

**CALIFORNIA STATE RAILROAD
MUSEUM FOUNDATION**

Audited Financial Statements

December 31, 2021

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CALIFORNIA STATE RAILROAD MUSEUM FOUNDATION

AUDITED FINANCIAL STATEMENTS

December 31, 2021 and 2020

TABLE OF CONTENTS

Independent Auditor’s Report.....	1
Financial Statements	
Statements of Financial Position.....	3
Statement of Activities - 2021	4
Statement of Activities - 2020	5
Schedule of Functional Expenses – 2021	6
Statement of Functional Expenses – 2020	8
Statements of Cash Flows.....	10
Notes to Financial Statements.....	11
Other Reports	
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 <i>Government Auditing Standards</i>	21

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INDEPENDENT AUDITOR'S REPORT

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

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, 2021 and 2020 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 referred to above present fairly, in all material respects, the financial position of California State Railroad Museum Foundation as of December 31, 2021 and 2020, 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 audits in accordance with auditing standards generally accepted in the United States of America. 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.

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 will always

Board of Directors
California State Railroad Museum Foundation

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, 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.

Richardson & Company, LLP

June 6, 2022

CALIFORNIA STATE RAILROAD MUSEUM FOUNDATION

STATEMENTS OF FINANCIAL POSITION

December 31, 2021 and 2020

	<u>2021</u>	<u>2020</u>
ASSETS		
CURRENT ASSETS		
Cash and cash equivalents	\$ 2,148,322	\$ 1,042,167
Accounts receivable	78,376	10,000
Inventories	141,552	205,861
Deposits	11,654	5,648
Prepaid expenses and other assets	26,680	27,828
TOTAL CURRENT ASSETS	<u>2,406,584</u>	<u>1,291,504</u>
NONCURRENT ASSETS		
Investments	8,525,438	7,034,820
Property and equipment, net	542,579	612,691
TOTAL NONCURRENT ASSETS	<u>9,068,017</u>	<u>7,647,511</u>
TOTAL ASSETS	<u>\$ 11,474,601</u>	<u>\$ 8,939,015</u>
LIABILITIES AND NET ASSETS		
LIABILITIES		
Accounts payable and accrued liabilities	\$ 746,943	\$ 28,779
Accrued vacation payable	84,268	88,868
Deferred revenue and other liabilities	-	11,172
TOTAL LIABILITIES	<u>831,211</u>	<u>128,819</u>
NET ASSETS		
Without donor restrictions		
Undesignated	4,449,335	4,327,208
Designated by the Board	1,313,079	628,432
	<u>5,762,414</u>	<u>4,955,640</u>
With donor restrictions		
Purpose restrictions	3,083,821	2,071,016
Perpetual in nature	1,797,155	1,783,540
TOTAL NET ASSETS	<u>10,643,390</u>	<u>8,810,196</u>
TOTAL LIABILITIES AND NET ASSETS	<u>\$ 11,474,601</u>	<u>\$ 8,939,015</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, 2021

