June 30, 2009

To the NRHS Board of Directors:

Attached is the NRHS audit report for fiscal year 2008. This report consists of five components in addition to this cover letter.

- NRHS Management Response to issues raised in the 2008 audit communications
- Audited Consolidated Financial Statements for the year ended December 31, 2008
- Communications required by Statement of Auditing Standard No. 114
- Communications required by Statement of Auditing Standard No. 112
- Management Letter

Except for the Management Response, all documents were prepared by Padden, Guerrini & Associates, PC, of Camp Hill, PA. This firm also prepared our Federal and Pennsylvania tax filings, which are currently being reviewed and submitted.

Gregory P. Molloy
President

June 30, 2009

To the NRHS Board of Directors:

This is NRHS Management's response to issues raised in four documents dated April 30, 2009 in the Society's external audit for fiscal year 2008. These documents were prepared by Padden, Guerrini & Associates, PC, and delivered to the NRHS on June 26, 2009.

It should be noted that 2008 was a major transition year for the Society. The NRHS closed its national office facility in Philadelphia. Many national office functions were relocated to the Fernley & Fernley association management firm. Fernley & Fernley had already taken over NRHS membership records in late 2007 and began to process almost all receipt and disbursements at the beginning of 2008.

For the first time, much of the 2008 audit work was performed at the Fernley & Fernley offices in a working session with NRHS staff present.

Financial Statements

There are no issues in the financial statements requiring a direct response from NRHS management. These statements were used in the Society's Annual Report for 2008, to be published in the *2008 Yearbook*.

Communication Required By Statement of Auditing Standard No. 114

There are no issues in this letter requiring a direct response from NRHS management.

Communication Required By Statement of Auditing Standard No. 112

Cash Account Reconcilement:

NRHS Management has reviewed in detail the concerns raised by the auditors. As of this date, we are investigating options for fixing the problem, and we expect to provide an update to the Board of Directors at the August 14 meeting. We expect to make appropriate changes during the current fiscal year.

Corporate Visa Cards:

The issues raised are primarily matters of documentation. NRHS managers have reviewed our current system and determined that receipts are being provided, business purpose is being documented, and credit card expenditures are being reviewed and approved. In some cases, however, the receipts and business purpose statement were filed separately from the payment records and could not be readily located and retrieved during the audit. In addition, there was no written documentation in the payment file to indicate that the reviews and approvals that had been done had actually taken place. NRHS Management is working on improvements to the procedures by which receipts and approval documentation are recorded and filed.

In refining our procedures, NRHS must strike a balance between competing needs here. The tighter the control and review on our corporate credit cards, the more we risk missing payment deadlines. Missed payment dates could result in either interest charges and late-payment fees or additional office hours to process payments on an exception basis.

The NRHS has reduced the number of corporate Visa cards to two, both of which are necessary for the administration of RailCamp and other Society business. The cards are issued to long-term NRHS staff members. The credit limits on these cards are set as low as practical to allow our staff to meet NRHS business needs. The credit card statements are reviewed monthly by the Senior Vice President and periodically by the Comptroller. We believe that the risk of these credit cards is appropriate for the business need.

Create Controls over Journal Entries:

This is primarily a record-keeping issue.

Most journal entries involve transactions related to balance sheet accounts such as unpublished Bulletins, prepaid dues and donations, depreciation, inventory (emblem sales and membership awards) and restricted fund balances. Most of these entries are made once per year. In most cases, supporting spreadsheets are prepared and distributed to the appropriate NRHS managers, the President and the chairman of the Finance Committee before these entries are actually made, and this supporting documentation is available for review in the NRHS financial records.

It is correct, however, that the NRHS has not maintained a central log of journal entries with supporting documentation, nor have we kept a consolidated record of management approvals. NRHS Management will develop a system to do this. The approval cannot be provided by the Comptroller, since he actually keeps the records and makes the journal entries.

General Ledger Reconciliations:

We agree that NRHS needs to improve the review of our general ledger accounts so that we do not find situations where accounts are out of balance with subsidiary ledgers. NRHS Management will develop a system to do this.

We believe that the NRHS needs incremental improvements to the reconciliation process that already exists. During 2008, monthly reconciliations of the Blackhawk checking account, Merrill Lynch money fund and Bank of America checking accounts were made and sent to the Treasurer for review.

Management Letter

Prepaid Expenses:

NRHS intends to maintain accounting procedures in line with GAAP standards. This change will affect the Society's profit & loss statement as long as we continue to run a mix of chapter-sponsored and nationally-sponsored conventions. Early expenses to set up nationally-sponsored conventions will be charged in the year in which they are expended rather than in the year of the convention income. The result may be greater deviations in net convention income from year to year.

We will also change the postings of adjustments to specific accounts rather than to "Prior Year Expense" as suggested.

