

CONFIDENTIAL

October 13, 2009

To: NRHS Board of Directors

This document includes proposals that have not yet been considered or acted upon by the Board of Directors. It is therefore to be treated as confidential information.

Attached to this letter is financial report covering several important topics. Here is what you need to do with this information.

1. Read the report, so you understand the Society's financial condition and can take informed action on several business items that will come before the Board.
2. At the October Board meeting, be prepared to vote on the six changes discussed in Part 3 of this report. These changes are already incorporated in the 2010 budget proposal, but they are corporate decisions that require approval at the Board level.
3. Also at the October Board meeting, be prepared to approve a national budget for 2010. A base budget proposal is included in Part 2 of this report. This budget includes an unacceptably high deficit, so the Board will also have to consider several alternatives listed in Part 4 of the report.
4. Read Part 5 of this report, which discusses some of the longer-term financial issues the Society must deal with. Much of this discussion will start at the Winter meeting in January, but you should read this now in order to consider the 2010 budget in the context of larger issues.

Please note that the Board can consider other changes to the 2010 budget proposal in addition to those listed in Part 4. If you intend to propose additional changes, we ask that you notify one of the national officers by October 22 so that there is time to gather information prior to the meeting.

(Signed)

Gregory P. Molloy

**NRHS Financial Status and Proposals
October 2009**

To the NRHS Board of Directors:

The purpose of this package is to review the financial status of the NRHS national organization and to make recommendations for improving that condition. This report is divided into several components:

Part 1	Summary of Current Financial Situation
Part 2	Projection of 2009 Financial Results and Base Budget Proposal for 2010
Part 3	Recommended Changes Included in 2010 Base Budget Proposal
Part 4	Additional Potential Improvement Items for 2010 Budget
Part 5	Major Changes Necessary for Long-Term Financial Stability

Part 1

This is a summary of the Society's financial situation. It is important to understand the financial situation before addressing the 2010 budget and several specific finance & accounting issues currently before the Board.

Financial Headlines

- NRHS projects the Society will finish 2009 with a surplus of income over expenses of more than \$200,000. This surplus is deceptive, however, because the 2009 projection includes over \$300,000 of abnormal income from two large bequests and a one-time accounting change. Without the impact of this abnormal income, the NRHS would post a deficit of about \$85,000 this year.
- The NRHS budget proposal for 2010, based on "business as usual" and programs already in progress (with minor accounting changes) will result in a further deficit of over \$60,000 in 2010.
- Without major changes, continuation of the current trends could see the Society consume its remaining net assets and become insolvent by about 2015. The abnormal income items in 2009 have pushed this insolvency back a few years, but they have not eliminated it.
- Our current financial plans do not address several significant risks, and there are multiple scenarios in which the date of insolvency could arrive well before 2015.

The following sections provide more information on these headlines.

2009 Projection

A reconciliation of the predicted results to the 2009 budget is included in Part 2 of this report.

2010 Budget Proposal

The Society's 2010 budget proposal is included in Part 2 this report. This base plan assumes that certain accounting, reporting and contracting changes are made, as detailed in Part 3 of this report. The proposal assumes that the NRHS largely conducts business as usual, continuing programs already underway with only minor changes. It also assumes there will be only a gradual expansion of the general economy.

Unfortunately, continuing the current programs and financial trends also means incurring a projected deficit of over \$60,000 in 2010, moving the Society still closer to insolvency. As such, the base plan is not really acceptable. Some potential changes to reduce this deficit are listed in Part 4. The Society's overall financial condition will not improve substantially, however, until the NRHS tackles some of the larger issues discussed in Part 5.

Consumption of Assets

In the first half of the decade, the NRHS went through a period of relative stability from a financial standpoint. During this time, however, services continued to slip and key delivery systems were becoming increasingly obsolete and unstable.

The NRHS posted a deficit of \$60,000 in 2007. Much of this was the result of a conscious decision to move forward with critical improvements ahead of a significant dues increase starting in the 2008 membership year. At the time, we believed that this was a one-time situation.

In 2008, however, the NRHS posted another deficit, going into the red by over \$50,000 despite the increased dues revenue. Again, we believed this to be largely a one-time situation because of the need to relocate the libraries and to start up a new national office operation on short notice with the shutdown of the Robert Morris Building.

We now project that without the benefit of unplanned bequests and a one-time accounting change, the NRHS would have posted a deficit of about \$85,000 in 2009, and continuing the current business model into 2010 could result in yet another substantial deficit. Again, some of this may be the temporary impact from the economic downturn, but there are also indications that some of our long-term economic problems are continuing. Some of these problems are continuing despite our best efforts to fix them, while others reflect the fact that we have simply chosen to ignore them.

The NRHS should finish 2009 with net assets of about \$400,000. If we continue to erode these assets at the rate of \$60,000 to \$70,000 per year, they will be gone by about 2015. The illustration on the following page shows the change in NRHS net assets over the past decade. This is taken from a separate report, and the numbers may not align exactly with the current budget proposal. The trends, however, are obvious.

Additional Risks

Our current financial plans do not address several additional concerns, **most of which could cause us to consume our remaining reserves even earlier** than the current timeline would project. Some of these are discussed in more detail in other attachments or other discussions at upcoming Board meetings.

Executive Director:

The Society currently depends on a few individuals to collectively provide the equivalent of an executive director on a volunteer basis. It is very unlikely that this arrangement can be sustained indefinitely, and at some point the NRHS must move to a paid executive director. When this change occurs, our expenses will increase by \$50,000 to \$100,000 per year.

Volunteer Staff:

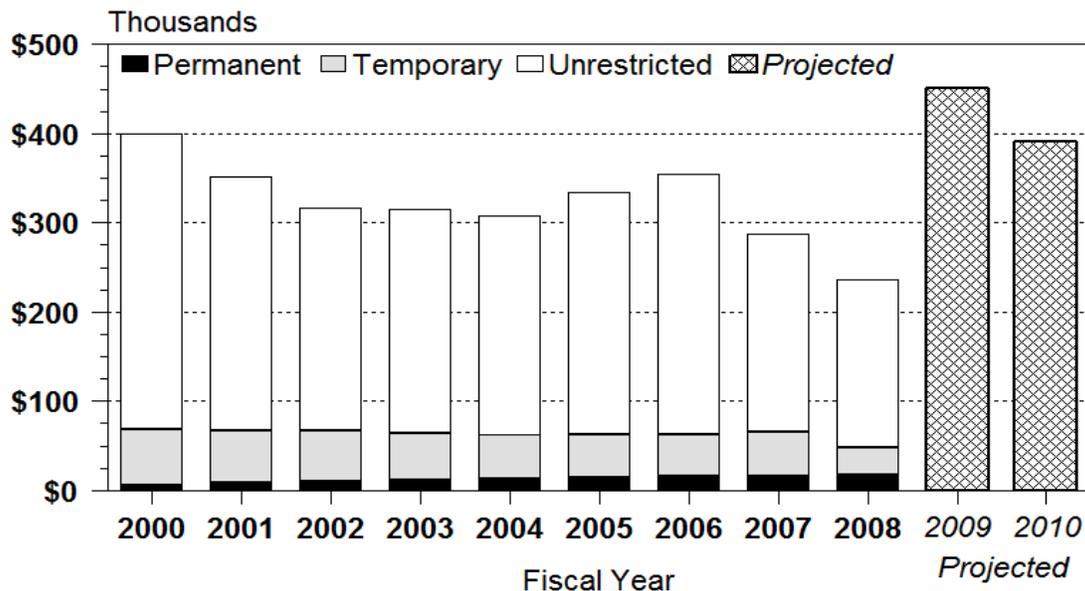
NRHS is already having difficulty finding volunteer staff, especially for management functions and for positions that require specialized skills and training. If we need to start obtaining those services on a paid basis, our expenses will also increase substantially.