	Without Donor Restrictions	With Donor Purpose Restrictions	With Donor Perpetual Restrictions	Total
Revenues, gains and other support				
Polar Express	\$ 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
Railtown 1897 Polar Express event	452,550			452,550
Contributions	295,541	\$ 203,775		499,316
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	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	<u>5,577,697</u>	<u>1,012,805</u>	<u>13,615</u>	<u>6,604,117</u>
Expenses				
Program services:				
Polar Express event	1,196,630			1,196,630
Retail operations	779,630			779,630
Sacramento Southern Railroad operations	670,496			670,496
Railtown 1897 Railroad operations	342,623			342,623
Railtown 1897 Polar Express event	283,559			283,559
Railtown Depot Store	282,816			282,816
Museum administration	73,025			73,025
Restoration projects	44,107			44,107
Educational and interpretive programs	43,766			43,766
Exhibits and events	36,113			36,113
Library operations and acquisitions	18,684			18,684
The Shops Project	800			800
Sefton Toy Train Exhibit	10			10
Supporting services:				
Membership and development	564,296			564,296
Management and general	301,353			301,353
Marketing and promotions	133,015			133,015
Total expenses	<u>4,770,923</u>	<u>-</u>	<u>-</u>	<u>4,770,923</u>
Change in net assets	806,774	1,012,805	13,615	1,833,194
Net assets at the beginning of the year	<u>4,955,640</u>	<u>2,071,016</u>	<u>1,783,540</u>	<u>8,810,196</u>
Net assets at end of year	<u>\$ 5,762,414</u>	<u>\$ 3,083,821</u>	<u>\$ 1,797,155</u>	<u>\$ 10,643,390</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 event	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
Net 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)		-
	<hr/>	<hr/>	<hr/>	<hr/>
Total revenues, gains and support	2,791,047	803,186	8,979	3,603,212
Expenses				
Program services:				
Retail operations	500,204			500,204
Sacramento Southern Railroad operations	391,239			391,239
Railtown 1897 Railroad operations	275,259			275,259
Railtown Depot Store	175,122			175,122
Museum administration	98,771			98,771
Exhibits and events	95,252			95,252
Polar Express event	66,496			66,496
Restoration projects	39,368			39,368
Railtown 1897 Polar Express event	31,806			31,806
Educational and interpretive programs	19,010			19,010
Library operations and acquisitions	18,579			18,579
The Shops Project	10,598			10,598
Sefton Toy Train Exhibit	680			680
Facility rental	342			342
Supporting services:				
Management and general	472,033			472,033
Membership and development	469,648			469,648
Marketing and promotions	120,564			120,564
	<hr/>	<hr/>	<hr/>	<hr/>
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	<u>\$ 4,955,640</u>	<u>\$ 2,071,016</u>	<u>\$ 1,783,540</u>	<u>\$ 8,810,196</u>

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

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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					
Marketing and advertising	6,975		8,718		42	51,497			6,103	3,487
Outside services		35,398	95,000						844	
Rent expense	34,346				13,493					
Repairs and maintenance	1,193		32,461	\$ 44,107	298	14,679	228		398	100
Depreciation	11,318	9,432	16,034		2,830	9,432			3,773	
Fuel			44,281			31,850				
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				
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				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		Total All Expenses
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	<u>7,731</u>	<u>19,757</u>	<u>-</u>	<u>1,163,668</u>	<u>87,930</u>	<u>419,622</u>	<u>62,759</u>	<u>570,311</u>	<u>1,733,979</u>	<u>1,523,766</u>
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
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
Rent expense				47,839	81,091			81,091	128,930	134,311
Repairs and maintenance	199	298	\$ 10	93,971	4,176	3,837		8,013	101,984	150,978
Depreciation		2,829		55,648	19,807	12,261	6,602	38,670	94,318	63,254
Fuel				76,131				-	76,131	16,059
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
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	<u>\$ 18,684</u>	<u>\$ 36,113</u>	<u>\$ 10</u>	<u>\$ 3,772,259</u>	<u>\$ 301,353</u>	<u>\$ 564,296</u>	<u>\$ 133,015</u>	<u>\$ 998,664</u>	<u>\$ 4,770,923</u>	<u>\$ 2,784,971</u>

