

September 2, 2013



INDEPENDENT AUDITORS' REPORT

Board of Directors
California Vehicle Foundation
dba California Automobile Museum
Sacramento, California

We have audited the accompanying financial statements of California Vehicle Foundation dba California Automobile Museum (a nonprofit corporation), which comprise the Statement of Financial Position as of December 31, 2012, and the related Statements of Activity and Cash Flows for the year 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 audit. We conducted our audit in accordance with auditing standards generally accepted in the United States of America. 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.

Board of Directors
California Vehicle Foundation
dba California Automobile Museum



September 2, 2013

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

Opinion

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of California Vehicle Foundation as of December 31, 2012, and the changes in its net assets and its cash flows for the year then ended in accordance with accounting principles generally accepted in the United States of America.

Other Matter

The 2011 financial statements were reviewed by us, and our report thereon, dated July 10, 2012, stated that we were not aware of any material modifications that should be made to those statements for them to be in conformity with accounting principles generally accepted in the United States of America. However, a review is substantially less in scope than an audit and does not provide a basis for the expression of an opinion on the financial statements. In our opinion, the summarized comparative information presented herein as of and for the year ended December 31, 2011, is consistent, in all material respects, with the reviewed financial statements from which it has been derived.

John Waddell & Co., CPAs

**CALIFORNIA VEHICLE FOUNDATION
DBA CALIFORNIA AUTOMOBILE MUSEUM**

**Statement of Financial Position
December 31, 2012
(with comparative totals for 2011)**

ASSETS

	(Audited) 2012	(Reviewed) 2011
Cash	\$ 33,564	\$ 30,106
Accounts receivable	3,409	9,475
Gift shop inventory	12,769	14,486
Prepaid expenses	16,079	14,274
Prepaid vehicle expenses	7,168	16,149
Property and equipment, net	44,752	55,110
Cash restricted or designated for long-term purposes	35,814	35,855
Museum exhibit vehicles	247,633	248,283
Collections	408,387	370,259
	\$ 809,575	\$ 793,997

LIABILITIES AND NET ASSETS

Liabilities		
Accounts payable	\$ 19,422	\$ 14,665
Accrued expenses	30,894	27,256
Deferred revenue	29,968	22,769
Line of credit	15,182	-
Rental deposits and retainer	12,825	10,400
Other liabilities	6,450	10,000
Total Liabilities	114,741	85,090
Net Assets		
Unrestricted		
Board designated	20,478	20,478
Undesignated	651,995	669,152
Temporarily restricted	22,361	19,277
Total Net Assets	694,834	708,907
	\$ 809,575	\$ 793,997

See accompanying notes to financial statements.

**CALIFORNIA VEHICLE FOUNDATION
DBA CALIFORNIA AUTOMOBILE MUSEUM**

**Statement of Activity
For the Year Ended December 31, 2012
(with comparative totals for 2011)**

	<u>Unrestricted</u>	<u>Temporarily Restricted</u>	<u>(Audited) 2012 Total</u>	<u>(Reviewed) 2011 Total</u>
Revenue				
Admissions	\$ 115,671	\$ -	\$ 115,671	\$ 107,376
Contributions	57,141	7,925	65,066	87,178
Memberships	35,881	-	35,881	38,362
In-kind contributions	264,100	-	264,100	277,780
Docent income	7,716	-	7,716	7,973
Vehicle donation and consignment income	135,409	-	135,409	135,252
Facility rental	137,361	-	137,361	133,121
Exhibit income	45,077	-	45,077	49,631
Special events	83,105	2,250	85,355	61,243
Education	15,335	-	15,335	30,156
Library income	4,634	-	4,634	3,891
Investment income	65	-	65	79
Gift shop and online sales	36,058	-	36,058	34,701
Gain on sales of exhibit vehicles	200	-	200	4,115
Other income	6,092	-	6,092	4,769
Net assets released from restriction	7,091	(7,091)	-	-
Total Revenue	950,936	3,084	954,020	975,627
Expenses				
Program services	753,727	-	753,727	759,120
Management and general	71,551	-	71,551	65,061
Fundraising and membership development	142,815	-	142,815	100,722
Total Expenses	968,093	-	968,093	924,903
Change in Net Assets	(17,157)	3,084	(14,073)	50,724
Net Assets, Beginning of Year	689,630	19,277	708,907	658,183
Net Assets, End of Year	\$ 672,473	\$ 22,361	\$ 694,834	\$ 708,907

See accompanying notes to financial statements.