Association Management Hours:

NRHS and Fernley & Fernley negotiated a settlement in which Fernley waived charging for hours consumed above the contracted amount through Sept. 30, 2009. Without this concession, NRHS could have been billed over \$50,000 for excess hours charges. Some of these problems originated at Fernley

and are being fixed, but many originated at NRHS. The Society must take internal management steps to avoid excess hours charges in 2010 or we will have to pay out additional expenses that are not in the proposed budget.

Year End NRHS Net Assets FY2000 to FY2010



FY2010 is per proposed budget

Incorporation:

Changes in Maryland corporate law appear have the potential to add significant administrative burdens (and therefore costs) on the Society. It may be advisable to re-incorporate the Society in a different state, again requiring additional expenditures. The issue is still under investigation, and we do not have a clear direction at this time. No funds are included in the proposed budget for either higher administrative costs or reincorporation.

Cataloging of Library:

NRHS is obtaining quotes to complete the cataloging of the print library collection, a necessary step toward eventually resolving the future of the collection. There are no funds in the budget to actually execute this work once a quote is obtained.

Taking Advantage of Opportunities:

In the next few years, NRHS may have several opportunities to advance its mission and objectives. Taking advantage of these opportunities will require substantial initial investments. While some of these projects have potential for grant funding and outside sponsorship, those opportunities will become available only if the NRHS provides credible funding and staffing to get the projects established. The startup funds will have to come out of the Society's dwindling financial assets. These opportunities will include:

- Expanded website products and services
- Establishing a permanent home for the print library
- Expanding film preservation efforts while there is still time to save many collections
- Working with other organizations to promote rail history preservation.

Part 2
Projection of 2009 Financial Results and Base Budget Proposal for 2010

2009 Projected Results

- *NRHS projects the Society will finish 2009 with a surplus of income over expenses of more than \$200,000. This is deceptive, however, because the 2009 projection includes over \$300,000 of abnormal income from two large bequests and a one-time accounting change. Without the impact of this abnormal income, the NRHS would post a deficit of about \$85,000 this year.*

This projection was assembled in mid-September, 2009 using the best available data.

The 2009 budget predicted a surplus of \$41,000. After adjusting for abnormal income items, the current projection is a deficit of about \$85,000. This is a reversal of about \$125,000. Most of this decline is the result of three issues, the full extent of which was not measured until the third quarter of the fiscal year.

- The 2009 budget predicted a surplus from the nationally-managed 2009 NRHS convention, estimated as the average surplus of the two previous nationally managed conventions. Instead, the NRHS convention business produced a loss in 2009.
- The 2009 budget predicted a slight recovery in membership resulting from improved services, no increase in dues and expanded print advertising. Instead, the NRHS continued to lose membership at about the same rate as the previous year.
- The Society's investment income has virtually disappeared as the result of continued depressed interest rates and stock values. In addition, the NRHS had reduced investment funds as a result of eliminating the backlog of unpublished Bulletins.

There were many other variances from budget, but the net impact was only \$5,000. The table on the following page lists all variances of \$5,000 or greater.

The projection by account appears on the same tables as the 2010 base budget proposal.

2010 Base Budget Proposal

- *The NRHS budget proposal for 2010, based on "business as usual" and programs already in progress (with minor accounting changes) will result in a further deficit of over \$60,000 in 2010.*

The 2010 budget proposal appears on the following pages, with notes as to the basis for each account. This budget proposal assumes the adoption of six different accounting, reporting and contracting changes detailed in Part 3 of this report.

National Railway Historical Society
Reconciliation of Budget and Predicted Results - Fiscal Year 2009

Updated to September 28, 2009

Note: All Currency Numbers Shown in Thousands

Overall Results:			
2009 Budget - Predicted Net		\$41	Budget passed at Fall 2008 meeting
2009 Current Predicted Outcome (Net)		<u>\$214</u>	Re-prediction 9/16/09 by account
Predicted Change from 2009 Budget		\$173	
Remove major changes not in 2009 Budget:			
Two large bequests		(\$273)	Not known at time of 2009 Budget
One-time accounting change		<u>(\$26)</u>	Convert Contributory Membership to cash basis.
2009 Adjusted Prediction vs. Budget		(\$126)	Predicted actual net compared to original budget \$85 loss predicted vs. \$41 gain in budget.
	<u>Budget</u>	<u>Actual</u>	<u>Change</u>
Major Differences from 2009 Budget			
Convention net results	\$52	(\$13)	(\$65) Lower net, plus no carryover from 2007 convention
Dues Income	\$430	\$395	(\$35) Predict 6% loss vs. budget of 3% recovery
Investment Income	\$25	\$4	<u>(\$21)</u> Reduced capital plus minimal yields
Net result of three major changes			(\$121)
	<u>Budget</u>	<u>Actual</u>	<u>Change</u>
Other Differences from 2009 Budget			
Slower initial spending on IT Systems	(\$30)	(\$10)	\$20 2009 Budget was estimate ahead of plan
Higher spending for Meetings	(\$14)	(\$24)	(\$10) Higher costs for many meetings, added Gov. Study
Reduced spending on Program Services	(\$22)	(\$14)	\$8 Membership Development and RHI plans delayed
Additional spending for Accounting	(\$9)	(\$17)	(\$8) Longer audit plus consulting on improvements
Total donations less than budgeted	\$95	\$88	(\$7) CFC over budget, but other categories under
Reduced spending on Legal Services	(\$7)	(\$1)	\$6 Predict budget allowance not needed this year
Bulletin expense slightly over budget	(\$172)	(\$177)	(\$5) Mostly closeout of 2008 accrual.
Corporate expense higher than budget	(\$3)	(\$8)	(\$5) Meeting notice cost and meeting handouts
Association Management cost adjusted	(\$146)	(\$151)	(\$5) No overage charges. Mostly from budgeting errors.
Acquisitions, Donations, other Non-Op.	(\$5)	\$0	\$5 Did not do planned minor spending
Net of smaller variations			<u>(\$4)</u> Sum of small variations of \$4 or less
Net result of Other Differences			(\$5)

NRHS 2010 Budget Proposal
Base Proposal Without Major Changes From Current Plans

Note: All Currency Numbers Shown in Thousands

Income				
Account(s) No. Name(s)	2009 Budget	2009 Predict	2010 Budget	Basis for 2010 Proposal
4100 Dues Income	\$430	\$395	\$410	95% of 2009 membership with \$3 higher rate on primary memberships.
4200 & Interest, Dividends & 4500 Capital Gains	\$25	\$4	\$10	More funds to invest, more active investment program, positive capital gains from recovering economy.
4300 Sales	\$9	\$5	\$6	Slight recovery from 2009.
4400 Convention	\$311	\$251	\$12	Assumes current policies on cost recovery. No residual income from 2009. 2010 is chapter-managed with \$3 of final settlement in 2011.
4450 RailCamp	\$50	\$55	\$59	Two locations, two teen camps, two adult camps; raise tuition at Nevada Northern to match Scranton rates.
4600 Other Events	\$2	\$3	\$0	Winter Board meeting is chapter-sponsored.
4800 Unrestricted Donations	\$85	\$365	\$75	No major bequests. All accounts on 12-month cash basis.
4900 Restricted Donations	\$10	\$12	\$15	No matching gift campaign, and no other major changes from current.
4999 Other Income	\$0	\$3	\$0	Holding account for income still being allocated. Will be closed by year-end.
Total Income	\$922	\$1,093	\$587	
Operating Income	\$827	\$713	\$497	
Non-Operating Income	\$95	\$380	\$90	

