhancement				1,428				-	1,428	37,930
On Track newsletter				-				-	-	15,889
Postage		42		1,935	1,291	10,253		11,544	13,479	20,869
Travel				3,253	7,096	1,102		8,198	11,451	50,150
Premiums				1,178		6,245		6,245	7,423	10,824
Training				449		470		470	919	11,683
Product development				42				-	42	489
Collection purchases				-				-	-	217,500
Total expenses	\$ 18,579	\$ 95,252	\$ 680	\$ 1,722,726	\$ 472,033	\$ 469,648	\$ 120,564	\$ 1,062,245	\$ 2,784,971	\$ 6,175,300

CALIFORNIA STATE RAILROAD MUSEUM FOUNDATION

STATEMENT OF FUNCTIONAL EXPENSES

For the Year Ended December 31, 2019

(With Comparative Totals for 2018)

	Program Services									
	Retail Operations	Polar Express Event	Sacramento Southern Railroad Operations	Railtown Depot Store	Railtown 1897 Railroad Operations	Railtown 1897 Polar Express	The Shops Project	Museum Administration	Educational and Interpretive Programs	Facility Rental
Compensation and related expenses:										
Salaries	\$ 261,766	\$ 108,079	\$ 210,797	\$ 101,029	\$ 134,964	\$ 65,562	\$ 16,020	\$ 82,015	\$ 10,115	\$ 2,554
Employee benefits	47,995	3,288	23,730	20,364	16,822	1,632	400	11,475	517	99
Payroll taxes	18,834	7,500	14,946	7,161	9,586	4,171	918	5,990	620	195
Total compensation and related expenses	<u>328,595</u>	<u>118,867</u>	<u>249,473</u>	<u>128,554</u>	<u>161,372</u>	<u>71,365</u>	<u>17,338</u>	<u>99,480</u>	<u>11,252</u>	<u>2,848</u>
Other expenses:										
Events and programs		605,120	22,071		11,466	243,754		4,000	29,100	
Cost of goods sold	456,330	39,709	5,075	79,325						
Supplies and office expense	60,843	240,163	77,524	14,778	26,674	52,936	800	6,998	4,293	
Marketing and advertising	17,976		23,736		60,850			16,042	8,988	
Outside services	3,678	58,073	4,949	920	1,839		195,100	4,673	613	
Repairs and maintenance	1,903		92,123	476	30,893	1,683		476	317	
Maintenance of way			34,808		28,317					
Exhibit design										
Contributions			29,342							
Rent expense	44,159			13,493						
Fuel			47,839		48,781					
Printing		8,015	3,370		2,883	181			2,419	
Railroad operational expenses			51,566		36,065	2,375				
Insurance	3,033	3,033	4,549	910	2,426	910		910	607	
Legal							325			
Depreciation	4,570	3,109	4,663	933	3,077			933	311	
Mechanical			9,347		3,241					
Accounting	3,568	2,549	3,823	765	2,039		477	765	510	
Volunteer enhancement			2,404		9,901				25,110	
On Track newsletter										
Postage	459	1,807	114	34	201			248		
Travel	951	6,920		5,254	1,214	347		12,300		
Premiums					1,588					
Training			800		342			3,397		
Product development	470			19						
Collection purchases										
Total expenses	<u>\$ 926,535</u>	<u>\$ 1,087,365</u>	<u>\$ 667,576</u>	<u>\$ 245,461</u>	<u>\$ 433,169</u>	<u>\$ 373,551</u>	<u>\$ 214,040</u>	<u>\$ 150,222</u>	<u>\$ 83,520</u>	<u>\$ 2,848</u>