Pre-Audit Meeting:

First, we note one technical correction. The pre-audit review of our records is conducted by a small group of officers and staff, most of whom are not directors. NRHS will take these comments into account when preparing for the 2009 audit. Some of these suggestions are linked to the creation of an audit committee, discussed below.

Audit Trail:

We agree that all obsolete or incorrect entries should be fixed with journal entries and not deletions. NRHS has already implemented this change.

Audit Committee:

This is on the agenda for the next Board of Directors meeting. These duties are currently handled by the officers and staff members on the Finance Committee. Establishing a separate audit committee will require the NRHS to identify additional members with an accounting or financial background.

Fixed Assets Subsidiary Ledger:

The adjustment will be made. We note that the Society's fixed assets underwent significant change in 2008 because of the closure of the national office in the Robert Morris Building.

Other Journal Entries:

The adjustment will be made.

Expense Policies:
Travel Expenses:

The NRHS is currently reviewing and updating its Travel & Reimbursement policy. These issues will be addressed and incorporated as appropriate. Travel expenses are currently reviewed on a regular basis, but we need to formalize the documentation of the reviews and update the standards by which they are being reviewed.

Prior Year Comments:

As discussed at the Spring 2009 Board meeting, NRHS needs to update its policies and documentation in several areas. Documentation of financial procedures and a whistleblower policy are both on the list for consideration at future Board meetings. During 2008, the Society was implementing many new procedures as part of the transition to Fernley & Fernley. We have had internal discussions to establish and refine those procedures. The creation of formal and reviewable documentation is a logical next step.

Gregory P. Molloy
President

NATIONAL RAILWAY HISTORICAL SOCIETY

FINANCIAL STATEMENTS
DECEMBER 31, 2008 AND 2007
AND
REPORT OF INDEPENDENT
CERTIFIED PUBLIC ACCOUNTANTS
(Audited)

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Padden, Guerrini
& Associates, P.C.
Certified Public Accountants

REPORT OF INDEPENDENT CERTIFIED PUBLIC ACCOUNTANTS

To the Board of Directors
National Railway Historical Society

We have audited the accompanying statements of financial position of National Railway Historical Society as of December 31, 2008 and 2007 and the related statements of activities and cash flows for the years then ended. These financial statements are the responsibility of the Society's management. 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. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of National Railway Historical Society as of December 31, 2008 and 2007, and the results of its operations and its cash flows for the years then ended in conformity with accounting principles generally accepted in the United States of America.

Padden, Guerrini & Associates, P.C.
Certified Public Accountants

Camp Hill, Pennsylvania
April 30, 2009

NATIONAL RAILWAY HISTORICAL SOCIETY
STATEMENTS OF FINANCIAL POSITION

	December 31	
	2008	2007
ASSETS		
Current Assets		
Cash and cash equivalents	$ 456,066	$ 463,454
Certificates of deposit	20,510	20,510
Accounts receivable	11,680	143
Investments	33,796	92,009
Inventory	20,360	14,101
Prepaid expenses	22,522	2,719
Total Current Assets	564,934	592,936
Fixed Assets	3,476	7,962
TOTAL ASSETS	$ 568,410	$ 600,898
LIABILITIES AND NET ASSETS		
Liabilities		
Accounts payable	$ 6,077	$ 5,480
Deferred income	228,922	152,312
Accrued expenses	99,657	155,901
Total Liabilities	334,656	313,693
Net Assets		
Unrestricted	192,983	222,395
Temporarily restricted	23,372	48,436
Permanently restricted	17,399	16,374
Total Net Assets	233,754	287,205
TOTAL LIABILITIES AND NET ASSETS	$ 568,410	$ 600,898