**CALIFORNIA VEHICLE FOUNDATION
DBA CALIFORNIA AUTOMOBILE MUSEUM**

**Statement of Cash Flows
For the Year Ended December 31, 2012
(with comparative totals for 2011)**

	<u>(Audited)</u> <u>2012</u>	<u>(Reviewed)</u> <u>2011</u>
Cash Flows from Operating Activities:		
Change in net assets	\$ (14,073)	\$ 50,724
Adjustment to reconcile change in net assets to net cash provided by operating activities:		
Depreciation	11,489	12,204
Loss on disposition of equipment	817	97
Write-down of collection items	921	4,954
Proceeds from sales of exhibit items	-	500
Realized and unrealized losses on exhibit items	5,850	9,050
Donated exhibit items	(5,200)	(50,625)
Donated equipment	-	(16,180)
Donated collection vehicles	(37,830)	(2,250)
Donated library gifts	(1,219)	(979)
Changes in certain operating assets and liabilities:		
Accounts receivable	6,066	(6,929)
Gift shop inventory	1,717	(1,073)
Prepaid expenses	(1,805)	304
Prepaid vehicle expenses	8,981	(4,591)
Accounts payable	4,757	7,586
Accrued expenses	3,638	6,298
Deferred revenue	7,199	(7,093)
Other liabilities	(1,125)	8,300
Cash restricted for long-term purposes	41	3,424
Net Cash Provided (Used) by Operating Activities	<u>(9,776)</u>	<u>13,721</u>
Cash Flows from Investing Activities		
Purchases of property and equipment	(1,948)	(6,651)
Sale of property and equipment	-	1,800
Net Cash Used by Investing Activities	<u>(1,948)</u>	<u>(4,851)</u>
Cash Flows from Financing Activities		
Borrowings on line of credit	15,182	-
Net Cash Provided by Financing Activities	15,182	-
Net Increase in Cash	3,458	8,870
Cash, Beginning of Year	<u>30,106</u>	<u>21,236</u>
Cash, End of Year	<u>\$ 33,564</u>	<u>\$ 30,106</u>

See accompanying notes to financial statements.

**CALIFORNIA VEHICLE FOUNDATION
DBA CALIFORNIA AUTOMOBILE MUSEUM**

**Notes to Financial Statements
December 31, 2012**

NOTE 1 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Organization

California Vehicle Foundation dba California Automobile Museum (the Foundation) is a nonprofit corporation whose purpose is to educate and entertain while preserving and promoting the automobile and its influence on our lives. The Foundation operates the California Automobile Museum in Sacramento, California, conducts various educational programs, and holds special events of interest to auto enthusiasts. The Foundation also conducts a vehicle donation program and a classic car and truck consignment program.

Estimates

Management uses estimates and assumptions in preparing financial statements. Those estimates and assumptions affect the reported amounts of assets and liabilities, the disclosure of contingent assets and liabilities, and the reported revenues and expenses. Actual results could differ from those estimates.

Cash

Cash consists of cash and short-term investments not restricted for long-term purposes with maturities of three months or less when purchased.

Accounts Receivable

Accounts receivable are stated at unpaid balances. Management believes all of the receivables are collectible; accordingly, no allowance for doubtful accounts has been established. Receivables are determined to be past due based on contractual terms.

Gift Shop Inventory

Gift shop inventory is stated at cost using the average cost method. Cost of sales of \$15,980 is included in program expenses.

Museum Exhibits and Collections

Museum exhibits and collections consist of vehicles held for exhibition to the public, a library of magazines, new car sales brochures, factory repair manuals maintained for educational purposes, and 1253 lithograph negatives from Lorin Sorensen's Ford Life Magazine. All museum exhibits and collections are inexhaustible and are protected, cared for, and preserved.

