

NATIONAL RAILWAY HISTORICAL SOCIETY

**CONSOLIDATED FINANCIAL STATEMENTS
WITH SUPPLEMENTARY INFORMATION
YEARS ENDED DECEMBER 31, 2015 AND 2014
AND
INDEPENDENT AUDITOR'S REPORT**



H. David Padden, CPA
Karin M. Guerrini, CPA, CFE, CGMA
Stefanie M. Knaub
Frederick A. Tabor, CPA, CGMA
Allyson R. Hornbaker, CPA

Rick Miller, CPA
Ivana Smiljanec
Nathan J. Babinsack, CPA
Derek S. Holjes, CPA, MPA, CFE
Kara E. Care, CPA
James A. Contrella, CPA
Linh M. Hoang
Emerson E. Eckrote III

Dawn M. Myers
Dawn M. Piper
Angela J. Briggs
Denise M. Knisley
Julia Himelick

INDEPENDENT AUDITOR'S REPORT

To the Board of Directors
National Railway Historical Society

We have audited the accompanying consolidated financial statements of National Railway Historical Society, which comprise the consolidated statements of financial position as of December 31, 2015 and 2014, and the related consolidated statements of activities and cash flows for the years then ended, and the related notes to the consolidated financial statements.

Management's Responsibility for the Financial Statements

Management is responsible for the preparation and fair presentation of these consolidated financial statements in accordance with accounting principles generally accepted in the United States of America; this includes the design, implementation, and maintenance of internal control relevant to the preparation and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error.

Auditor's Responsibility

Our responsibility is to express an opinion on these consolidated 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 consolidated financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the consolidated financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the consolidated financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the consolidated financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the consolidated financial statements.

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

Opinion

In our opinion, the consolidated financial statements referred to above present fairly, in all material respects, the financial position of National Railway Historical Society as of December 31, 2015 and 2014, and the results of their consolidated operations and their consolidated cash flows for the years then ended in conformity with accounting principles generally accepted in the United States of America.

Report on Consolidating Information

Our audits were conducted for the purpose of forming an opinion on the consolidated financial statements as a whole. The consolidating information on pages 11 and 12 are presented for purposes of additional analysis of the consolidated financial statements rather than to present the financial position, results of operations, and cash flows of the individual companies, and is not a required part of the consolidated financial statements. Such information is the responsibility of management and was derived from and relates directly to the underlying accounting and other records used to prepare the consolidated financial statements. The consolidating information has been subjected to the auditing procedures applied in the audit of the consolidated financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the consolidated financial statements or to the consolidated financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the consolidating information is fairly stated in all material respects in relation to the consolidated financial statements as a whole.

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

Mechanicsburg, Pennsylvania
July 22, 2016

NATIONAL RAILWAY HISTORICAL SOCIETY
CONSOLIDATED STATEMENTS OF FINANCIAL POSITION

	December 31	
	2015	2014
ASSETS		
Current Assets		
Cash and cash equivalents	\$ 246,861	\$ 279,367
Accounts receivable	-	1,554
Inventory	5,102	13,380
Prepaid expenses	106	43,237
	<u>252,069</u>	<u>337,538</u>
Total Current Assets		
Historical Collections	14,940	14,940
	<u>14,940</u>	<u>14,940</u>
Fixed Assets, Net of Accumulated Depreciation	4,627	8,813
	<u>4,627</u>	<u>8,813</u>
TOTAL ASSETS	\$ 271,636	\$ 361,291
LIABILITIES AND NET ASSETS		
Current Liabilities		
Accounts payable	5,174	74,193
Promissory note, current portion	10,000	10,000
Deferred income	43,502	270,636
	<u>58,676</u>	<u>354,829</u>
Total Current Liabilities		
Promissory Note, long-term portion	80,000	90,000
	<u>80,000</u>	<u>90,000</u>
Total Liabilities	<u>138,676</u>	<u>444,829</u>
Net Assets		
Unrestricted	16,802	(183,098)
Temporarily restricted	98,759	82,161
Permanently restricted	17,399	17,399
	<u>132,960</u>	<u>(83,538)</u>
Total Net Assets		
TOTAL LIABILITIES AND NET ASSETS	\$ 271,636	\$ 361,291