Expense				
Account(s) No. Name(s)	2009 Budget	2009 Predict	2010 Budget	Basis for 2010 Proposal
5100 Convention Expense	\$259	\$264	\$10	Assumes current policies on cost recovery. Chapter-sponsored conventions in 2010 & 2011.
5200 Bulletin	\$172	\$177	\$180	Four regular issues, but two with extra pages for 75th anniversary; same Yearbook, 5% fewer copies; no prior-year adjustments.
5300 Other Publications	\$24	\$25	\$25	NRHS News only printed publication. Inflation offsets 5% fewer copies.
5400 Membership Records	\$20	\$24	\$22	Same as current system, but with fewer 2010 final notices and 2011 bills.
5500 Staff Expense & Travel	\$15	\$14	\$15	Less administrative travel than 2009 offsets expect higher travel cost. No major changes in travel policy.
5600 Meetings	\$14	\$24	\$22	Slight reduction from 2009 offset by higher air fares. Governance may roll into Bylaws.
5700 Rent	\$6	\$6	\$6	No change - print library in retrievable storage.
5800 Admin Office Expense	\$9	\$9	\$8	No major changes.
5950 & 5990 Financial Fees & Interest	\$4	\$4	\$4	No major changes.
5960 Insurance	\$7	\$7	\$7	Current basis, without change for auto use liability coverage.
6000 Corporate	\$3	\$9	\$7	Reduce cost of annual meeting notice mailing; fewer meeting handouts.
6050 Accounting	\$9	\$17	\$12	Start to see results from 2009 systems work, simplification, and move of services to F&F.
6060 Legal Fees	\$7	\$3	\$12	Assumes new contractual basis for legal services, no litigation, out-of-pocket expenses offset by some monthly underruns.
6100 Public Relations & Advertising	\$30	\$30	\$32	No major changes in advertising. Add minor additional PR work.
6200 Planning & Development, Fundraising	\$2	\$0	\$0	No current plans

6400	Emblem Sales	\$2	\$2	\$2	Includes only inventory drawdown
6500	Program Services	\$22	\$14	\$25	Membership Awards same (inventory drawdown only). RailCamp scholarships same. Add new member pins, discounts for membership recovery, one historic plaque.
6600 & 6640	Library Operations	\$1	\$1	\$1	Minor spending only. No major change for heritage film program.
6700	RailCamp	\$50	\$46	\$51	Two venues, two teen programs, two adult programs. Scholarships are part of 6500.
6800	IT Systems	\$31	\$11	\$13	Includes operations and development. Includes development budgeted in 2009 but not spent. Assumes partial amortization of development work. Start up new e-mail system in 2010. Assumes no savings from direct dues collection.
7000	Association Management	\$146	\$151	\$163	Continue current contracts through 2010 plus minor addendum for financial services in 2010. Assumes no excess hours charges. Meeting support same as current.
8000	Depreciation	\$3	\$1	\$8	No major capital purchases or amortizations.
9000	Grants and Donations	\$41	\$40	\$25	No matching gift program, donations down and investment earnings depressed.
9200 & 9300	Acquisitions and Other Non-Operating	\$4	\$0	\$3	Minimal print library purchases. Assume some equipment and software purchases to support film preservation.
	Total Expense	\$881	\$879	\$653	
	Operating Expense	\$833	\$838	\$617	
	Non-Operating Expense	\$48	\$41	\$36	
	Surplus on Income over Expense	\$41	\$214	(\$66)	
	Operating Surplus	(\$6)	(\$125)	(\$120)	
	Non-Operating Surplus	\$47	\$339	\$54	

The following Risks and Opportunities are not addressed in this proposal:

- Potential for incurring Excess Hours charges from Fernley & Fernley for NRHS-initiated work.
- Potential change of state of incorporation
- Opportunities for Libraries relocation, Heritage Film expansion
- Development of website content beyond two initial projects already started.
- Opportunities for cooperative programs with other related organizations
- Contingency for one claim still in negotiation regarding 2009 NRHS convention.
- Changes to scope of current programs to address financial issues.

Part 3
Recommended Changes to NRHS Accounting, Reporting & Contracting Practices

NRHS Management recommends that the Society make four changes to its current accounting and financial reporting standards, as well as two changes to its contracting procedures.

Change No. 1: Bulletin Accrual Basis

Current System:

At start of each fiscal year, the entire estimated cost for the Prepress, Printing and Distribution of the upcoming Bulletin year is posted to three accrual accounts and reported as an expense on budget vs. actual reports and as a liability on the balance sheet report. Actual payments are then recorded as draw-downs against the accrued liabilities. After all of the Bulletin issues for a fiscal year have been published, printed and distributed, the difference between the actual spending and the original accrual is posted as an additional expense or as income. At the end of each fiscal year the unpaid balance of each unclosed (incomplete) Bulletin accrual account is reported as a liability on the Balance Sheet. During the audit, this liability is reviewed for accuracy and may be adjusted.

Proposed System

Starting with the 2010 Fiscal Year, the Bulletin costs will be reported on a cash basis on the budget vs. actual reports. At the end of each fiscal year, NRHS will prepare an estimate of the remaining cost required to complete the Bulletin for any current and previous year issues not yet published. This will be reported as a liability on the year-end Balance Sheet.

Reason for Change:

In the opinion of the auditors, the current system exceeds the requirements of generally acceptable accounting practices (GAAP). The proposed system meets reporting and auditing requirements. The proposed system will require less effort to operate and will more accurately represent actual spending status on the Society's financial reports.

Impact on Cash:

This change will have no impact on the Society's cash accounts.

Impact on Income & Expense and Balance Sheet Statements:

Income and Expense statements will show actual spending as it occurs rather than showing the entire expense for the year as having occurred at the beginning of the fiscal year. The Balance Sheet will not show a liability for the current fiscal year Bulletin, but may show liabilities from previous years.

Treatment in 2010 Budget Proposals:

This change has no impact on the 2010 Budget Proposal.

Change No. 2: Contributory Membership Accounting

Current System:

Contributory Memberships (i.e. Unrestricted Donations received with membership dues renewals and new member dues) during the dues renewal period are accrued as part of the Deferred Income Liability account on the Balance Sheet and reported as income in the following fiscal year. This includes unrestricted donations received with new member applications processed after September 1 each year as well as unrestricted donations received with dues renewals for the following year and processed prior to December 31.

Proposed System

Starting on September 1, 2009, all contributory memberships will be recorded on a cash basis and booked as income in the month in which they are processed by the national office.

Reason for Change:

In the opinion of our auditors, there is no requirement to make such an accrual, which adds complexity and additional work to the NRHS financial systems. The accrual was originally started to dampen the variations in donations reported during previous years when the schedule for distribution and processing of dues renewal invoices was highly irregular. Changing to cash basis will make the accounting of contributory memberships consistent with the current practices for the Heritage Preservation Fund, RailCamp Scholarships and other temporarily restricted donations that come in with dues.