See notes to the financial statements

NATIONAL RAILWAY HISTORICAL SOCIETY
STATEMENT OF ACTIVITIES
YEAR ENDED DECEMBER 31, 2008

	Unrestricted	Temporarily Restricted	Permanently Restricted	Total
Support and Revenues				
Dues income	$ 417,524	$ -	$ -	$ 417,524
Sales revenue	9,750	-	-	9,750
RailCamp revenue	42,646	-	-	42,646
Conventions	15,021	-	-	15,021
Interest and dividend income	14,157	-	-	14,157
Contributions	73,804	19,367	1,025	94,196
Restrictions satisfied by payments	44,431	(44,431)	-	-
Unrealized gains/losses on investments	(6,656)	-	-	(6,656)
Loss on disposition of fixed assets	(3,937)	-	-	(3,937)
Miscellaneous income (expense)	40,290	-	-	40,290
Total Support and Revenues	647,030	(25,064)	1,025	622,991
Expenses				
Salaries and benefits	22,907	-	-	22,907
Convention expense	17,463	-	-	17,463
Bulletin expense	152,132	-	-	152,132
Publication expense	24,787	-	-	24,787
Membership records expense	35,562	-	-	35,562
Office expense	33,899	-	-	33,899
Meeting and travel expense	24,679	-	-	24,679
Rent expense	13,049	-	-	13,049
Insurance expense	2,197	-	-	2,197
Bank and investment fees	6,737	-	-	6,737
Corporate expenses	10,603	-	-	10,603
Professional fees	18,213	-	-	18,213
Advertising expense	27,128	-	-	27,128
Emblem sales expense	4,297	-	-	4,297
RailCamp expense	45,576	-	-	45,576
Grants and donations	37,230	-	-	37,230
Periodical and book purchases	1,900	-	-	1,900
Management fees	141,000	-	-	141,000
Depreciation expense	3,229	-	-	3,229
Other miscellaneous expense	53,774	-	-	53,774
Interest expense	80	-	-	80
Total Expenses	676,442	-	-	676,442
Increase (Decrease) in Net Assets	(29,412)	(25,064)	1,025	(53,451)
Net Assets, Beginning of Year	222,395	48,436	16,374	287,205
Net Assets, End of Year	$ 192,983	$ 23,372	$ 17,399	$ 233,754

See notes to the financial statements

NATIONAL RAILWAY HISTORICAL SOCIETY
STATEMENT OF ACTIVITIES
YEAR ENDED DECEMBER 31, 2007

	Unrestricted	Temporarily Restricted	Permanently Restricted	Total
Support and Revenues				
Dues income	$ 291,646	$ -	$ -	$ 291,646
Sales revenue	8,420	-	-	8,420
RailCamp revenue	46,087	-	-	46,087
Conventions	276,580	-	-	276,580
Interest and dividend income	34,311	-	-	34,311
Contributions	72,650	8,569	1,125	82,344
Restrictions satisfied by payments	6,948	(6,948)	-	-
Unrealized gains/losses on investments	4,164	-	-	4,164
Loss on disposition of fixed assets	-	-	-	-
Miscellaneous income (expense)	14,509	-	-	14,509
Total Support and Revenues	755,315	1,621	1,125	758,061
Expenses				
Salaries and benefits	34,065	-	-	34,065
Convention expense	187,919	-	-	187,919
Bulletin expense	195,575	-	-	195,575
Publication expense	34,583	-	-	34,583
Membership records expense	27,063	-	-	27,063
Office expense	34,849	-	-	34,849
Meeting and travel expense	10,481	-	-	10,481
Rent expense	49,726	-	-	49,726
Insurance expense	9,243	-	-	9,243
Bank and investment fees	3,221	-	-	3,221
Corporate expenses	14,706	-	-	14,706
Professional fees	13,975	-	-	13,975
Advertising expense	20,961	-	-	20,961
Emblem sales expense	3,441	-	-	3,441
RailCamp expense	49,234	-	-	49,234
Grants and donations	35,656	-	-	35,656
Periodical and book purchases	3,104	-	-	3,104
Management fees	56,900	-	-	56,900
Depreciation expense	4,106	-	-	4,106
Other miscellaneous expense	34,366	-	-	34,366
Interest expense	57	-	-	57
Total Expenses	823,231	-	-	823,231
Increase (Decrease) in Net Assets	(67,916)	1,621	1,125	(65,170)
Net Assets, Beginning of Year	290,311	46,815	15,249	352,375
Net Assets, End of Year	$ 222,395	$ 48,436	$ 16,374	$ 287,205

See notes to the financial statements

NATIONAL RAILWAY HISTORICAL SOCIETY
STATEMENTS OF CASH FLOWS

	Years Ended December 31	
	2008	2007
Cash Flows From Operating Activities:		
Change in net assets	$ (53,451)	$ (65,170)
Adjustments to reconcile change in net assets to net cash provided by operating activities:		
Depreciation	3,229	4,106
Unrealized gain (loss) on investments	7,017	(4,164)
Loss on disposition of fixed assets	3,937	-
Donated stock securities included in contributions	(8,728)	-
Change in assets and liabilities:		
(Increase) decrease in:		
Accounts receivable	(11,537)	212
Inventory	(6,259)	(1,522)
Prepaid expenses	(19,803)	4,121
Deferred convention expenses	-	10,621
Increase (decrease) in		
Accounts payable	597	4,793
Deferred income	76,610	98,882
Accrued expenses	(56,244)	(77,431)
Net Cash Used in Operating Activities	(64,632)	(25,552)
Cash Flows From Investing Activities:		
Purchases of equipment and furniture	(2,680)	-
Investment sales	59,924	342,891
Net Cash Provided by Investing Activities	57,244	342,891
Net (Decrease) Increase in Cash	(7,388)	317,339
Cash, Beginning of Year	463,454	146,115
Cash, End of Year	$ 456,066	$ 463,454