Items that are subject to a policy requiring proceeds from the sale of an item to be reinvested in other similar items are reported as collections. Collections are recorded at cost if purchased and at fair value at the date received if donated.

**CALIFORNIA VEHICLE FOUNDATION
DBA CALIFORNIA AUTOMOBILE MUSEUM**

**Notes to Financial Statements
December 31, 2012**

NOTE 1 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES – CONTINUED

Museum Exhibits and Collections – continued

Items that are not subject to a policy requiring proceeds from the sale of an item to be reinvested in other similar items are reported as museum exhibits. Museum exhibit items are stated at the lower of cost or current fair value. Donated exhibit items are stated at the lower of fair value at the date of donation or current fair value.

Property and Equipment

Property and equipment purchases in excess of \$500 are capitalized at cost, if purchased and fair value if donated. Depreciation is calculated on the straight-line method over the estimated useful lives of the assets, except for leasehold improvements, which are depreciated over the remaining life of the lease.

Memberships

Membership income is recorded when received and is essentially unrestricted contribution income.

Contributions

Contributions received are recorded as unrestricted, temporarily restricted, or permanently restricted support depending on the existence and/or nature of any donor restrictions. Contributions that are temporarily restricted are then reclassified to unrestricted net assets upon satisfaction of the restriction. Restricted contributions whose restrictions are met within the same reporting period are classified as unrestricted support.

Contributions of services are recognized if the services received create nonfinancial assets or require specialized skills. The museum is served by 300 volunteers whose services do not meet the above criteria for recognition. However, without these auto enthusiasts, the Foundation would not be a viable enterprise.

Marketable securities and other noncash contributions are recorded at their estimated fair values at the date of donation.

Advertising Costs

Advertising costs are expensed as incurred. Advertising expense amounted to \$725 during the year ended December 31, 2012.

Functional Allocation of Expenses

The costs of providing the various programs and other activities have been summarized on a functional basis in the Statement of Activity. Accordingly, certain costs have been allocated among the programs and supporting services benefited.

**CALIFORNIA VEHICLE FOUNDATION
DBA CALIFORNIA AUTOMOBILE MUSEUM**

**Notes to Financial Statements
December 31, 2012**

NOTE 1 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES – CONTINUED

Income Tax Status

The Foundation is a tax-exempt corporation under Section 501(c)(3) of the Internal Revenue Code and Section 23701(d) of the California Revenue and Taxation Code, and is classified as a public charity. The Foundation's tax returns are open to examination by the IRS and FTB for three and four years, respectively, from the date they are filed.

Comparative Information

The financial statements include certain prior-year summarized comparative information in total but not by net asset class. Such information does not include sufficient detail to constitute a presentation in conformity with generally accepted accounting principles. Accordingly, such information should be read in conjunction with the organization's financial statements for the year ended December 31, 2011, from which the summarized information was derived.

Subsequent Events

Management has evaluated subsequent events through the date the financial statements were available to be issued, which was September 2, 2013.

NOTE 2 PROPERTY AND EQUIPMENT

Property and equipment consist of the following as of December 31, 2012:

Leasehold improvements	\$ 632,634
Furniture and fixtures	95,898
Equipment and software	13,357
Vehicles	<u>6,617</u>
	748,506
Less accumulated depreciation	<u>(703,754)</u>
	<u>\$ 44,752</u>

Depreciation expense amounted to \$11,489 for the year ended December 31, 2012.

**CALIFORNIA VEHICLE FOUNDATION
DBA CALIFORNIA AUTOMOBILE MUSEUM**

**Notes to Financial Statements
December 31, 2012**

NOTE 3 COLLECTIONS

Collections consist of the following as of December 31, 2012:

Vehicles	\$	269,295
Library		119,092
Lithographs		20,000
		20,000
	\$	408,387

The Foundation received non-cash contributions to the collection of vehicles with a fair value of \$37,830 and library materials of \$1,219 during the year ended December 31, 2012.