CALIFORNIA STATE RAILROAD MUSEUM FOUNDATION

STATEMENT OF FUNCTIONAL EXPENSES

**For the Year Ended December 31, 2019
(With Comparative Totals for 2018)**

	Program Services				Supporting Services				2018	
	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	Total All Expenses
Compensation and related expenses:										
Salaries	\$ 4,005	\$ 12,220		\$ 1,009,126	\$ 62,705	\$ 353,928	\$ 46,456	\$ 463,089	\$ 1,472,215	\$ 1,254,445
Employee benefits	100	835		127,257	8,107	38,832	3,476	50,415	177,672	194,935
Payroll taxes	230	781		70,932	3,874	25,121	3,016	32,011	102,943	86,807
Total compensation and related expenses	4,335	13,836	-	1,207,315	74,686	417,881	52,948	545,515	1,752,830	1,536,187
Other expenses:										
Events and programs		159,517		1,075,028		30,649	616	31,265	1,106,293	990,219
Cost of goods sold				580,439					580,439	572,954
Supplies and office expense	16,566	6,794	\$ 149	508,518	70,430	53,690	13,397	137,517	646,035	576,794
Marketing and advertising		17,976		145,568	14,754	20,677	121,339	156,770	302,338	248,905
Outside services	307	14,235		284,387	37,893	3,678	2,146	43,717	328,104	67,585
Repairs and maintenance	159	317	3,435	131,782	7,455	3,652		11,107	142,889	198,795
Maintenance of way				63,125				-	63,125	63,089
Exhibit design		258,965	76,382	335,347				-	335,347	136,886
Contributions				29,342	18,032			18,032	47,374	50,368
Rent expense				57,652	67,885			67,885	125,537	111,682
Fuel				96,620				-	96,620	78,253
Printing				16,868	3,306	28,600		31,906	48,774	44,633
Railroad operational expenses				90,006				-	90,006	58,945
Insurance	303	607		17,288	7,278	3,639	2,123	13,040	30,328	26,398
Legal				325	42,530			42,530	42,855	39,013
Depreciation		622		18,218	8,394	3,730	2,176	14,300	32,518	32,006
Mechanical				12,588				-	12,588	41,872
Accounting	255	510		15,261	5,862	3,059	1,784	10,705	25,966	33,986
Volunteer enhancement				37,415		515		515	37,930	32,741
On Track newsletter				-			15,889	15,889	15,889	27,221
Postage		35		2,898	665	17,306		17,971	20,869	19,436
Travel				26,986	20,569	1,281	1,314	23,164	50,150	33,619
Premiums				1,588		9,236		9,236	10,824	10,978
Training	60			4,599	6,834		250	7,084	11,683	16,648
Product development				489				-	489	1,387
Collection purchases	217,500			217,500				-	217,500	3,017
Total expenses	\$ 239,485	\$ 473,414	\$ 79,966	\$ 4,977,152	\$ 386,573	\$ 597,593	\$ 213,982	\$ 1,198,148	\$ 6,175,300	\$ 5,053,617

CALIFORNIA STATE RAILROAD MUSEUM FOUNDATION

STATEMENTS OF CASH FLOWS

For the Years Ended December 31, 2020 and 2019

	<u>2020</u>	<u>2019</u>
CASH FLOWS FROM OPERATING ACTIVITIES		
Change in net assets	\$ 818,241	\$ 322,352
Adjustments to reconcile change in net assets to net cash (used) provided by operating activities:		
Depreciation	63,254	32,518
Donated capital assets	(420,000)	
Unrealized and realized gain on investments	(914,722)	(738,190)
Net interest and dividends	(82,166)	(101,989)
Changes in operating assets and liabilities:		
Accounts receivable	(6,473)	3,695
Inventories	(14,389)	(9,713)
Prepaid expenses and other assets	55,640	(13,892)
Accounts payable, deferred revenue, and accrued and other liabilities	(796,698)	2,957
Accrued vacation payable	41,136	(19,228)
Net cash used by operating activities	<u>(1,256,177)</u>	<u>(521,490)</u>
CASH FLOWS FROM INVESTING ACTIVITIES		
Acquisition of property and equipment	(52,425)	(16,291)
Investment interest and dividends received	82,166	101,989
Purchase of investments	(994,800)	(976,989)
Proceeds from sale of investments	1,501,578	13,563
Net cash provided (used) by investing activities	<u>536,519</u>	<u>(877,728)</u>
Decrease in cash and cash equivalents	(719,658)	(1,399,218)
Cash and cash equivalents, beginning of the year	<u>1,761,825</u>	<u>3,161,043</u>
Cash and cash equivalents, end of year	<u>\$ 1,042,167</u>	<u>\$ 1,761,825</u>
NONCASH INVESTING ACTIVITIES		
Donated capital assets	<u>\$ 420,000</u>	<u>\$ -</u>