See notes to the financial statements

NATIONAL RAILWAY HISTORICAL SOCIETY
NOTES TO THE FINANCIAL STATEMENTS
DECEMBER 31, 2008 AND 2007

1. Nature of Activities and Summary of Significant Accounting Policies

Nature of Activities

The National Railway Historical Society, Inc. (the Society) was founded in 1935 and incorporated in Maryland in 1937. The Society is dedicated to the interpretation and preservation of railway education and history. Members of the Society receive various publications throughout the year in exchange for an annual dues payment. The Society is supported primarily through this dues payment, donor contributions and special event revenues. There are local chapters of the Society located in the United States, Canada and Great Britain. All officers and directors serve voluntarily and without renumeration.

Summary of Significant Accounting Policies

This summary is presented to assist in understanding the Society's financial statements. The financial statements and notes are representations of the Society's management who is responsible for the integrity and objectivity of the financial statements. These accounting policies conform to generally accepted accounting principles and have been consistently applied in the preparation of the financial statements.

Estimates - The preparation of financial statements in conformity with generally accepted accounting principles requires management to make estimates and assumptions that affect certain reported amounts and disclosures. Accordingly, actual results could differ from those estimates.

Financial Statement Presentation - The Society has adopted Statement of Financial Accounting Standards (SFAS) No. 117, "Financial Statements of Not-for-Profit Organizations." Under SFAS No. 117, the Society is required to report information regarding its financial position and activities according to three classes of net assets: unrestricted net assets, temporarily restricted net assets, and permanently restricted net assets. As permitted by the statement, the Society does not use fund accounting.

Contributions - The Society has also adopted SFAS No. 116, "Accounting for Contributions Received and Contributions Made." Contributions received are recorded as unrestricted, temporarily restricted, or permanently restricted support depending on the existence or nature of any donor restrictions.

Income Taxes - The Society is a not-for-profit organization that is exempt from income taxes under Section 501(c)(3) of the Internal Revenue Code and classified by the Internal Revenue Service as other than a private foundation.

Investments - The Society has adopted SFAS No. 124, "Accounting for Certain Investments Held by Not-for-Profit Organizations." Under SFAS No. 124, investments in marketable securities with readily determinable fair values and all investments in debt securities are reported at their fair values in the statement of financial position. Unrealized gains and losses are included in the change in net assets. Investment income and gains restricted by a donor are reported as increases in unrestricted net assets if the restrictions are met (either by passage of time or by use) in the reporting period in which the income and gains are recognized.

1. Nature of Activities and Summary of Significant Accounting Policies (Continued)

Summary of Significant Accounting Policies (Continued)

Cash and Cash Equivalents - For the purposes of the statement of cash flows, the Society considers all short-term debt securities purchased with a maturity of three months or less to be cash equivalents.

The Society had no income tax payments or expense during 2008 and 2007.

Inventories - Inventories consist primarily of member length of service award pins and promotional items purchased for resale to members. Promotional items consist primarily of pens, caps, ties, lapel pins, and jackets bearing the Society's emblem. Inventories are stated at the lower of cost determined by the FIFO method or market value.

Furniture, Equipment and Improvements - Furniture, equipment and leasehold improvements are capitalized at cost. It is the Society's policy to capitalize expenditures for those items in excess of $1,000. Lesser amounts are expensed. Furniture, equipment and improvements are being depreciated over estimated useful lives of three to ten years using a straight-line method. Expenditures for maintenance and repair of equipment are charged to expense as incurred.

Collections - The collections consist of historical film and photographs, which were acquired through purchases and contributions since the Society's inception, are not recognized as assets on the statement of financial position. Purchases of collection items are recorded as decreases in unrestricted net assets in the year in which the items are acquired or as temporarily or permanently restricted net assets if the assets used to purchase the items are restricted by donors. Contributed collection items are not reflected on the financial statements.

2. Investments

Investments are stated at fair value and consist of U.S. Government Agency Securities and Negotiable Certificates of Deposit and stocks. Fair values at December 31 are summarized as follows:

	2008	2007
U.S. Government Agency Securities	$ -	$ 20,059
Stocks	33,796	31,723
Negotiable Certificates of Deposit	-	40,227
	$ 33,796	$ 92,009

NATIONAL RAILWAY HISTORICAL SOCIETY
NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)
DECEMBER 31, 2008 AND 2007

2. Investments (Continued)

The following schedule summarizes the investment return, including income received on short-term investments carried in cash and cash equivalents and certificates of deposit. These items are classified as unrestricted in the statement of activities for the years ended December 31, 2008 and 2007:

	2008	2007
Interest and Dividend Income	$ 14,157	$ 34,311
Net realized and Unrealized gains (losses)	(6,656)	4,164
Total Investment Return	$ 7,501	$ 38,475

3. Leases

The National Railway Historical Society, Inc. had leased its headquarters office which was located in the Robert Morris Building at 100 N. 17th Street, Philadelphia, Pennsylvania. During 2007, the Robert Morris Building was sold. The National Railway Historical Society, Inc. was offered a buy-out of their operating lease in the amount of $30,000, $10,000 of which was paid upon agreement and $20,000 which was paid upon the Society vacating the building on February 29, 2008.