Impact on Cash:

This change will have no impact on the Society's cash accounts.

Impact on Income & Expense and Balance Sheet Statements:

This change will result in a one-time transition with approximately \$26,000 in additional income reported on the 2009 statement of Income and Expense, since that statement will report approximately 15 months of income in this account rather than 12 months. Income and Expense statements starting in 2010 will show income as it occurs by calendar year. Starting with 12/31/09, the year-end Balance Sheets will not include a Deferred Income Liability for Contributory Memberships.

Treatment in 2010 Budget Proposal:

This change has no impact on the 2010 Budget Proposal.

Change No. 3: Partial Amortization of Information Technology Development Costs

Current System:

NRHS has budgeted and expensed Information Technology development work as current year expense.

Proposed System

Starting in 2010, development work to create an interface between the new NRHS website and the iMIS database will be capitalized with a three-year life, with depreciation to start in 2010 on the current schedule. The 2010 investment in website design and brand image will continue to be treated as current year expense.

Reason for Change:

In the opinion of our auditors, the link with iMIS is an investment in primary technology which would qualify for capitalization and depreciation. This change will better reflect the true nature of the investment.

Impact on Cash:

This change will have no impact on the Society's cash accounts.

Impact on Income & Expense and Balance Sheet Statements:

This change will dampen the expense spike that would be caused by a heavy investment in technology in a single year, but it will also increase the Society's Depreciation write-offs in 2010 through 2013. Assuming an estimated \$40,000 for the depreciable technology investment, an expense of \$40,000 in 2010 would be replaced by Depreciation charges of roughly \$7,000 in 2010, \$13,000 in each of 2011 and 2012, and \$6,000 in 2013. During the years 2009-2013, this change will increase the value of fixed assets on the Balance Sheet.

Treatment in 2010 Budget Proposal:

This change has no impact on the 2010 Budget Proposal.

Change No. 4: Simplified Chart of Accounts

Current System:

The NRHS currently has a chart of accounts with 221 entries.

Proposed System

Starting with the 2010 fiscal year, NRHS will adopt a simplified chart of accounts using 110 entries. NRHS management retains the right to add or modify the chart of accounts as necessary to manage the business in the future. The new chart of accounts is attached starting on the following page.

Reason for Change:

The current chart of accounts is more complex than the NRHS needs to run the business. The complexity of the current system has been a contributing factor to outside audits requiring more time and cost than the base contract covers. Moving the NRHS accounting to Peachtree and iMIS at Fernley & Fernley (see Change No. 5), along with changes in Internal Revenue Service Requirements, moving some details from active tracking to year-end evaluation and removal of unused accounts, allows the introduction of a simplified accounting system. NRHS management, our outside auditors and Fernley & Fernley accounting management are aligned on the simplified system.

Impact on Cash:

This change will have no impact on the Society's cash accounts.

Impact on Income & Expense and Balance Sheet Statements:

The Society's Income and Expense and Balance Sheet statements will have to be modified to align with the new account structure starting in 2010. The conversion may actually take place in late 2009 to simplify the transition. This work cannot start, however, until the revised chart of accounts is approved and implemented.

Treatment in 2010 Budget Proposal:

The 2010 Budget Proposal was prepared using the current chart of accounts and will be presented using the revised chart of accounts starting in 2010.

NRHS Revised Chart of Accounts

Proposal Updated to Sept. 29, 2009

Account Number	Type	Title	Comment
1000	Bank	Cash Accounts	
	1010	Bank	Blackhawk State Bank
	1015-09	Bank	2009 Convention Checking To be retired
	1050	Bank	Money Fund Merrill Lynch Money Fund
	1090	Bank	Undeposited Funds Year End Undeposited Checks
	1091	Bank	PayPal Funds held in PayPal account
	1099	Bank	Void Checks
1100	Bank	Certificate Deposit/T Bills	Held outside ML account
	1110	Bank	Blackhawk State CD Blackhawk State CD
	1195	Bank	Interest Receivable - CD's Year end unpaid interest
1200	Other Current Asset	Inventory	
1300	Other Current Asset	Prepaid Expenses	
	1380	Other Current Asset	Prepaid Convention Expenses To be retired
1400	Accounts Receivable	Accounts Receivable	Bills sent by NRHS
1500	Other Current Asset	Investment Securities	Held in Merrill Lynch Account
1800	Fixed Asset	Depreciable Assets	
	1899	Fixed Asset	Acc. Depreciation Accumulated Depreciation
2100	Accounts Payable	Accounts Payable	Bills received from vendors
2150	Other Current Liability	Grants Payable	Grants awarded, but not paid
2200	Other Current Liability	Deferred Income	Income for future years
	2210	Other Current Liability	Prepaid Dues Dues for the next FY
	2280	Other Current Liability	Prepaid Convention Income To be retired
	2290	Other Current Liability	Other Deferred Income
2300	Other Current Liability	Unpublished Bulletins	
	2305	Other Current Liability	Bulletin PrePress Author fees/layout
	2310	Other Current Liability	Bulletin Printing
	2330	Other Current Liability	Bulletin Distribution
2900	Other Current Liability	Other Liabilities	Misc. liabilities
3000	Equity	Net Assets	
3100	Equity	Unrestricted Assets	
3200	Equity	Temporarily Restricted Assets	FASB 116/117
	3210	Equity	Library
	3211	Equity	Film & Video Library
	3220	Equity	Grants
	3240	Equity	RailCamp
	3250	Equity	Educational Program Income from accounts 3300 & 4930
	3190	Equity	Other Restricted Assets
3300	Equity	Permanently Restricted Assets	FASB 116/117
3900	Equity	Retained Earnings	Holding account

Revised Chart of Accounts – Page 2 of 3

4100		Income	Dues Income	Dues for Current Fiscal Year
4200		Income	Interest and Dividends	
4300		Income	Sales	
	4310	Income	Emblem Sales	Emblem Sales
	4370	Income	Mail List -- Non Profit	Mail list use -- non-profits
	4380	Income	Unrelated Business Income	Mail list use - for profits
	4390	Income	Other Sales	Misc. program service income
4400		Income	Convention Parent	
	4410	Income	Convention - Chapter Sponsored	Conventions run by Chapters
	4420	Income	Convention Ticket Sales	To be retired
	4430	Income	Convention Refunds	To be retired
	4490	Income	Other Convention Income	
4450		Income	RailCamp	
	4451	Income	RailCamp Tuition	Paid by RailCampers
	4452	Income	RailCamp Support	Paid for RailCampers by others
	4453	Income	RailCamp Scholarships	Paid by NRHS Scholarships
	4449	Income	Other RailCamp Income	Income other than Tuition
4500		Income	Capital Gains	
	4530	Income	Realized Capital Gains	
	4560	Income	Unrealized Capital Gains	Required by FASB 124
4800		Income	Unrestricted Donations - Parent	
	4810	Income	Unrestricted Donations	
	4830	Income	CFC Donations	
	4840	Income	Heritage Fund	
4900		Income	Restricted Donations	
	4910	Income	Library	Temporarily Restricted
	4911	Income	Film/Video Library	Temporarily Restricted
	4920	Income	Grants	Temporarily Restricted
	4930	Income	RailCamp	Temporarily Restricted
	4940	Income	RailCamp Scholarships	Temporarily Restricted
	4950	Income	Endowed Educational Fund	Permanently Retricted
	4990	Income	Other Restricted Donations	Temporarily Restricted
4999		Income	Other Income	Holding account