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

CALIFORNIA STATE RAILROAD MUSEUM FOUNDATION

NOTES TO FINANCIAL STATEMENTS

December 31, 2020 and 2019

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Organization and Operation

California State Railroad Museum Foundation (the Foundation) is a not-for-profit organization incorporated under the laws of the State of California whose purpose is to promote and further the educational and interpretive activities of the California State Railroad Museum. In addition, the Foundation supports the preservation of railroad historical artifacts through its various acquisition and maintenance programs. The Foundation is a cooperating association of the California State Railroad Museum and therefore solicits contributions and grants and incurs expenditures for and on behalf of the Museum. Included in these financial statements are the activities of the Boiler Shop, LLC, which is described in Note 12.

Method of Accounting

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

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

Cash and Cash Equivalents

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

Donated and Purchased Collection Items

The Collections, which were acquired through purchases and contributions since the organization's inception, are not recognized as assets on the statement of financial position. Purchases of collection items are recorded as decreases in net assets without donor restriction in the year in which the items are acquired, or as net assets with donor restrictions if the assets used to purchase the items are restricted by donors. Contributed collection items are not reflected on the financial statements.

CALIFORNIA STATE RAILROAD MUSEUM FOUNDATION

NOTES TO FINANCIAL STATEMENTS (continued)

December 31, 2020 and 2019

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, 2020 and 2019. The Foundation is not a private foundation.

The Foundation's federal returns for the years ended December 31, 2019, 2018 and 2017 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, 2019, 2018, 2017 and 2016 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, 2020 and 2019 were \$69,525 and \$302,338, 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, 2020 and 2019

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Reclassifications: Certain amounts in 2019 have been reclassified to conform to the 2020 financial statement presentation. The reclassification had no effect on total net assets or change in net assets.

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>2020</u>	<u>2019</u>
The Shops Project	\$ 449,739	\$ 449,739
SSRR Signal Repair	145,501	137,737
Railtown Interpretive	13,520	13,919
Museum Improvements	19,672	19,672
	<u>\$ 628,432</u>	<u>\$ 621,067</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, 2020 and 2019

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, 2020 and 2019

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>2020</u>	<u>2019</u>
Cash and cash equivalents	\$ 1,042,167	\$ 1,761,825
Accounts receivable	10,000	3,527
Investments	<u>7,034,820</u>	<u>6,626,876</u>
Total financial assets	8,086,987	8,392,228
Less amounts not expected to be used within one year:		
Net assets with donor restrictions	3,854,556	3,042,391
Board designations	<u>628,432</u>	<u>621,067</u>
	<u>4,482,988</u>	<u>3,663,458</u>
Financial assets availability to meet general expenditures	<u>\$ 3,603,999</u>	<u>\$ 4,728,770</u>

The Foundations endowment funds consist of donor-restricted endowments and funds designated by the board for specific purposes. Income from donor-restricted endowments is restricted for specific purposes, with the exception of amounts with the exception of amounts available for general use. Donor-restricted endowment funds are not available for general expenditure. These assets limited to use, which are more fully described in Note 6 are not available for general expenditure within the next year and are not included in the amounts above. As part of the Foundation's liquidity management plan, cash in excess of daily requirements are invested in short-term investments and money market funds.