Rental expense under the operating lease for the years ended December 31, 2008 and 2007 was $13,049 and $49,726, respectively.

4. Disclosure of Cash Balances in Excess of Federally Insured Amounts

The Society maintains its cash in bank deposit accounts that, at times, may exceed federally insured limits. The Society has not experienced any losses in such account. The Society believes it is not exposed to any significant credit risk on cash and cash equivalents.

5. Advertising Costs

The Society expenses advertising costs as they are incurred. Advertising expense for the year ended December 31, 2008 and 2007 was $27,128 and $20,961, respectively. No advertising was reported as assets at December 31, 2008.

6. Fair Value of Financial Instruments

Effective January 1, 2008, the Society adopted the provisions of SFAS No. 157, "Fair Value Measurements" for assets and liabilities measured and reported at fair value. SFAS No. 157 defines fair value, establishes a framework for measuring fair value and expands disclosures about fair value measurements.

SFAS 157 defines fair value as the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants. SFAS No. 157 requires the use of valuation techniques that are consistent with the market approach, the income approach and/or the cost approach. Inputs to valuation techniques refer to the assumptions that market participants would use in pricing the asset or liability. Inputs may be observable, meaning those that reflect the assumptions market participants would use in pricing the asset or liability developed based on market data obtained from independent sources, or unobservable, meaning those that reflect the reporting entity's own assumptions about the assumptions market participants would use in pricing the asset or liability developed based on the best information available in the circumstances. In that regard, SFAS No. 157 establishes a fair value hierarchy for valuation inputs that gives the highest priority to quoted prices in active markets for identical assets or liabilities and the lowest priority to unobservable inputs. The fair value hierarchy is as follows:

Level 1: Quoted prices (unadjusted) for identical assets or liabilities in active markets that the entity has the ability to access as of the measurement date.

Level 2: Significant other observable inputs other than Level 1 prices such as quoted prices for similar assets or liabilities; quoted prices in markets that are not active; or other inputs that are observable or can be corroborated by observable market data.

Level 3: Significant unobservable inputs that reflect a reporting entity's own assumptions about the assumptions that market participants would use in pricing an asset or liability.

A description of the valuation methodologies used for assets and liabilities measured at fair value, as well as the general classification of such instruments pursuant to the valuation hierarchy, is set forth below.

Stocks: Where quoted prices are available in an active market, securities are classified within Level 1 of the valuation hierarchy. Level 1 securities would include highly liquid government bonds and exchange traded equities. If quoted market prices are not available, then fair values are estimated by using pricing models, quoted prices of securities with similar characteristics, or discounted cash flow. Level 2 securities would include U.S. agency securities, mortgage backed agency securities, obligations of states and political subdivisions and certain corporate, asset backed and other securities. In certain cases where there is limited activity or less transparency around inputs to the valuation, securities are classified within Level 3 of the valuation hierarchy.

NATIONAL RAILWAY HISTORICAL SOCIETY
NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)
DECEMBER 31, 2008 AND 2007

6. Fair Value of Financial Instruments (Continued)

The following table summarizes the stocks measured at fair value on a recurring basis as of December 31, 2008, segregated by the level of the valuation inputs within the fair value hierarchy utilized to measure fair value.

	2008			
	Total	Level 1	Level 2	Level 3
Stocks	$ 33,796	$ 33,796	$ -	$ -

7. Functional Expenses

Functional expenses for the years ended December 31 are as follows:

	2008	2007
Program services	$ 493,803	$ 709,981
Management and general	182,639	113,250
	$ 676,442	$ 823,231

8. Agreements

On January 19, 2007 the Society entered into a management agreement with Fernley & Fernley to provide database management and accounting functions. A one time transition fee of $26,900 was paid in 2007 and an annual management fee of $72,000 beginning October 1, 2007 will be required.

On December 27, 2007 the Society entered into a second management agreement with Fernley & Fernley to provide account management and administrative functions. A one time transition fee of $2,246 was payable in 2008 and an annual management fee of $74,880 beginning February 1, 2008 will be required.