Revised Chart of Accounts – Page 3 of 3

4000		Expense	Reconciliation Discrepancies	
5100		Expense	Convention	
	5110	Expense	Printing	To be retired
	5120	Expense	Distribution	To be retired
	5130	Expense	Convention Staff Travel	To be retired
	5135	Expense	Convention Comm.	
	5150	Expense	Telephone	To be retired
	5155	Expense	Financial Fees	To be retired
	5160	Expense	Transportation	To be retired
	5170	Expense	Insurance	To be retired
	5180	Expense	Supplies	To be retired
	5190	Expense	Other Convention Expense	
5200		Expense	NRHS Bulletin	Parent
	5310	Expense	PrePress	Author fees/layout
	5320	Expense	Printing	
	5320	Expense	Distribution	
	5290	Expense	Other Bulletin Expenses	
5300		Expense	NRHS News	
5350		Expense	Other Publication Expense	
5400		Expense	Membership Records	
5600		Expense	Meetings and Travel	
	5610	Expense	Meetings	
	5660	Expense	Annual Membership Meeting	
	5670	Expense	Administrative Travel	
	5680	Expense	Program Service Travel	
5700		Expense	Staff Expenses	NRHS staff supplies/postage/phone
5800		Expense	Admin. Office	Association Mgmt. expenses
6000		Expense	Corporate	
6050		Expense	Accounting	
6060		Expense	Legal Fees	
6070		Expense	Financial Fees	
6080		Expense	Interest Expense	Interest paid by NRHS
6090		Expense	Insurance	
6100		Expense	Public Relations	
6150		Expense	Advertising	
6200		Expense	Planning and Development	
6300		Expense	Fund Raising	
6400		Expense	Emblem Sales	
6500		Expense	Other Program Services	
	6510	Expense	Membership Awards	
	6530	Expense	Membership Development	
	6550	Expense	Educational Program	
	6590	Expense	Misc. Program Services	
6600		Expense	Library Operations	NLR Usage Fees
6650		Expense	Library Rent	NRL Storage
6670		Expense	Heritage Film Operations	Restoration/preservation
6700		Expense	RailCamp	
6800		Expense	IT Systems Operations	
6900		Expense	IT Systems Development	
7000		Expense	Association Management Support	
8000		Expense	Depreciation	
9100		Expense	Grants	
9200		Expense	Donations	Donations to other nonprofits
9300		Expense	Library Acquisitions	Books/Subscriptions
9999		Expense	Other Expenses	Holding Account

Change No. 5: Move Accounting to Fernley & Fernley Accounting Dept.

Current System:

Almost all receipts and disbursements are processed by Fernley & Fernley. The one significant exception is the separate Bank of America checking account set up for the 2009 NRHS convention, but that account will be closed about the end of 2009. Fund transfers between the Society's checking accounts and the investment account are made by the Treasurer. NRHS accounting records are maintained by the Comptroller using QuickBooks software on a home computer, with some supplementary calculations and backup on Lotus 1-2-3 spreadsheets. Starting in fall of 2009, NRHS moved bank reconciliations to Fernley & Fernley (see 2008 Audit Report) although the contract was not adjusted at that time.

Proposed System

Starting in 2010, Fernley & Fernley will:

- Maintain NRHS bank accounts
- Perform daily expense and revenue accounting
- Prepare and distribute monthly financial statements to NRHS management
- Assist in development of annual budget
- Code invoices for payment and obtain NRHS approval per agreed policy
- Coordinate year-end audit and tax return preparation with audit firm selected by NRHS
- Maintain financial records in Peachtree accounting software
- Perform monthly bank reconciliation for the NRHS checking account.

This is consistent with the financial services that Fernley & Fernley provides to most of their other clients. All accounting work at Fernley & Fernley is open to review and inspection by NRHS management and will be audited on an annual basis. Reporting formats have already been developed and reviewed by NRHS management.

Reason for Change:

This change is supported by NRHS management, our audit firm and Fernley & Fernley management. NRHS expects efficiency gains from doing accounting at the source point for most transactions and linked directly to the transaction details rather than doing it at a remote location on different software. This change will also provide greater data security and less effort by NRHS to balance accounts. This change also supports accounting simplification (Change No. 4) by using the capabilities of Peachtree to manage data rather than running a separate and detached system.

Impact on Cash:

Acceptance of this proposal will increase Fernley & Fernley contract billings by \$12,000 per year. We expect the net impact to be more on the order of \$6,000 in 2010 and largely neutral in 2011 and beyond. Cost reductions are expected in reduced audit costs, reduced rework, avoidance of excess hours billings and reduced travel cost, in addition to more efficient use of limited staff resources.

Impact on Income & Expense and Balance Sheet Statements:

This change will have no impact on the financial statements.

Treatment in 2010 Budget Proposal:

The 2010 Budget Proposal assumes that this change is approved and implemented at the start of 2010.

Change No. 6: New Billing Basis for NRHS Legal Services

Current System:

NRHS legal services hours have been provided on a *pro bono* basis. Out-of-pocket expenses and cost of litigation are billed to the NRHS on a cost basis. The need for and scope of legal services has expanded substantially over the last decade, to the point where the hours needed to address all legal matters exceeds what is reasonable to expect on a *pro bono* basis. As a result, NRHS deals with the most urgent legal matters in a timely manner, but others have been allowed to sit without attention.

Proposed System

The NRHS legal department will bill for up to 10 hours per month at the reduced rate of \$100 per hour. Hours above the 10-hour limit will continue to be *pro bono*, unless required for litigation. Out-of-pocket expenses will continue to be billed directly to NRHS. All billing for legal services will be done through Capehart Scratchard, P.A.

Reason for Change:

The current system is no longer viable given the amount of legal services the NRHS requires, so some change is inevitable. This change will permit additional hours to be spent on NRHS legal services and will allow specific tasks to be assigned to associates. This should allow the backlog of NRHS legal work to be reduced over time. NRHS will only pay for billable legal hours in a given month if the hours are used. The reduced rate and upper limit on monthly charges make this a more attractive option than contracting with a third-party law firm for additional legal services hours.

Impact on Cash:

This change will result in additional legal expenses. The exact amount will depend on the actual hours consumed and the pattern of consumption.

Impact on Income & Expense and Balance Sheet Statements:

This change will have no impact on the financial statements.

Treatment in 2010 Budget Proposal:

The 2010 Budget Proposal assumes that this change is approved and implemented at the start of 2010. The proposed budget for legal services has been increased from \$7,000 to \$12,000 per year, including out-of-pocket expenses.

Part 4 Additional Potential Improvement Items for 2010 Budget

The base budget proposal for 2010 projects a deficit of \$66,000. NRHS could take some additional steps to reduce this projected deficit, but these would require changes to current practices or, in a few cases, reversing previous actions by the Board of Directors.

The changes in Part 4 are short-term actions aimed at reducing the deficit in 2010. Part 5 addresses longer-term changes the Society must consider to fix long-term issues. The changes proposed here avoid widespread cuts in established member services.

Even if all the changes listed in this section were undertaken, it is likely they would only reduce the 2010 deficit, not eliminate it. In addition, the 2010 budget proposal does not carry contingency funds for several risk items, most of which would increase the deficit above what is projected.

Convention Cost Recovery

The 2010 NRHS Convention will be chapter-sponsored. Under current policies, the NRHS can expect to do little better than break even financially on the 2010 program.