3. INVESTMENT SECURITIES

Investments at December 31, 2020 and 2019 consisted of the following:

	<u>2020</u>	<u>2019</u>
Money market funds	\$ 1,869,983	\$ 2,356,868
Corporate stocks/Equities	4,182,390	3,278,241
Mutual funds	276,175	128,192
Corporate bonds/Fixed income	475,101	635,062
Certificate of deposit	<u>231,171</u>	<u>228,513</u>
	<u>\$ 7,034,820</u>	<u>\$ 6,626,876</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, 2020 and 2019

3. INVESTMENT SECURITIES (Continued)

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

	<u>2020</u>	<u>2019</u>
Interest and dividends, net	\$ 82,166	\$ 101,989
Net unrealized gains	108,136	684,497
Net realized gains	<u>806,584</u>	<u>53,693</u>
	<u>\$ 996,886</u>	<u>\$ 840,179</u>

As of December 31, 2020 and 2019, the total of investment advisory fees were \$27,909 and \$24,278 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 gains were \$806,586 in 2020 and net unrealized losses were \$684,497 in 2019.

5. PROPERTY AND EQUIPMENT

Property and equipment at December 31, 2020 and 2019 consisted of the following:

	<u>2020</u>	<u>2019</u>
Furniture and fixtures	\$ 68,873	\$ 72,047
Equipment	676,116	603,783
Building improvements	<u>406,854</u>	<u>406,854</u>
	1,151,843	1,082,684
Less accumulated depreciation and amortization	<u>(539,152)</u>	<u>(879,164)</u>
Property and equipment, net	<u>\$ 612,691</u>	<u>\$ 203,520</u>

CALIFORNIA STATE RAILROAD MUSEUM FOUNDATION

NOTES TO FINANCIAL STATEMENTS (continued)

December 31, 2020 and 2019

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>2020</u>	<u>2019</u>
Sefton Catalog Fund — To support the acquisition of unique and historical toy train memorabilia and to publish a catalog.	\$ 378,577	\$ 304,626
Sefton Toy Train Exhibit Fund — To support the long-term maintenance and preservation of toy train exhibits and related acquisitions.	966,403	521,562
Shrader Fund — To support the acquisition and care of collections.(Endowment)	342,848	193,070
Opportunity Acquisition Fund — To support the acquisition and care of collections.	149,908	120,625
Museum Improvements -- To support improvements to and the redesign of the Museum.	146,350	
Restoration Projects Fund - To support the restoration of equipment.	41,732	80,100
Other — Miscellaneous contributions and fund restrictions to be used for Foundation programs.	<u>45,198</u>	<u>47,847</u>
Total	<u>\$ 2,071,016</u>	<u>\$ 1,267,830</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>2020</u>	<u>2019</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>469,875</u>	<u>460,895</u>
Totals	<u>\$ 1,783,540</u>	<u>\$ 1,774,560</u>

CALIFORNIA STATE RAILROAD MUSEUM FOUNDATION

NOTES TO FINANCIAL STATEMENTS (continued)

December 31, 2020 and 2019

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, 2019	\$ 324,259	\$ 1,760,527	\$ 2,084,786
Investment return:			
Investment income, net	29,095	7,965	37,060
Net appreciation (realized and unrealized)	<u>441,244</u>	<u>6,069</u>	<u>447,313</u>
Total investment return	470,339	14,034	484,373
Expenditures	<u>(79,966)</u>		<u>(79,966)</u>
Endowment net assets, December 31, 2019	714,632	1,774,561	2,489,193
Investment return:			
Investment income, net	31,914	8,979	40,893
Net appreciation (realized and unrealized)	<u>563,385</u>		<u>563,385</u>
Total investment return	595,299	8,979	604,278
Expenditures	<u>(680)</u>		<u>(680)</u>
Endowment net assets, December 31, 2020	<u>\$ 1,309,251</u>	<u>\$ 1,783,540</u>	<u>\$ 3,092,791</u>

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

7. CONCENTRATIONS

At December 31, 2020 and 2019 the carrying amounts of the Foundation's deposits were \$1,264,163 and \$1,981,698 and the balances in a financial institution were \$1,329,574 and \$2,026,215, respectively. The balance maintained in the financial institution is insured by the Federal Deposit Insurance Corporation up to \$250,000. At December 31, 2020 and 2019 the Foundation's uninsured cash balances totaled \$367,118 and \$1,348,437, respectively.