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April 30, 2009

National Railway Historical Society
ATTN: Board of Directors
634 Flagstaff Drive
Cincinnati, Ohio 45215

RE: Management Letter

Dear Board of Directors:

We have audited the statement of financial condition of National Railway Historical Society as of December 31, 2008, and have issued our report on the financial statement dated April 30, 2009. As part of our examination, we made a study and evaluation of the Society's system of internal accounting control to the extent we considered necessary to evaluate the system as required by generally accepted auditing standards. The purpose of our study and evaluation was to determine the nature, timing, and extent of the auditing procedures necessary for expressing an opinion on the Society's statement of financial condition. Our study and evaluation was more limited than would be necessary to express an opinion on the system of internal accounting control taken as a whole.

Our study and evaluation made for the limited purpose described in the first paragraph would not necessarily disclose all weaknesses in the system because it was based on selective tests of accounting records and related data. Accordingly, we do not express an opinion on the system of internal accounting control of National Railway Historical Society taken as a whole.

However, during our audit we became aware of several matters that are opportunities for strengthening internal controls and operating efficiency. The memorandum that accompanies this letter summarizes our comments and suggestions regarding those matters.

A separate report dated April 30, 2009, contains our report on significant deficiencies in the Society's internal control (SAS 112 letter).

We will review the status of these comments during our next audit engagement. We have already discussed many of these comments and suggestions with various Society officers, and we will be pleased to discuss them in further detail at your convenience, to perform any additional study of these matters, or to assist you in implementing the recommendations.

PREPAID EXPENSES

The Society is planning to host the 2009 convention and as such as accumulated a variety of expenses toward this event in 2008. These expenses total over $20,000 and are being carried in the prepaid convention account. The majority of these expenses appear to consist of travel related expenses incurred for the planning of the convention.

Prepaid expense accounts are typically used to account for items paid in advance, such as insurance coverage or advertising and should not be used to account for expenses already incurred.

While we understand that the Society is attempting to match the expense for this event with the income to be received for the event, this accounting method is not in accordance with GAAP. We suggest that expenses be recorded as incurred.

ADJUSTMENTS TO INVENTORY AND DEFERRED REVENUE

Adjustments made to the inventory accounts as well as to the deferred revenue accounts are posted to expense accounts labeled "prior year adjustment" instead of to the actual expense or revenue account to which they relate.

We suggest that adjusting entries to these accounts be made to the appropriate accounts (such as cost of sales or revenues).

PRE AUDIT MEETING

In March of each year selected directors get together to review the financial records of the Society. This review encompasses a comparison of actual data to expected and budgeted data. Any errors noted during this review are then corrected prior to delivering the records to us for audit. While we commend this effort we would like to suggest that an additional step be added to make this process more valuable to us. A review of each balance sheet account, including the net assets account, should be conducted. Each account should be compared to the appropriate subsidiary ledger and should be examined to determine accuracy. Corrections to the balance sheet account balances could then be done prior to the audit. This would reduce the audit time currently necessary for reconciliation assistance.

AUDIT TRAIL

We noted instances where journal or other accounting entries were being removed from the accounting records by deleting the entry instead of posting a reversing entry (i.e. for voided checks). This method of correction alters the audit trail and most likely contributed to some of the out of balance conditions noted in our SAS 112 letter.

We suggest all accounting corrections be made with journal entries and not be corrected using a deletion of the entry.

AUDIT COMMITTEE

The Society does not have an audit committee. This committee typically is charged with the oversight of financial reporting and disclosure, and its members are drawn from members of the Board. We suggest consideration be given to forming an audit committee. Members of this committee should possess an accounting or finance background.

FIXED ASSET SUBSIDIARY LEDGER

We noted that the Society's fixed asset subsidiary ledger does not agree with the general ledger control account. We also noted that the Society was carrying several fully depreciated fixed assets which had been disposed of during the Society's transition to Fernley & Fernley. In addition to these fully depreciated assets, the Society had disposed of office equipment with a carrying amount of $3,936.98. We made the following adjusting journal entry to remove these disposed of fixed assets and to record the loss on their disposition:

		Debit	Credit
1899	Accumulated Depreciation	$ 29,893.66	
XXXX	Gain/Loss on Disposition of Fixed Assets	3,936.54	
1800	Furniture, Fixtures & Equipment		$ 33,830.20

This entry should be booked to your general ledger as soon as possible. The part of the entry affecting income/expense should be posted to net assets/retained earnings since this entry relates to 2008.

OTHER JOURNAL ENTRIES

The following journal entry was recorded in preparation of your audited financial statements:

		Debit	Credit
2100	Bills Payable	$ 1,520.02	
3900	Retained Earnings		$ 1,520.02

This entry should be booked to your general ledger as soon as possible.

EXPENSE POLICIES

As noted in the corporate credit card section of the SAS 112 letter, while we noted marked improvement over the retention of documentation supporting transactions to the corporate visa accounts, we continued to note charges to the visa cards which not supported with adequate receipts, business purpose or approvals. Many of these charges are for travel, lodging, meals and supplies and without adequate documentation of business purpose could appear to be personal unauthorized charges. The same may be true of other expenses. Other than a final review of expense items by the Audit Review Committee there is no documented ongoing effort to authorize payments prior to disbursement.