The lack of national income from chapter-sponsored conventions is a long-term issue that is discussed in Part 5 of this report. Of the several long-term options discussed to rectify this problem, only one is practical for implementation as early as 2010, the imposition of a national registration fee for convention registrants. The purpose of the fee in 2010 would be to cover national NRHS expenses in support of the 2010 convention so that any national earnings from the convention can be applied to rail history preservation programs in 2011 and beyond.

If the NRHS sets a target cost recovery of \$30 per registrant, 500 convention registrants would raise **\$15,000** in additional revenue, roughly equal to direct and indirect national support of the convention. The fee could be structured in two or three levels depending on size of ticket order so that the fee would be more or less proportional, yet would remain relatively small compared to what the average attendee spends to attend a convention. Setting the average fee higher or lower would result in proportionately higher or lower revenue, as would higher or lower convention attendance.

Reduced Print Advertising

Reducing NRHS spending for print advertising by 50% would result in a savings of **about \$15,000**. There is some concern that continued reliance on print advertising in railroad magazines is no longer effective since circulation of such magazines is stable or declining.

NRHS could limit print advertising to primarily the first six months of the year and focus it almost entirely on RailCamp and the convention. Ads would still have the NRHS mailing and website address where people could go for membership information.

Further Reduce the Grants Program

NRHS could reduce the Railway Heritage Grants program funding by an additional **\$5,000** in 2010, to a budget of \$20,000. This number could be increased by donations directed to the grants program between the approval of the 2010 budget and the selection of grant recipients in May.

The 2010 budget proposal for the grants program is already \$15,000 lower than the \$40,000 awarded in 2009. This recognizes that the NRHS did not have a matching gift challenge program in place like the one that raised an additional \$10,000 for the grants program in the previous year. In addition, NRHS investment earnings have fallen significantly, so there is very little contribution from the Heritage Fund earnings to the grants program. NRHS would be only one of many non-profit organizations forced to trim programs because of the economic downturn.

NRHS recommends that the grants program not be trimmed below the \$20,000 level. Keeping the grants budget higher than the expected income from the Combined Federal Campaign (CFC) donations makes it easy to demonstrate that CFC income is used for railway heritage preservation. In addition, cutting back the number of grants too far could make it more difficult to demonstrate NRHS national activities in the minimum of 15 states required for continued CFC participation.

Further Reduction in Corporate Expenses

The 2010 base budget proposal already assumes corporate expenses can be reduced by \$2,000 from current spending levels through a combination of:

- Converting the annual meeting notice distribution from presorted first class mail to standard mail with tracking.
- Continuing to reduce the numbers of handout copies generated for Board of Directors meetings and the Annual Meeting.

Depending on legal requirements, it MAY be possible to reduce Corporate expense by an additional **\$3,000**. This would require additional changes to current practices:

- Print the annual meeting notice and proxy form in the NRHS News and post them as a PDF on the NRHS website. Notices would still have to be mailed to Family members, but could be done by bulk mail. This means that the notices would have to be finalized for distribution about 90 days ahead of the meeting, and that primary members would not get envelopes for returning proxy forms. The return rate for proxy forms would probably be lower than we currently experience. It will PROBABLY require delaying the distribution date of one NRHS News per year by a few weeks to fall within a legal mailing window.
- Further reduce paper at Board of Directors meetings. This will mean going to a strict zero paper copies policy for anything posted on the website more than one week before a Board meeting and requiring chapters with Board meeting and convention handouts to deliver sufficient copies for distribution. This MAY cause Board meetings to run longer because it may be necessary to deliver more material from the podium or project it on screens. It will be difficult to achieve the same reduction for Annual Meeting handouts, so they will probably have to remain paper.

Make Other Cost Reductions That Impact Relatively Few People

NRHS can make some other cost reductions that will impact relatively few people, but they would be changes from current practices. Taken together, they could save **up to \$5,000** per year, although the amount is variable from year to year. Changes would include:

- Schedule Regional Vice President meetings ONLY on Friday afternoons or Saturday mornings and not offer reimbursement of one night hotel for arriving a day early at Board meetings.
- Supply NRHS staff with generic letterhead only and expect people to print their return address on each letter.
- Eliminate printing of business cards for NRHS staff.
- Drop the distribution of NRHS membership pins to new members (a recent change just being implemented and not yet widely expected by recipients).

Other Changes

If the NRHS makes all the changes described above, the projected deficit in the 2010 base budget would be cut by about 2/3, but not eliminated. These are about all the cuts that can be made without starting to reduce member services.

The other option for reducing the short-term deficit involves building income. Other than recovering expenses from the convention business, however, building income in 2010 requires taking steps for which the NRHS collectively has shown little enthusiasm to date. Building any of these changes into the 2010 budget would therefore be, at the very least, highly speculative.

Dues Income:

Dues income is tied directly to membership renewals. During 2009, 59 chapters ended up with membership equal to or greater than their 2008 numbers, and 25 more had renewal rates of 95% to 99%. One new chapter joined the NRHS. This did not, however, offset the membership drop in the other half of the chapters or the At-Large membership. At the start of the 2010 membership year, one large chapter appears to be "on the ropes" financially and organizationally, and two others are in the process of separating the chapters from their museums (and potentially from much of their membership). It is unlikely that the decline in traditional membership can be eliminated. To date, the NRHS has shown little enthusiasm for building non-traditional membership, such as corporate or internet-based members, so it is unlikely that any fresh efforts will show significant results in time for 2010.

Donations, Grants and Sponsorships:

There is a possibility that a vigorous fund drive could increase donations by the end of 2010, but that work would have to get started soon, and it would need one or more people willing to do the work. To date, none of our members have shown much interest in leading fund-raising efforts beyond expressing a wish that someone else would do it.

Obtaining grants or sponsorships from outside organizations will be even harder in the short term. The NRHS needs to re-structure its programs or define new ones in ways that would qualify for grant funding or be candidates for external sponsorship. Again, this requires knowledgeable and willing leadership before real efforts can even begin. In addition, many NRHS projects are currently stalled by lack of staffing and would need to demonstrate a higher level of activity in order to qualify for outside support.

Investment Income:

The 2010 base budget proposal already predicts some modest gains in investment income. This already assumes results from resources the Society does not yet have in place. Given the economy and lack of staffing, more significant gains will be difficult to attain in the next year.

Part 5

Major Changes Necessary for Long-Term Financial Stability

Most of the issues discussed here require are complex decisions that have significant long-term implications for the NRHS. They are not going to be resolved in the upcoming Fall 2009 Board meeting. Some will be discussed more extensively in the Winter 2010 meeting, but resolution and implementation will take longer. Nevertheless, some discussion is necessary to put shorter-term financial issues in context.

In order to change its long-term financial outlook, the NRHS must make significant changes to build revenue, reduce expenses or some combination of both. Any major change requires additional effort and a deviation from current priorities, and many carry significant risks.

In order to build revenue, the NRHS can increase the income from current sources, add new sources of revenue or increase the net earnings from programs with both revenue and expense. In order to gain significant additional revenue, however, the Society must move in directions for which it has shown little enthusiasm to date.

In order to decrease expense, the NRHS can reduce administrative costs or choose to cut or eliminate programs and services. Such reductions also carry risks, because they often involve transferring the financial burden to others or reducing services to members, chapters and rail history preservation. One critical step before cutting programs is to determine why the NRHS is involved with that program and how it fits into our overall priorities.