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	<u>266,223</u>	<u>22,714</u>	<u>260,415</u>	<u>-</u>	<u>115,822</u>	<u>148,973</u>	<u>21,913</u>	<u>8,507</u>	<u>80,649</u>	<u>8,343</u>	<u>342</u>
Other expenses:											
Supplies and office expense	35,664	15,006	22,171		7,750	15,469	4,094	800	4,325	414	
Cost of goods sold	129,288	9,173			31,924						
Repairs and maintenance	1,450		61,693	\$ 39,368	362	23,721			363	121	
Rent expense	44,159				13,493						
Marketing and advertising	5,305		6,631			260			7,597	2,652	
Exhibit design											
Outside services	2,760	1,150	3,450		690	1,380			1,787	230	
Depreciation	7,590	3,163	9,488		1,898	5,693			1,898		
Insurance	3,830	1,915	5,745		1,149	3,447	1,915	1,291	1,149	383	
Events and programs		9,005	1,481			14,331	3,013			6,603	
Mechanical			4,084			30,640					
Legal											
Accounting	3,697	1,320	3,961		792	2,377			792	264	
Printing			1,440			2,452					
Railroad operational expenses			5,147			11,653	871				
Fuel			5,120			10,939					
Postage	238	935	228		62	368			62		
Travel		2,115			1,138						
Premiums						1,178					
Volunteer enhancement						1,428					
Training			150			150			149		
Maintenance of way			35			800					
Product development					42						
Contributions											
On Track newsletter											
Collection purchases											
Total expenses	<u>\$ 500,204</u>	<u>\$ 66,496</u>	<u>\$ 391,239</u>	<u>\$ 39,368</u>	<u>\$ 175,122</u>	<u>\$ 275,259</u>	<u>\$ 31,806</u>	<u>\$ 10,598</u>	<u>\$ 98,771</u>	<u>\$ 19,010</u>	<u>\$ 342</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				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	<u>8,507</u>	<u>16,686</u>	<u>-</u>	<u>959,094</u>	<u>150,395</u>	<u>348,720</u>	<u>65,557</u>	<u>564,672</u>	<u>1,523,766</u>	<u>1,752,830</u>
Other expenses:										
Supplies and office expense	8,076	1,002		114,771	121,391	31,996	7,624	161,011	275,782	646,035
Cost of goods sold				170,385				-	170,385	580,439
Repairs and maintenance	242	242	\$ 500	128,062	4,834	18,082		22,916	150,978	142,889
Rent expense				57,652	76,659			76,659	134,311	125,537
Marketing and advertising		5,305		27,750		5,968	35,807	41,775	69,525	302,338
Exhibit design		68,945	180	69,125				-	69,125	335,347
Outside services	460	460		12,367	50,340	4,140	1,909	56,389	68,756	328,104
Depreciation		1,265		30,995	16,446	11,385	4,428	32,259	63,254	32,518
Insurance	766	766		22,356	7,660	6,894	2,681	17,235	39,591	30,328
Events and programs		11		34,444		295	579	874	35,318	1,106,293
Mechanical				34,724				-	34,724	12,588
Legal				-	30,114			30,114	30,114	42,855
Accounting	528	528		14,259	5,545	4,753	1,848	12,146	26,405	25,966
Printing				3,892	262	19,345	131	19,738	23,630	48,774
Railroad operational expenses				17,671				-	17,671	90,006
Fuel				16,059				-	16,059	96,620
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
Volunteer enhancement				1,428				-	1,428	37,930
Training				449		470		470	919	11,683
Maintenance of way				835				-	835	63,125
Product development				42				-	42	489
Contributions				-				-	-	47,374
On Track newsletter				-				-	-	15,889
Collection purchases				-				-	-	217,500
Total expenses	<u>\$ 18,579</u>	<u>\$ 95,252</u>	<u>\$ 680</u>	<u>\$ 1,722,726</u>	<u>\$ 472,033</u>	<u>\$ 469,648</u>	<u>\$ 120,564</u>	<u>\$ 1,062,245</u>	<u>\$ 2,784,971</u>	<u>\$ 6,175,300</u>

