NRHS AUDIT REPORT

Fiscal Year 2011 Audit

July 17, 2012

TO THE NRHS BOARD OF DIRECTORS

This is the Society's Audit Report for Fiscal Year 2011. The report consists of five components:

This cover letter

Communication Required By Statement of Auditing Standard No. 114,

Management Letter,

Audited Financial Statements

NRHS Audit Response Letter

The first and last documents in the series originated with NRHS management. The other three documents are included as delivered from our auditing firm of Padden, Guerrini & Associates, P.C.

Sincerely,

Gregory Molloy

Gregory P. Molloy
President

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Shannon L. Babinsack
Heather Stickle
Dawn M. Myers

June 4, 2012

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 financial statements of National Railway Historical Society as of December 31, 2011, and have issued our report thereon dated June 4, 2012. 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 August 3, 2011 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

An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements; therefore, our audit involved judgment about the number of transactions to be examined and the areas to be tested.

Our audit included obtaining an understanding of the Society and its environment, including internal control, sufficient to assess the risks of material misstatement of the financial statements and to design the nature, timing, and extent of further audit procedures. Material misstatements may result from 1) errors, 2) fraudulent financial reporting, 3) misappropriation of assets, or 4) violations of laws or governmental regulations that are attributable to the entity or to acts by management or employees acting on behalf of the Society. We have communicated any internal control related matters that are required to be communicated under professional standards to you in our management letter dated June 4, 2012.

Planned Scope and Timing of the Audit (Continued)

We began the audit according to the planned scope and timing previously communicated to you in our engagement letter dated August 3, 2011.

Significant Audit Findings

Qualitative Aspects of Accounting Practices

Management is responsible for the selection and use of appropriate accounting policies. The significant accounting policies used by National Railway Historical Society are described in Note 1 to the financial statements. No new accounting policies were adopted and the application of existing policies was not changed during 2011. We noted no transactions entered into by the Society during the year for which there is a lack of authoritative guidance or consensus. All significant transactions have been recognized in the financial statements in the proper period.

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.

Difficulties Encountered in Performing the Audit

We encountered no 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. In addition, none of the misstatements detected as a result of audit procedures and corrected by management were material, either individually or in the aggregate, to the financial statements taken as a whole.

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 June 4, 2012.

Significant Audit Findings (Continued)

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 Society’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.

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 Society’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

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June 4, 2012

National Railway Historical Society
ATTN: Board of Directors
100 North 20th Street, Suite 400
Philadelphia, PA 19103-1462

RE: Management Letter

Dear Board of Directors:

We have audited the financial statements of National Railway Historical Society as of December 31, 2011, and have issued our report on the financial statements dated June 4, 2012. 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.

The management of National Railway Historical Society is responsible for establishing and maintaining a system of internal accounting control. The objective of internal accounting control is to provide reasonable, but not absolute, assurance as to the safeguarding of assets against loss from unauthorized use or disposition, and reliability of financial records for preparing financial statements and maintaining accountability for assets. The concept of reasonable assurance recognizes that the cost of a system of internal accounting control should not exceed the benefits derived, and also recognizes that the evaluation of these factors necessarily requires the use of estimates and judgments by management.

There are inherent limitations that should be recognized in considering the potential effectiveness of any system of internal accounting control. In the performance of most control procedures, errors can result from misunderstanding of instructions, mistakes of judgment, carelessness, or other personal factors. Control procedures whose effectiveness depends upon segregation of duties can be circumvented by collusion.

Similarly, control procedures can be circumvented intentionally by management with respect either to the execution and recording of transactions, or with respect to the estimates and judgments required in the preparation of financial statements. Further, projection of any evaluation of internal accounting control to future periods is subject to the risk that the procedures may become inadequate because of changes in conditions, and that the degree of compliance with the procedures may deteriorate.

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.

ACCOUNTING ISSUES

ADJUSTING ENTRIES

The following adjusting entries were recorded in preparation of your audited financial statements:

		Debit	Credit
8000	Depreciation	$ 268.41	
1800	Depreciable Assets	7.12	
1899	Accumulated Depreciation		$ 275.53

To adjust fixed assets to agree with subsidiary ledger

		Debit	Credit
4200	Interest and Dividends	$ 455.21	
4210	Permanently Restricted Investment Income		$ 455.21

To reclass permanently restricted investment income

		Debit	Credit
6550	Educational Program	$ 5,950.00	
6700	RailCamp Expenses		$ 5,950.00

To reclass RailCamp scholarships

		Debit	Credit
1390	Other Prepaid Expenses	$ 468.90	
6650	Library Rent		$ 468.90

To record prepaid library rent

		Debit	Credit
3100	Unrestricted Assets	$ 208.50	
6650	Other Income		$ 208.50

To correct prior period adjustments

ACCOUNTING ISSUES (CONTINUED)

FINANCIAL CLOSE AND REPORTING

Several of the adjusting entries noted above were proposed by management during audit fieldwork. Such adjustments are indicative of an ineffective financial close and reporting process. We recommend that the Society design and implement internal controls to ensure that all adjusting entries are made prior to closing the books and before the start of audit fieldwork.