We understand that you are in the process of developing a policy covering expenses. This policy would not only be beneficial for audit purposes but is essential in order to allow your management company to transact business in accordance with your established guidelines.

We support your adoption of a travel, credit card, and expense reimbursement policy as well as a procedure detailing the expense approval and payment process for all expenses. These policies should clearly indicate the following items:

- The definition of "business purpose"
- A list of reimbursable and nonreimbursable expenses

EXPENSE POLICIES (CONTINUED)

- Documentation required before reimbursement can be made (such as receipts and expense reports detailing business purpose)
- Compliance with the IRS regulations
- Approval process
- A master listing of all corporate credit cards, including names and account numbers
- Restrictions on personal use of company frequent flier miles or other credit card points

PRIOR YEAR COMMENTS

As mentioned in our prior year management letter we suggested that you document the Society's ***internal control over financial reporting*** as well as ***establish a fraud hotline/whistleblower policy***. We continue to recommend that these areas be addressed.

We would like to thank the Society for its cooperation and assistance in the examination of its records. If we can be of any further help, please contact us.

Sincerely,
Padden, Guerrini & Associates, P.C.
Certified Public Accountants

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Dennis M. Echternach, Jr.

April 30, 2009

To the Board of Directors and Management
National Railway Historical Society

RE: Communication required under
Statement of Auditing Standard No. 112

In planning and performing our audit of the financial statements of National Railway Historical Society as of and for the year ended December 31, 2008, in accordance with auditing standards generally accepted in the United States of America, we considered National Railway Historical Society's internal control over financial reporting (internal control) as a basis for designing our auditing procedures 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 Organization's internal control. Accordingly, we do not express an opinion on the effectiveness of the Organization's internal control.

Our consideration of internal control was for the limited purpose described in the preceding paragraph and was not designed to identify all deficiencies in internal control that might be significant deficiencies or material weaknesses and therefore there can be no assurance that all such deficiencies have been identified. However, as discussed below, we identified certain deficiencies in internal control that we consider to be material weaknesses and other deficiencies that we consider to be significant deficiencies.

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 combination of deficiencies in internal control, such that there is a reasonable possibility that a material misstatement of the entity's financial statements will not be prevented, or detected and corrected on a timely basis. We consider the following deficiencies in National Railway Historical Society's internal control to be **material weaknesses**:

CASH ACCOUNT RECONCILEMENT

The reconcilement for general ledger account 1010, Blackhawk Checking, included several reconciling items which could not be traced to their subsequent disposition. Because of these discrepancies we prepared our own reconciliation of this account. We found many items appearing on the prior month's reconcilement never cleared the bank or the books yet were removed from the subsequent reconcilement. These errors create doubt regarding the ongoing accuracy of the reconciliation process.

An accurate bank reconciliation is critical to sound accounting and internal controls. An individual reviewing the bank reconciliation should be able trace reconciling items to their subsequent disposition on either the general ledger or the bank statement. It is essential that this account be reconciled on a timely basis each month and that stale dated reconciling items be researched and written-off as necessary. We suggest that a second individual be assigned the duty of reconciling this account.

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. We consider the following deficiencies in National Railway Historical Society's internal control to be **significant deficiencies**:

Corporate Visa Cards: As noted in our prior year management letter, we were not always able to locate documents supporting all charges on the credit cards. While we noted a marked improvement in this area as well as a reduction in the total corporate cards in use to two, there were still instances where all charges were not supported with a receipt or documented with a business purpose. In addition, the approval process for these charges is weak. Other than a final annual review of expense items by the Audit Review Committee, there is no documented ongoing effort to authorize payments prior to disbursement.

We continue to suggest that each expense report be approved by either an approving Officer or the Audit Review Committee ***prior*** to disbursement.

Create Controls Over Journal Entries: The Society does not maintain effective controls over the validity of general ledger journal entries. Specifically, the Society has a general ledger system in which journal entries can be processed without appropriate approval, review or support. Additionally, reconciliations of the general ledger that would detect invalid journal entries were not prepared by individuals independent of the journal entry process. This control deficiency could result in a misstatement to the financial statements that would not be prevented or detected.

We recommend the adoption of a policy whereby all journal entries will be approved or otherwise reviewed through the reconciliation process by the controller or other designated member of management independent of the individual responsible for processing the journal entries. All journal entries should be accompanied by full explanation and by reference to adequate supporting data.