CALIFORNIA STATE RAILROAD MUSEUM FOUNDATION

NOTES TO FINANCIAL STATEMENTS (continued)

December 31, 2020 and 2019

8. LEASE COMMITMENTS

The Foundation leases office space under an operating lease agreement starting January 15, 2018 that expires in May of 2025. The lease has scheduled minimum increases over the term of the lease. Rental expense under this agreement for the years ended December 31, 2020 and 2019 was \$76,658 and \$67,855, respectively. Future minimum lease payments are as follows:

Fiscal Year Ending December 31:	
2021	\$ 79,430
2022	82,200
2023	84,971
2024	87,742
2025	33,250
Total minimum lease payments	<u>\$ 367,593</u>

9. RETIREMENT BENEFITS

The Foundation provides retirement benefits to employees meeting specified service requirements. At the discretion of the Executive Board, the benefits typically equal between five and seven percent of the employee's base pay and are deposited annually to a 401(k) retirement plan. Contributions are fully vested when made, and totaled \$77,548 and \$72,512 for the years ended December 31, 2020 and 2019, respectively.

10. SUBSEQUENT EVENTS

On February 19, 2021, the Foundation received loan proceeds in the amount of \$219,308 under the Paycheck Protection Program ("PPP"). Established as part of the Coronavirus Aid, Relief and Economic Security Act ("CARES Act"), the PPP provides for loans to qualifying employers. PPP loans and accrued interest are forgivable after a "covered period" as long as the borrower maintains its payroll levels and uses the loan proceeds for eligible purposes, including payroll, benefits, rent and utilities.

The Foundation initially recorded a note payable for PPP loan proceeds of \$235,100 received on April 19, 2020 and subsequently recorded forgiveness when the loan obligation was legally released. The Foundation recognized this \$235,100 of loan forgiveness income for the year ended December 31, 2020 as grant revenue.

11. DONATED FACILITIES AND EQUIPMENT

The Foundation occupies a small amount of retail space within the California Department of Parks and Recreation buildings. The Foundation has quantified and recorded the value of these donated facilities, which is reflected as contribution revenue and as rent expense allocated to Retail Operations and Railtown Depot. For the years ending December 31, 2020 and 2019, the in-kind contribution recorded for use of property amounted to \$57,652 for both years.

On June 22, 2020, the Foundation received an in-kind contribution of a replica Steam Train valued at \$420,000 in exchange for a Platinum level membership. The Foundation intends to use the train to raise funds by selling tickets to ride through Old Sacramento.

CALIFORNIA STATE RAILROAD MUSEUM FOUNDATION

NOTES TO FINANCIAL STATEMENTS (continued)

December 31, 2020 and 2019

12. RELATED PARTY TRANSACTION

Boiler Shop, LLC, a California limited liability company, was formed in August 2009. Boiler Shop, LLC is a separate entity formed for the sole purpose of serving as an intermediary to hold title to potential certain real property until California State Parks could obtain the necessary authorizations and approvals to take title to such real property. As the potential transfer of the real property to the Boiler Shop, LLC has not yet occurred; the entity has only had minimal expenses in 2020 and 2019. Presently, several members of the Foundation Board of Directors also serve as the Directors of Boiler Shop, LLC.

13. CONTINGENCIES

On March 11, 2020, the World Health Organization declared the outbreak of a Coronavirus (COVID-19) pandemic. The COVID-19 outbreak is disrupting supply chains and affecting production and sales across a range of industries. The extent of the impact of COVID-19 on the Foundation's operation and financial performance will depend on certain developments, including the duration and spread of the outbreak, and the impact on donors, members, employees, vendors and museum operations, all of which are uncertain and cannot be predicted. At this point, the extent to which COVID-19 may impact the financial condition or results of operations is uncertain and the accompanying financial statements include no adjustments relating to the effects of this pandemic.

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, 2020, 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 26, 2021.

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.

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 26, 2021