UNRESOLVED ISSUES NOTED IN PRIOR YEAR MANAGEMENT LETTERS

AUDIT COMMITTEE

As noted in our prior year management letters the Society does not have an audit committee. This committee is typically charged with the oversight of financial reporting and disclosure, and its members are drawn from members of the Board. Members of this committee should possess an accounting or finance background. The Society made an unsuccessful attempt at establishing an audit committee in 2010 and 2011. We suggest that Society continue its efforts to establish an audit committee.

INTERNAL CONTROL OVER FINANCIAL REPORTING

As noted in our prior year management letters we suggest that the Society document its internal control over financial reporting.

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

NATIONAL RAILWAY HISTORICAL SOCIETY

FINANCIAL STATEMENTS
DECEMBER 31, 2011 AND 2010
AND
REPORT OF INDEPENDENT
CERTIFIED PUBLIC ACCOUNTANTS
(Audited)

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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, 2011 and 2010 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, 2011 and 2010, 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
June 4, 2012

NATIONAL RAILWAY HISTORICAL SOCIETY
STATEMENTS OF FINANCIAL POSITION

	December 31	
	2011	2010
ASSETS		
Current Assets		
Cash and cash equivalents	$ 279,836	$ 205,704
Accounts receivable	522	15,219
Investments	442,740	399,898
Inventory	22,314	20,899
Prepaid expenses	19,712	8,872
Other assets	9,159	7,910
Total Current Assets	774,283	658,502
Fixed Assets	5,386	7,201
TOTAL ASSETS	$ 779,669	$ 665,703
LIABILITIES AND NET ASSETS		
Liabilities		
Accounts payable	$ 11,940	$ 1,600
Deferred income	371,058	231,861
Accrued expenses	-	19,636
Total Liabilities	382,998	253,097
Net Assets		
Unrestricted	319,122	354,738
Temporarily restricted	60,150	40,469
Permanently restricted	17,399	17,399
Total Net Assets	396,671	412,606
TOTAL LIABILITIES AND NET ASSETS	$ 779,669	$ 665,703

See notes to the financial statements

NATIONAL RAILWAY HISTORICAL SOCIETY
STATEMENT OF ACTIVITIES
YEAR ENDED DECEMBER 31, 2011

	Unrestricted	Temporarily Restricted	Permanently Restricted	Total
Support and Revenues				
Dues income	$ 389,136	$ -	$ -	$ 389,136
Sales revenue	2,827	-	-	2,827
RailCamp revenue	22,400	-	-	22,400
Conventions	6,830	-	-	6,830
Interest and dividend income	12,855	455	-	13,310
Contributions	72,416	37,964	-	110,380
Restrictions satisfied by payments	18,738	(18,738)	-	-
Realized and unrealized gains on investments	35,756	-	-	35,756
Miscellaneous income (expense)	1,802	-	-	1,802
Total Support and Revenues	562,760	19,681	-	582,441
Expenses				
Convention expense	28,482	-	-	28,482
Bulletin expense	120,590	-	-	120,590
Publication expense	43,686	-	-	43,686
Membership records expense	19,808	-	-	19,808
Office expense	23,049	-	-	23,049
Meeting and travel expense	31,910	-	-	31,910
Rent expense	5,627	-	-	5,627
Insurance expense	8,993	-	-	8,993
Bank and investment fees	8,667	-	-	8,667
Corporate expenses	8,828	-	-	8,828
Professional fees	24,945	-	-	24,945
Advertising expense	-	-	-	-
Fundraising	23,432	-	-	23,432
Emblem sales expense	2,189	-	-	2,189
RailCamp expense	22,511	-	-	22,511
Grants and donations	38,500	-	-	38,500
Periodical and book purchases	825	-	-	825
Management fees	165,283	-	-	165,283
Depreciation expense	3,267	-	-	3,267
Other miscellaneous expense	17,784	-	-	17,784
Interest expense	-	-	-	-
Total Expenses	598,376	-	-	598,376
Increase (Decrease) in Net Assets	(35,616)	19,681	-	(15,935)
Net Assets, Beginning of Year	354,738	40,469	17,399	412,606
Net Assets, End of Year	$ 319,122	$ 60,150	$ 17,399	$ 396,671