See notes to the consolidated financial statements

NATIONAL RAILWAY HISTORICAL SOCIETY
CONSOLIDATED STATEMENT OF ACTIVITIES
YEAR ENDED DECEMBER 31, 2015

	<u>Unrestricted</u>	<u>Temporarily Restricted</u>	<u>Permanently Restricted</u>	<u>Total</u>
Support and Revenues				
Member dues	\$ 311,878	\$ -	\$ -	\$ 311,878
Emblem sales	3,168	-	-	3,168
RailCamp	46,600	-	-	46,600
Convention	273,616	-	-	273,616
Interest and dividend	33	-	-	33
Contributions	67,113	36,835	-	103,948
Restrictions satisfied by payments	20,237	(20,237)	-	-
Miscellaneous	4,981	-	-	4,981
	<u>727,626</u>	<u>16,598</u>	<u>-</u>	<u>744,224</u>
Total Unrestricted Revenues				
Expenses				
Convention	255,771	-	-	255,771
Bulletin	27,546	-	-	27,546
Publication	8,580	-	-	8,580
Membership records	13,292	-	-	13,292
Office	4,480	-	-	4,480
Meeting and travel	1,701	-	-	1,701
Rent	78	-	-	78
Insurance	8,542	-	-	8,542
Bank and investment fees	13,224	-	-	13,224
Corporate	3,139	-	-	3,139
Professional fees	70,082	-	-	70,082
Fundraising	500	-	-	500
Emblem sales	6,383	-	-	6,383
RailCamp	48,689	-	-	48,689
Grants and donations	13,285	-	-	13,285
Management fees	26,965	-	-	26,965
Depreciation	2,292	-	-	2,292
Other miscellaneous	23,177	-	-	23,177
	<u>527,726</u>	<u>-</u>	<u>-</u>	<u>527,726</u>
Total Expenses				
Increase in Net Assets	199,900	16,598	-	216,498
Net Assets, Beginning of Year	<u>(183,098)</u>	<u>82,161</u>	<u>17,399</u>	<u>(83,538)</u>
Net Assets, End of Year	<u>\$ 16,802</u>	<u>\$ 98,759</u>	<u>\$ 17,399</u>	<u>\$ 132,960</u>

See notes to the consolidated financial statements

NATIONAL RAILWAY HISTORICAL SOCIETY
CONSOLIDATED STATEMENT OF ACTIVITIES
YEAR ENDED DECEMBER 31, 2014

	<u>Unrestricted</u>	<u>Temporarily Restricted</u>	<u>Permanently Restricted</u>	<u>Total</u>
Support and Revenues				
Member dues	\$ 411,340	\$ -	\$ -	\$ 411,340
Emblem sales	6,705	-	-	6,705
RailCamp	53,900	-	-	53,900
Convention	165,298	-	-	165,298
Interest and dividend	54	-	-	54
Contributions	86,227	41,283	-	127,510
Restrictions satisfied by payments	63,516	(63,516)	-	-
Miscellaneous	<u>2,853</u>	<u>-</u>	<u>-</u>	<u>2,853</u>
Total Unrestricted Revenues	<u>789,893</u>	<u>(22,233)</u>	<u>-</u>	<u>767,660</u>
Expenses				
Convention	131,683	-	-	131,683
Bulletin	18,347	-	-	18,347
Publication	37,640	-	-	37,640
Membership records	13,342	-	-	13,342
Office	9,450	-	-	9,450
Meeting and travel	24,325	-	-	24,325
Rent	667	-	-	667
Insurance	5,288	-	-	5,288
Bank and investment fees	17,413	-	-	17,413
Corporate	11,161	-	-	11,161
Professional fees	242,602	-	-	242,602
Advertising	19,290	-	-	19,290
Fundraising	35,939	-	-	35,939
Emblem sales	4,991	-	-	4,991
RailCamp	55,232	-	-	55,232
Grants and donations	46,126	-	-	46,126
Periodical and book purchases	863	-	-	863
Management fees	152,158	-	-	152,158
Depreciation	1,354	-	-	1,354
Film presentation	8,056	-	-	8,056
Other miscellaneous	<u>67,663</u>	<u>-</u>	<u>-</u>	<u>67,663</u>
Total Expenses	<u>903,590</u>	<u>-</u>	<u>-</u>	<u>903,590</u>
Decrease in Net Assets	(113,697)	(22,233)	-	(135,930)
Net Assets, Beginning of Year	<u>(69,401)</u>	<u>104,394</u>	<u>17,399</u>	<u>52,392</u>
Net Assets, End of Year	<u>\$ (183,098)</u>	<u>\$ 82,161</u>	<u>\$ 17,399</u>	<u>\$ (83,538)</u>