NOTE 4 LEASES

The Foundation leases the land and building for the museum under a five-year bargain lease expiring in December 2015 with the City of Sacramento for \$200 per month. The lease contains a clause that the City can terminate the lease prior to the expiration of the lease term with six months written notice in order to implement any redevelopment plan approved by the Redevelopment Agency or the City. In-kind rent expense under this lease amounted to \$249,600 for the year ended December 31, 2012. The Foundation also received in-kind storage space from a company in 2012. In-kind rent expense for this space amounted to \$12,000 for the year ended December 31, 2012.

In addition, the Foundation leased office equipment under a five-year lease agreement in 2012. Future minimum lease payments under these leases assuming the City does not terminate the museum lease are as follows:

	Museum Space	Office Equipment	Total
2013	\$ 2,400	\$ 724	\$ 3,124
2014	2,400	724	3,124
2015	2,400	724	3,124
2016	-	724	724
2017	-	543	543
	\$ 7,200	\$ 3,439	\$ 10,639

Total rent expense under all of the above leases amounted to \$264,000.

**CALIFORNIA VEHICLE FOUNDATION
DBA CALIFORNIA AUTOMOBILE MUSEUM**

**Notes to Financial Statements
December 31, 2012**

NOTE 5 LINES OF CREDIT

The Foundation has two lines of credit of \$50,000 each with two banks that renew annually. Borrowings under these lines bear interest at 6.25% and 11.50%, respectively. As of December 31, there was \$15,182 outstanding under the first line of credit. Interest incurred and paid in cash amounted to \$597 during the year ended December 31, 2012. The balance was repaid in April 2013.

NOTE 6 RESTRICTIONS AND DESIGNATIONS ON ASSETS

Temporarily restricted net assets consist of the following as of December 31, 2012:

New Home Fund	\$	11,566
Speed exhibit		2,250
Hands-on exhibits		1,520
Grant writer funding		7,025
		<hr/>
	\$	<u>22,361</u>

Board designated net assets were designated for endowment and are included in cash restricted or designated for long term purposes. There were no changes in the balance during the year ended December 31, 2012. Subsequent to year-end, the Board changed the designation to the New Home Fund.

NOTE 7 FAIR VALUE MEASUREMENTS

The fair value measurement accounting literature establishes a fair value hierarchy that prioritizes the inputs to valuation techniques used to measure fair value. This hierarchy gives the highest priority to unadjusted quoted prices in active markets for identical assets or liabilities (level 1 measurements) and the lowest priority to unobservable inputs (level 3 measurements). The fair value measurement level within the fair value hierarchy is based on the lowest level of any input that is significant to the fair value measurement. Transfers between levels in the fair value hierarchy are deemed to have occurred when the methodology for the levels are changed significantly.

Following is a description of the valuation methodologies used for assets measured at fair value and the changes in the methodologies during the year ended December 31, 2012:

Donated exhibit items: Based on published values per the Collector Car Price Guide, if available (Level 2). In previous years, the value was based on 75% of the appraised values supplied by the donor. The change in methodology was made because management determined over time that the Price Guide is more accurate than the appraisals. For vehicles not included in the Collector Car Price Guide, valued at 75% of the appraised value (Level 3).

**CALIFORNIA VEHICLE FOUNDATION
DBA CALIFORNIA AUTOMOBILE MUSEUM**

**Notes to Financial Statements
December 31, 2012**

NOTE 7 FAIR VALUE MEASUREMENTS – CONTINUED

The following table sets forth the fair value measurements for assets that are valued at fair value on a recurring basis:

	<u>Fair Value</u>	<u>Level 1 (quoted prices for identical assets in an active market)</u>	<u>Level 2 (significant observable inputs)</u>	<u>Level 3 (significant unobservable inputs)</u>
Museum exhibit vehicles	\$ 247,633	\$ -	\$ 231,133	\$ 16,500

The following table reconciles the beginning and ending balances of museum exhibit vehicles valued using significant unobservable inputs (Level 3):

	<u>Level 3 (significant unobservable inputs)</u>
Balance at beginning of year	\$ 248,283
Transfers from Level 3 to Level 2	<u>(231,783)</u>
Balance at end of year	<u><u>\$ 16,500</u></u>