See notes to the financial statements

NATIONAL RAILWAY HISTORICAL SOCIETY
STATEMENT OF ACTIVITIES
YEAR ENDED DECEMBER 31, 2010

	Unrestricted	Temporarily Restricted	Permanently Restricted	Total
Support and Revenues				
Dues income	$ 407,367	$ -	$ -	$ 407,367
Sales revenue	2,951	-	-	2,951
RailCamp revenue	21,875	-	-	21,875
Conventions	20,000	-	-	20,000
Interest and dividend income	7,328	297	-	7,625
Contributions	94,156	13,608	-	107,764
Restrictions satisfied by payments	2,200	(2,200)	-	-
Realized and unrealized gains on investments	37,620	-	-	37,620
Miscellaneous income (expense)	75	-	-	75
Total Support and Revenues	593,572	11,705	-	605,277
Expenses				
Convention expense	7,810	-	-	7,810
Bulletin expense	124,598	-	-	124,598
Publication expense	29,342	-	-	29,342
Membership records expense	16,983	-	-	16,983
Office expense	19,068	-	-	19,068
Meeting and travel expense	49,625	-	-	49,625
Rent expense	5,627	-	-	5,627
Insurance expense	8,017	-	-	8,017
Bank and investment fees	4,792	-	-	4,792
Corporate expenses	5,374	-	-	5,374
Professional fees	39,146	-	-	39,146
Advertising expense	20,392	-	-	20,392
Fundraising	17,122	-	-	17,122
Emblem sales expense	3,022	-	-	3,022
RailCamp expense	20,646	-	-	20,646
Grants and donations	30,000	-	-	30,000
Periodical and book purchases	373	-	-	373
Management fees	173,160	-	-	173,160
Depreciation expense	2,279	-	-	2,279
Other miscellaneous expense	21,337	-	-	21,337
Interest expense	66	-	-	66
Total Expenses	598,779	-	-	598,779
Increase (Decrease) in Net Assets	(5,207)	11,705	-	6,498
Net Assets, Beginning of Year	359,945	28,764	17,399	406,108
Net Assets, End of Year	$ 354,738	$ 40,469	$ 17,399	$ 412,606

See notes to the financial statements

NATIONAL RAILWAY HISTORICAL SOCIETY
STATEMENTS OF CASH FLOWS

	Years Ended December 31	
	2011	2010
Cash Flows From Operating Activities:		
Change in net assets	$ (15,935)	$ 6,498
Adjustments to reconcile change in net assets to net cash provided by (used in) operating activities:		
Depreciation	3,267	2,279
Unrealized gain (loss) on investments	(35,765)	(37,620)
Change in assets and liabilities:		
(Increase) decrease in:		
Accounts receivable	14,697	(13,297)
Inventory	(1,415)	(4,000)
Prepaid expenses	(10,840)	(5,315)
Other assets	(1,249)	(7,910)
Increase (decrease) in		
Accounts payable	10,340	261
Deferred income	139,197	(48,512)
Accrued expenses	(19,636)	(26,583)
Net Cash Provided by (Used in) Operating Activities	82,661	(134,199)
Cash Flows From Investing Activities:		
Purchases of equipment and furniture	(1,452)	(5,365)
Investment purchases	(38,132)	(337,298)
Investment sales	31,055	8,796
Net change in certificates of deposit	-	20,242
Net Cash Used in Investing Activities	(8,529)	(313,625)
Net Increase (Decrease) in Cash	(74,132)	(447,824)
Cash, Beginning of Year	205,704	653,528
Cash, End of Year	$ 279,836	$ 205,704

See notes to the financial statements

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, Great Britain and Japan. 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 the provisions of FASC 958-205 (formerly SFAS No. 117), “Presentation of Financial Statements for Not-for-Profit Entities.” Under FASC 958-205, 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 standard, the Society does not use fund accounting.

Contributions - The Society has also adopted the provisions of FASC 958-605 (formerly SFAS No. 116), “Revenue Recognition for Not-for-Profit Entities.” Contributions received are recorded as unrestricted, temporarily restricted, or permanently restricted support depending on the existence or nature of any donor restrictions.

Investments - The Society has adopted the provisions of FASC 958-320 (formerly SFAS No. 124), “Investments held by Not-for-Profit Entities.” Under FASC 958-320, 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.

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.

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

Summary of Significant Accounting Policies (Continued)

Income Taxes - The Society is exempt from all federal and state income taxes, in accordance with Section 501(c)(3) of the Internal Revenue Code.