CALIFORNIA STATE RAILROAD MUSEUM FOUNDATION

STATEMENTS OF CASH FLOWS

For the Years Ended December 31, 2021 and 2020

	2021	2020
CASH FLOWS FROM OPERATING ACTIVITIES		
Change in net assets	\$ 1,833,194	\$ 818,241
Adjustments to reconcile change in net assets to net cash provided (used) by operating activities:		
Depreciation	94,318	63,254
Donated capital assets		(420,000)
Unrealized and realized gain on investments	(1,228,215)	(914,722)
Net interest and dividends	(78,132)	(82,166)
Changes in operating assets and liabilities:		
Accounts receivable	(68,376)	(6,473)
Inventories	64,309	(14,389)
Prepaid expenses and other assets	(4,858)	55,640
Accounts payable, deferred revenue, and accrued and other liabilities	706,992	(796,698)
Accrued vacation payable	(4,600)	41,136
Net cash provided (used) by operating activities	1,314,632	(1,256,177)
CASH FLOWS FROM INVESTING ACTIVITIES		
Acquisition of property and equipment	(24,206)	(52,425)
Investment interest and dividends received	78,132	82,166
Purchase of investments	(1,611,653)	(994,800)
Proceeds from sale of investments	1,349,250	1,501,578
Net cash (used) provided by investing activities	(208,477)	536,519
Increase (decrease) in cash and cash equivalents	1,106,155	(719,658)
Cash and cash equivalents, beginning of the year	1,042,167	1,761,825
Cash and cash equivalents, end of year	\$ 2,148,322	\$ 1,042,167
NONCASH INVESTING ACTIVITIES		
Donated capital assets	\$ -	\$ 420,000

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

CALIFORNIA STATE RAILROAD MUSEUM FOUNDATION

NOTES TO FINANCIAL STATEMENTS

December 31, 2021 and 2020

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, 2021 and 2020

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, 2021 and 2020. The Foundation is not a private foundation.

The Foundation's federal returns for the years ended December 31, 2020, 2019 and 2018 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, 2020, 2019, 2018 and 2017 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, 2021 and 2020 were \$140,074 and \$69,525, 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, 2021 and 2020

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>2021</u>	<u>2020</u>
Track Remediation Project	\$ 700,000	
The Shops Project	449,739	\$ 449,739
SSRR Signal Repair	149,820	145,501
Railtown Interpretive	13,520	13,520
Museum Improvements		19,672
	<u>\$ 1,313,079</u>	<u>\$ 628,432</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, 2021 and 2020

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, 2021 and 2020

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>2021</u>	<u>2020</u>
Cash and cash equivalents	\$ 2,148,322	\$ 1,042,167
Accounts receivable	78,376	10,000
Investments	<u>8,525,438</u>	<u>7,034,820</u>
Total financial assets	10,752,136	8,086,987
Less amounts not expected to be used within one year:		
Net assets with donor restrictions	4,880,976	3,854,556
Board designations	<u>1,313,079</u>	<u>628,432</u>
	<u>6,194,055</u>	<u>4,482,988</u>
Financial assets available to meet general expenditures	<u>\$ 4,558,081</u>	<u>\$ 3,603,999</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, 2021 and 2020 consisted of the following:

	<u>2021</u>	<u>2020</u>
Money market funds	\$ 1,870,918	\$ 1,869,983
Corporate stocks/Equities	5,488,740	4,182,390
Mutual funds	696,538	276,175
Corporate bonds/Fixed income	235,414	475,101
Certificate of deposit	<u>233,828</u>	<u>231,171</u>
	<u>\$ 8,525,438</u>	<u>\$ 7,034,820</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, 2021 and 2020

3 INVESTMENT SECURITIES (Continued)

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

	<u>2021</u>	<u>2020</u>
Net Interest and dividends	\$ 78,132	\$ 82,166
Net unrealized (losses) gains	752,576	806,584
Net realized gains	475,640	108,136
	<u>\$ 1,306,348</u>	<u>\$ 996,886</u>

As of December 31, 2021 and 2020, the total of investment advisory fees were \$38,022 and \$27,909 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 \$475,640 in 2021 and \$806,584 in 2020.