Background

Mission Statement

The National Railway Historical Society promotes railway heritage preservation and educates its members and the public about rail transportation, its history and impact, with a focus on North America.

Objectives

1. To foster the experience of rail transportation
2. To develop and expand educational services and programs
3. To build and maintain archives, to encourage and to support archival activities, and to disseminate information in archives
 - A. To increase collaboration between existing archives
 - B. To develop listing of National and Chapter archives
4. To support preservation of memorabilia and artifacts
5. To facilitate association and networking
6. To maintain and grow the organization

NRHS Member Spending

In a typical year, NRHS members spend over \$1.1 Million on national society programs.

NRHS Annual Member Spending on National Programs

Basis is typical year with chapter-managed convention.

All cost numbers in thousands

Dues			\$ 400	35%
Donations	Internal	incl. unbilled expense	\$ 75	7%
Convention	Events/Register		\$ 250	
	Conv. Hotels	1200 room nights	\$ 125	50%
	Travel & Meals	incl. non-conv hotels	\$ 200	
Board Mtgs.	Events/Register	spring & fall	\$ 15	
	Hotel	winter, spring, fall	\$ 30	9%
	Travel & Meals	winter, spring, fall	\$ 55	
Total			\$ 1,150	

The spending pattern is very uneven. Only Dues spending (35% of the total) is paid by all members. The number of members who make national donations is estimated to be below 10%. Fully half of national member spending goes to conventions, although the majority of that money is paid directly to hotels and travel providers. In a typical year, the convention spending comes from fewer than 5% of the total NRHS membership. The cost of NRHS Board meetings comes from less than 1% of the membership, most of whom are among the 5% who also pay for the conventions.

Issue No. 1 - Governance

The problems with the current NRHS governance system have been well documented in previous papers presented to the Board. The system is a barrier to fixing some of the Society's other long-term financial issues:

- The Board meetings consume significant financial resources. In addition to the 9% of member spending that goes directly into the Board meetings, a portion of the convention spending is by members who are attending primarily or solely because of the business meetings. In addition, some of the dues money is spent on support of governance activities. In total, the governance activities consume over 10% of all NRHS spending.
- Most of this spending is not directly supportive of the Society's Mission Statement or Objectives. While each Board Meeting does provide a "bullet point" in the activities listing for the annual CFC application, the educational activities are secondary to the meeting purpose and could be achieved more effectively through other formats.
- Because the governance system involves so many people, the majority of whom do not participate in any given meeting, the system consumes considerable administrative resources for notification, documentation and meeting preparations, and those resources are not available to work on more impactful issues.
- The fact that the majority of Board votes are controlled by non-participants, coupled with the infrequency and limited time of Board meetings, means that the Society has been and will continue to be slow to act on major changes to address its underlying problems.

The NRHS needs a more streamlined governance system in order to focus its resources in more productive activities. It must also work to avoid a protracted period of distraction and division while it moves to a better system.

Issue No. 2 – Conventions

The NRHS must address several issues regarding the convention program as currently conceived. The convention program consumes half of all national spending by NRHS members, ties up considerable resources and exposes the NRHS to considerable risk (image as well as financial). At the same time, the normal chapter-sponsored convention program makes no income for the national Society, and the NRHS has not taken a clear position as to why we operate this program.

Earnings

Since 1993, the chapter-sponsored convention program has only been a break-even proposition for the NRHS national organization. Were it not for the abnormally high earnings of the 2005 convention in Portland, the chapter-sponsored convention program would have actually lost money over this period.

Financial Performance of Chapter Sponsored NRHS Conventions						
Year	Location	Charged Income	Charged Expense	Net for Fiscal Year	Cumulative	
1993	Chicago, IL	\$ 2,353	\$ 3,438	(\$1,085)	(\$1,085)	
1994	Atlanta, GA	\$ 1,764	\$ 2,333	(\$569)	(\$1,654)	
1995	Lancaster, PA	\$ 4,000	\$ 2,792	\$1,208	(\$446)	
1996	Charlotte, NC	\$ 5,002	\$ 6,263	(\$1,261)	(\$1,707)	
1997	Salt Lake City, UT	\$ 5,626	\$ 4,748	\$878	(\$829)	
1998	Syracuse, NY	\$ 7,187	\$ 7,840	(\$653)	(\$1,482)	
1999	Sacramento, CA	\$ 2,593	\$ 6,476	(\$3,883)	(\$5,365)	
2000	Stamford, CT	\$ 11,286	\$ 9,342	\$1,944	(\$3,421)	
2001	St. Louis, MO	\$ 8,452	\$ 13,459	(\$5,007)	(\$8,428)	
2002	Williams, AZ	\$ 15,985	\$ 10,757	\$5,228	(\$3,200)	
2003	Baltimore, MD	\$ 96	\$ 10,897	(\$10,801)	(\$14,001)	
2004	Minneapolis, MN	\$ 6,883	\$ 11,102	(\$4,219)	(\$18,220)	
2005	Portland, OR	\$ 29,328	\$ 10,621	\$18,707	\$487	
2006	(national sponsored)				\$487	
2007	(national sponsored)				\$487	
2008	Ft. Worth, TX	\$ 15,021	\$ 17,463	(\$2,442)	(\$1,955)	
2009	(national sponsored)				(\$1,955)	
2010	Scranton, PA (budget)	\$ 12,000	\$ 10,000	\$2,000	\$45	
2011	Tacoma, WA	TBD	TBD	TBD		
Cumulative National Income from Chapter-managed conventions					\$45	
Same calculation if high (2005) and low (2003) results thrown out					(\$7,861)	

This chart actually understates the national organization's financial losses on the convention business, since it includes only expenses directly charged to the convention business. Magazine advertising and legal expenses paid by the NRHS to deal with convention business are not included. National office/association management time in support of the convention business is not charged here, either. (As a matter of clarification, meeting support costs for the Board of Directors meeting and the Annual Meeting held at each convention are not charged to convention expense, either, and should not be.)

The present cost recovery formula makes it difficult for the national organization to do much more than break even. All host chapter expenses are deducted from the gross income. Then the remaining surplus is divided 50/50 on the first \$10,000 and 80/20 in favor of the chapter on the remainder. The national organizations expenses are not counted in the split, so in effect they are paid out of the national share of the profits. The *de facto* split of the surplus is therefore closer to 100/0.

Purpose

The Board of Directors has not taken a position as to what the purpose of the convention business is or should be, so there is no consensus as to its effectiveness.

By many of the standards proposed over time, the convention business as currently structured does not do very well.

As a **fund-raising** activity, it is ineffective. It costs the NRHS more to operate than it returns.

As a **membership development** activity, it is ineffective. Almost all convention participants are already NRHS members of fairly long standing. Few non-members participate, even though NRHS does not require membership to ride or participate. Host chapters usually get a small increase in membership before a convention, and it usually fades away within a year or two afterwards.

As a **membership benefit**, it serves less than 5% of the membership in any given year.

As a **public relations** project, it does gain a few pages of coverage in the traditional railfan press, but that is a shrinking market. We run the risk that an accident, cancellation, serious delay or financial disaster would also get serious negative coverage, or that local press coverage will drift to images of eccentric railfan characters or wealthy old people playing trains rather than rail history preservation. For a much smaller investment, NRHS could simply purchase that many pages of magazine content and control the message.

As an **educational activity**, the convention does generate a bullet point for the CFC application, and the convention seminars and the route descriptions do have educational value. But for many participants and most outside observers, they are only sideshows or distractions.