In July 2006, the Financial Accounting Standards Board (FASB) issued Financial Accounting Standards Board Codification No. 740-10-05, Income Taxes (FASC 740-10-05). FASC 740-10-05 clarifies the accounting of uncertainty in income taxes by prescribing the recognition threshold a tax position is required to meet before being recognized in the financial statements. It also provided guidance on derecognition, classification, interest and penalties, accounting in interim periods, disclosure, and transition. FASC 740-10-05 is effective for fiscal years beginning after December 15, 2008, and was adopted by the Society for the year ended December 31, 2009.

The Society has reviewed the impact of FASC 740-10-05 on the financial statements and has determined there is no material uncertain tax positions or unrecognized tax benefits and there is no material impact on the statements of financial position, statements of operations and changes in net assets or cash flows.

The IRS Form 990 for the years ended December 31, 2010, 2009 and 2008 remain open for an examination by the IRS

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.

Subsequent Events – The date to which events occurring after December 31, 2011, the date of the most recent balance sheet, have been evaluated for possible adjustments to the financial statements or disclosure is June 4, 2012, which is the date on which the financial statements were available to be issued.

2. Investments

Investments are stated at fair value and consist of stocks. Fair values at December 31 are summarized as follows:

	2011	2010
Stocks	$ 442,740	$ 399,898

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, 2011 and 2010:

	2011	2010
Interest and Dividend Income	$ 14,530	$ 7,625
Net realized and Unrealized gains	34,536	37,620
Total Investment Return	$ 49,066	$ 45,245

Realized gains and income from permanently restricted net assets are reported as increases in temporarily restricted funds.

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 years ended December 31, 2011 and 2010 was zero dollars and $20,601, respectively. No advertising was reported as assets at December 31, 2011 and 2010.

6. Fair Value of Financial Instruments

Effective January 1, 2008, the Society adopted the provisions of FASC 820, "Fair Value Measurements" for assets and liabilities measured and reported at fair value. FASC 820 defines fair value, establishes a framework for measuring fair value and expands disclosures about fair value measurements.

FASC 820 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. FASC 820 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, FASC 820 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.

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, 2011 and 2010, segregated by the level of the valuation inputs within the fair value hierarchy utilized to measure fair value.

	2011			
	Total	Level 1	Level 2	Level 3
Stocks	$ 442,740	$ 442,740	$ -	$ -

	2010			
	Total	Level 1	Level 2	Level 3
Stocks	$ 399,898	$ 399,898	$ -	$ -

7. Functional Expenses

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

	2011	2010
Program services	$ 405,170	$ 421,624
Management and general	159,291	160,033
Fundraising	33,915	17,122
	$ 598,376	$ 598,779

NRHS AUDIT RESPONSE

Fiscal Year 2011 Audit

July 17, 2012

TO THE NRHS BOARD OF DIRECTORS

This is NRHS Management's response to issues raised in documents dated June 4, 2012 in the Society's external audit for fiscal year 2011. These documents were prepared by Padden, Guerrini & Associates, PC and delivered to the NRHS for internal review on June 7. Final documents were received by NRHS on July 16, 2012.

SUMMARY STATEMENT

NRHS transferred primary responsibility for our accounting work to the accounting department at Fernley & Fernley in early 2010, so 2011 was the second full year of Fernley & Fernley accounting. NRHS experienced no significant problems with Fernley & Fernley's work.

Prior to the audit field work, NRHS conducted an internal review of financial records to be sure everything was ready for review. The audit field work went smoothly and was completed in only two days instead of the traditional three. Completion of the audit documents themselves was delayed by resolution of a technical issue and the schedule of the 2012 NRHS Convention, but the process and documentation have now been completed. The Society's IRS Form 990 for 2011 will be filed prior to the approved extended deadline of August 15.

COMMUNICATION REQUIRED BY STATEMENT OF AUDITING STANDARD NO. 114

There are no issues in the SAS 114 letter that require a direct response from NRHS management.

MANAGEMENT LETTER

NRHS Management agrees with the **Adjusting Entries** listed in the Management Letter and has instructed Fernley & Fernley to make these entries in the financial records. Most of these entries are for minor amounts. NRHS plans to improve our systems so such adjustments are made prior to the audit in future years.

NRHS Management was unable to identify a volunteer **Audit Committee** out of the current Board of Directors. We expect to take this expectation to the new elected Board this fall and ask that the Board establish an official Audit Committee. We also expect that **Documentation of Internal Controls** will be a function of the Society's new internal audit committee.

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FINANCIAL STATEMENTS
There are no issues in the financial statements requiring a direct response from NRHS Management. These statements were used as the basis for the financial report delivered at the Society's 2012 Annual Meeting in Cedar Rapids, Iowa.

Sincerely,

Gregory P. Molloy
President

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