5. PROPERTY AND EQUIPMENT

Property and equipment at December 31, 2021 and 2020 consisted of the following:

	<u>2021</u>	<u>2020</u>
Furniture and fixtures	\$ 63,405	\$ 68,873
Equipment	661,604	676,116
Building improvements	406,854	406,854
	<u>1,131,863</u>	<u>1,151,843</u>
Less accumulated depreciation and amortization	<u>(589,284)</u>	<u>(539,152)</u>
Property and equipment, net	<u>\$ 542,579</u>	<u>\$ 612,691</u>

CALIFORNIA STATE RAILROAD MUSEUM FOUNDATION

NOTES TO FINANCIAL STATEMENTS (Continued)

December 31, 2021 and 2020

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>2021</u>	<u>2020</u>
Sefton Toy Train Exhibit Fund — To support the long-term maintenance and preservation of toy train exhibits and related acquisitions.	\$ 1,568,455	\$ 966,403
Shrader Fund — To support the acquisition and care of collections. (Endowment)	543,837	342,848
Sefton Catalog Fund — To support the acquisition of unique and historical toy train memorabilia and to publish a catalog.	478,541	378,577
Museum Improvements -- To support improvements to and the redesign of the Museum.	197,404	146,350
Opportunity Acquisition Fund — To support the acquisition and care of collections.	189,492	149,908
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.	-	41,732
Other — Miscellaneous contributions and fund restrictions to be used for Foundation programs.	<u>48,924</u>	<u>45,198</u>
Total	<u><u>\$ 3,083,821</u></u>	<u><u>\$ 2,071,016</u></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>2021</u>	<u>2020</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>483,490</u>	<u>469,875</u>
Totals	<u><u>\$ 1,797,155</u></u>	<u><u>\$ 1,783,540</u></u>

CALIFORNIA STATE RAILROAD MUSEUM FOUNDATION

NOTES TO FINANCIAL STATEMENTS (Continued)

December 31, 2021 and 2020

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, 2020	\$ 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	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	<u>\$ 2,112,291</u>	<u>\$ 1,797,155</u>	<u>\$ 3,909,446</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, 2021 and 2020 the carrying amounts of the Foundation's deposits were \$2,374,990 and \$1,264,163 and the balances in financial institutions were \$2,379,996 and \$1,329,574 respectively. The balances maintained in financial institutions are insured by the Federal Deposit Insurance Corporation up to \$250,000. At December 31, 2021 and 2020 the Foundation's uninsured cash balances totaled \$1,596,194 and \$367,118, respectively.

CALIFORNIA STATE RAILROAD MUSEUM FOUNDATION

NOTES TO FINANCIAL STATEMENTS (Continued)

December 31, 2021 and 2020

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, 2021 and 2020 was \$79,430 and \$76,658, respectively. Future minimum lease payments are as follows:

Fiscal Year Ending December 31:	
2022	\$ 82,200
2023	84,971
2024	87,742
2025	<u>33,250</u>
Total minimum lease payments	<u>\$ 288,163</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 \$60,967 and \$77,548 for the years ended December 31, 2021 and 2020, respectively.

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 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, 2021 and 2020, the in-kind contribution recorded for use of property amounted to \$47,839 and \$57,652 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 2021 and 2020. Presently, several members of the Foundation Board of Directors or Advisory Board also serve as the Directors of Boiler Shop, LLC.

12. CARES Act Loans

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 loan was forgiven in October 2021 and forgiveness income of \$219,308 has been recorded for the year ended December 31, 2021.

CALIFORNIA STATE RAILROAD MUSEUM FOUNDATION

NOTES TO FINANCIAL STATEMENTS (Continued)

December 31, 2021 and 2020

12. CARES Act Loans (Continued)

The Foundation received PPP loan proceeds of \$235,100 on April 19, 2020. The Foundation recognized \$235,100 of loan forgiveness income for the year ended December 31, 2020 as grant revenue.

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, 2021, 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 June 6, 2022.

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

June 6, 2022