As a **social gathering** and fun activity for a small core group of the membership, the conventions are somewhat effective, but that isn't the kind of purpose that is going to attract much outside support or broaden the base of the organization.

Future Direction

The NRHS must define a purpose for the convention program and then restructure it accordingly.

We believe that the convention program should be in part a **Fundraising** activity to support rail history preservation and NRHS programs. Instead of being an expensive party for a small subset of our existing membership, it should be presented as a program that benefits the "good works" of the Society. This requires two changes.

First, the national organization must be assured it will recover its expenses in support of the convention program. Some possible routes to do this are:

- Charge national expenses, including advertising and legal services, to the convention before the division of the surplus.
- Change the percentage split of the surplus between the national organization and the host chapter.
- Add a national registration fee to the convention targeted to recover the national support cost.
- Structure a national excise tax into each ticket price targeted to recover the national support cost.

- Structure the convention hotel contracts to include a commission on each hotel room sold, to be split between the national organization and the host chapter.

The best solution may be a combination of these and other ideas, because each option transfers part of the financial burden to different parties.

Second, the program should be structured more visibly as a fundraising activity. Some possible routes to do this are:

- Give preference for access to the most desirable tickets (e.g. rear-end business car seating) to substantial donors.
- Structure a tax-deductible donation into each preregistration fee.
- Structure a tax-deductible donation into each ticket price.
- Use the fund-raising purpose of the convention to solicit corporate sponsorships and/or underwriting.

A second purpose of each convention should be **Community Outreach**, something to “foster the experience of rail transportation.” Some possible ideas (and there are many more out there) include:

- Set aside a percentage of several activities for local riders, preferably those with little train-riding experience, and then solicit community and corporate sponsorship. Using one coach of each excursion train to carry disadvantaged children, for instance, introduces new riders to train travel, invites favorable press coverage, opens the door for corporate sponsors and makes it harder for service providers to say “no.”
- Make sure that every convention includes the announcement of a NRHS grant to a local project not affiliated with the NRHS.

To make the convention program more relevant to the outside world, we must continue to emphasize that this is more than just an inwardly-focused train-riding activity.

Issue No. 3 – Membership

The traditional membership of the NRHS continues to decline. Since the Society relies on dues income for the bulk of its income, declining membership continues to curtail our ability to deliver services and initiate new programs.

In the **short term**, the NRHS should have an opportunity for growth. The “Baby Boomer” generation is reaching retirement age in better health and better financial condition than the generations that came before (and quite possibly the generations that will follow). This means that there are more reasonably healthy and relatively prosperous people out there who now have more time to pursue their interests rather than a paycheck. What is overlooked in the generally declining numbers of members and chartered chapters is that there are 60 chapters that finished 2009 with membership equal to or greater than their 2008 totals. NRHS needs to learn what those chapters did to build their numbers and pass that information on to the rest of the organization. More important, NRHS needs to push on its chapters to actually want new members.

NRHS must also **change its public image**, which for a large part of the outside world remains one of a club of grumpy old white men, focused entirely inward and uninterested in today’s railroads or modern technology. Some of that can be addressed through modernizing the Society’s publications (largely done) and its branding and Internet presence (just getting started). Some of it can be addressed by visibly changing our focus from internal issues to support of and involvement with rail history preservation and historical preservation as a whole. And some of it may mean we have to recognize that there are parts of the NRHS that still do live up to our stereotype. We can’t allow those dead-end branches of the organization to consume excess resources or to stand in the way of modernization.

Traditional memberships alone are not going to be enough to assure the long-term future of the NRHS, and most other railroad oriented organizations are facing the same crisis. NRHS must start to offer and promote memberships that do not follow the traditional pattern. Unfortunately, the Society has had little interest in this to date.

Organizational and Corporate memberships have been permitted in the NRHS Bylaws for more than four years. Until very recently, the few efforts to actually define such a program have sputtered and died for lack of interest, and no proposal has ever come close to Board action. Building such a program requires work, of course, not just to define it, but to build a marketing plan and then to go out and sell it. It will also require some up-front money.

Related to organizational membership, the NRHS should also investigate opportunities to **affiliate** with other organizations. Such arrangements could involve dual memberships at lower total cost to the members and also the opportunity to share costs and resources.

As our new **web services** platforms come on line, the NRHS must also develop products and a marketing plan that will attract new non-traditional members. We may even need to avoid the “m-word” entirely here. There are many people out there who wouldn’t dream of paying money to join an organization like the NRHS and yet wouldn’t give a second thought to paying the same amount of money for a website subscription if it offered content they valued.

Issue No. 4 – Fundraising

Although the NRHS is a 501c3 tax-exempt organization, donations play a relatively small part in the organizations finances. In the past, the NRHS has promised that donations would be used to fund the “good works” of the Society and not simply to pay for operating deficits. As the Society continues to post operating losses and as some of our preservation projects remain stalled for lack of staffing or direction, however, the NRHS is becoming increasingly reliant on donations to fund its operations and member services. Except for a handful of business donations and a portion of the CFC donations, almost all NRHS fundraising to date has been internal.

First and foremost, NRHS needs a **fundraising manager and committee** to do fundraising on an organized basis. As long as fundraising remains just one more thing that the national officers are expected to do in their spare time, it is always going to be an afterthought. In a new governance system, fundraising could become a priority for the national officers and be less likely to be swallowed up in the effort required for administration. But substantial governance changes will take time, and NRHS needs to get started on more active fundraising now.

The NRHS could follow the lead of many other non-profit organizations and establish an active **donor recognition and/or premium membership** program. It is too late to implement such a program with the 2010 dues renewal season, but it could be in place for 2011 if work is started soon. There has been interest expressed in the past for having such a program, but not much interest in the work to define it, design a campaign and set up the systems to administer and promote the program.

NRHS also needs to become more proactive in soliciting **gifts and bequests** of both money and artifacts, starting with more active promotion of estate planning. Our legal staff has this on their backlog, but it is lower priority than short-term legal issues. In addition to legal input, the NRHS needs staffing to promote these gifts and make people aware of the planning material when it is ready for use.

In addition to developing expanded internal fundraising, NRHS must develop **external funding** sources. If structured and presented properly, many current and future NRHS programs could attract external support through donations, grants or sponsorships. Developing such programs requires significant effort not only for the fundraising aspects but first and foremost to show greater results and accomplishments for the programs themselves.

One of the most important upcoming decisions involves the expanded capabilities the NRHS will soon have with its websites. The Society must decide whether **expanded web products** will be structured as fee-for-service, as a privilege of membership or subscription, or as a public service supported by charitable giving. Doing any of these things well requires some effort and investment.

Conclusion

In order for the NRHS to remain financially viable, the Society must make some major changes to the way it does business. In the short term, we need to keep the current business operating and also start building for larger changes to come.

In October, the Board of Directors must approve a budget for 2010. In the process, it must decide on a series of technical and execution changes (listed in part 3) and consider some important changes in the scope of work to be delivered in the coming year (listed in Part 4).

This is not the end of the process, however. Following the October meeting, the NRHS must start to tackle some larger issues that are critical for its future. Some of these issues are discussed in Part 5 of this report. As we start working on these issues, we will no doubt identify others as well. Many of these changes are things that people have talked about for years, but usually in the context of, "It would be really nice if somebody else would do that." In the months ahead, the NRHS must move beyond wishful thinking and actually provide the expertise, staffing and funding to make these changes.