General Ledger Reconciliations: At the time of the audit field work, many general ledger accounts were not in balance with the corresponding subsidiary ledgers. And while we were able to assist with the reconciliations of the year end balances the fact that these accounts were not balanced on a monthly basis creates a control deficiency. Of particular concern is the reconciliation of the checking account. At December 31, 2008 the reconciliation prepared by the Society included reconciling items that could not be traced to subsequent clearing. We inspected reconciliations prepared for January through March of 2009 and found that the reconciliation totals did not agree with the general ledger. While the differences do not appear to be significant, the fact that the account is not being properly reconciled presents a control weakness.

We recommend that a review of each monthly bank reconcilement be performed by someone other than the preparer. This review should include a comparison of the reconcilement balance to the general ledger balance and should include tracing all reconciling items to their subsequent clearing on the bank statement or general ledger. We are available to assist you with this effort.

This information is intended solely for the use of the Board of Directors and management of National Railway Historical Society and is not intended to be and should not be used by anyone other than these specified parties.

Very truly yours,

Padden, Guerrini & Associates, P.C.
Certified Public Accountants

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April 30, 2009

To the Board of Directors and Management
National Railway Historical Society

RE: Communication required by
Statement of Auditing Standard No. 114

We have audited the statements of financial condition of the National Railway Historical Society as of December 31, 2008, and have issued our report thereon dated April 30, 2009. Professional standards require that we provide you with the following information related to our audit.

Our Responsibility Under U.S. Generally Accepted Auditing Standards

As stated in our engagement letter dated October 6, 2008, our responsibility, as described by professional standards, is to express an opinion about whether the financial statements prepared by management with your oversight are fairly presented, in all material respects, conformity with U.S. generally accepted accounting principles. Our audit of the financial statements does not relieve you or management of your responsibilities.

Planned Scope and Timing of the Audit

We began the audit according to the planned scope and timing previously communicated to you in our engagement letter dated October 6, 2008. However, due to difficulties in obtaining sufficient audit evidence during the originally scheduled fieldwork, the completion of fieldwork was delayed beyond that planned and communicated to you

Significant Audit Findings

Qualitative Aspects of Accounting Practices

Management is responsible for selection and use of appropriate accounting policies. In accordance with the terms of our engagement letter, we will advise management about the appropriateness of accounting policies and their application. The significant accounting policies used by National Railway Historical Society are described in Note 1 to the financial statements.

Significant Audit Findings (Continued)

The application of existing policies was not changed during 2008. We noted no transactions entered into by the Institution during the year for which there is a lack of authoritative guidance or consensus. There are no significant transactions that have been recognized in the financial statements in a different period than when the transaction occurred.

See our management letter and SAS 112 letter for additional comments on the Society's accounting practices.

Accounting estimates are an integral part of the financial statements prepared by management and are based on management's knowledge and experience about past and current events and assumptions about future events. Certain accounting estimates are particularly sensitive because of their significance to the financial statements and because of the possibility that future events affecting them may differ significantly from those expected. The most sensitive estimate affecting the financial statements was:

> Management's estimate of the accrued expenses is based on management's evaluation of the cost to produce the remaining publications due to the members for the 2008 membership. We evaluate the key factors and assumptions used to develop the estimate in determining that it is reasonable in relation to the financial statements taken as a whole.

Difficulties Encountered in Performing the Audit

As noted in the Planned Scope and Timing section above, we encountered some difficulties in obtaining required audit evidence in a timely manner. We encountered no other significant difficulties in dealing with management in performing and completing our audit.

Corrected and Uncorrected Misstatements

Professional standards require us to accumulate all known and likely misstatements identified during the audit, other than those that are trivial, and communicate them to the appropriate level of management. Management has corrected all such misstatements.

Disagreements with Management

For purposes of this letter, professional standards defined a disagreement with management as a financial accounting, reporting, or auditing matter, whether or not resolved to our satisfaction, that could be significant to the financial statements or the auditor's report. We are pleased to report that no such disagreements arose during the course of our audit.

Management Representations

We have requested certain representations from management that are included in the management representation letter dated April 30, 2009.

Management Consultations with Other Independent Accountants

In some cases, management may decide to consult with other accountants about auditing and accounting matters, similar to obtaining a "second opinion" on certain situations. If a consultation involves application of an accounting principle to the Institution's financial statements or a determination of the type of auditor's opinion that may be expressed on those statement, our professional standards require that consulting accountant to check with us to determine that the consultant has all the relevant facts. To our knowledge, there were no such consultations with other accountants.

Significant Audit Findings (Continued)

Other Audit Findings or Issues

We generally discuss a variety of matters, including the application of accounting principles and auditing standards, with management each year prior to retention as the Institution's auditors. However, these discussions occurred in the normal course of our professional relationship and our responses were not a condition to our retention.

This information is intended solely for the use of the Board of Directors and management of National Railway Historical Society and is not intended to be and should not be used by anyone other than these specified parties.

Very truly yours,

Padden, Guerrini & Associates, P.C.
Certified Public Accountants