See notes to the consolidated financial statements

NATIONAL RAILWAY HISTORICAL SOCIETY
CONSOLIDATED STATEMENTS OF CASH FLOWS

	Years Ended December 31	
	2015	2014
Cash Flows From Operating Activities		
Change in net assets	\$ 216,498	\$ (135,930)
Adjustments to reconcile changed in net assets to net cash provided by operating activities:		
Depreciation	2,292	1,354
Amortization	1,894	-
Change in assets and liabilities:		
(Increase) decrease in:		
Accounts receivable	1,554	(1,554)
Inventories	8,278	13
Prepaid expenses	43,131	(38,459)
Increase (decrease) in:		
Accounts payable	(69,019)	54,217
Deferred income	(227,134)	(5,088)
Accrued expenses	-	(22,192)
	(22,506)	(147,639)
Net Cash Used in Operating Activities		
Cash Flows From Investing Activities		
Purchases of property and equipment	-	(6,997)
	-	(6,997)
Net Cash Used in Investing Activities		
Cash Flows From Financing Activities		
Promissary note, net	(10,000)	100,000
	(10,000)	100,000
Net Cash Provided by (Used in) Financing Activities		
Net Decrease in Cash	(32,506)	(54,636)
Cash and Cash Equivalents, Beginning of Year	279,367	334,003
Cash and Cash Equivalents, End of Year	\$ 246,861	\$ 279,367

See notes to the consolidated financial statements

NATIONAL RAILWAY HISTORICAL SOCIETY
NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
DECEMBER 31, 2015 AND 2014

1. Nature of Business 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 remuneration.

The National Railway Historical Society Fund (the Fund) was founded in 2014. The Fund was founded for soliciting donations to support the Society, to provide funds to support the Society's train, railway and station preservation projects, and to provide funds to support the educational programs, photographic archives, events, publications, standards definitions and shared resources of the Society. All officers and directors serve voluntarily, without remuneration and are appointed by the Society.

Summary of Significant Accounting Policies

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

Principles of Consolidation – The consolidated financial statements include the accounts of National Railway Historical Society, Inc. and National Railway Historical Society Fund a controlled affiliate of the National Railway Historical Society. Intercompany balances and transactions between National Railway Historical Society, Inc. and National Railway Historical Society Fund have been eliminated in the presentation of the combined financial statements.

Use of 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 adopted the provisions of FASC 958-205, "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 also adopted the provisions of FASC 958-605, "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.

NATIONAL RAILWAY HISTORICAL SOCIETY
NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)
DECEMBER 31, 2015 AND 2014

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

Summary of Significant Accounting Policies (Continued)

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

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.

The Society reviewed the impact of FASC 740-10-05 on the consolidated 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, 2014, 2013 and 2012 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. Inventories are stated at the lower of cost determined by the FIFO method.

Fixed Assets - 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 film and photographs, which were acquired through purchases and contributions since the Society's inception, are not recognized as assets on the consolidated statements 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 consolidated financial statements. As of December 31, 2015 and 2014, collections consisting of historical paintings are reflected on the consolidated financial statements and valued at fair market value.

Reclassifications - Certain items in the 2014 financial statements have been reclassified to conform to the 2015 financial statement presentation. The reclassifications have no effect on the results of operations or the change in net assets.

Subsequent Events - The date to which events occurring after December 31, 2015, the date of the most recent consolidated statement of financial position, have been evaluated for possible adjustments to the consolidated financial statements or disclosure is July 22, 2016, which is the date on which the consolidated financial statements were available to be issued.

NATIONAL RAILWAY HISTORICAL SOCIETY
NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)
DECEMBER 31, 2015 AND 2014

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

The Society and the Fund maintain cash in bank deposit accounts that, at times, may exceed federally insured limits. The Society and the Fund also maintain a PayPal account which is uninsured. The Society and the Fund have not experienced any losses in such account. The Society and the Fund believe they are not exposed to any significant credit risk on cash and cash equivalents.

3. Advertising Costs

The Society expenses advertising costs as they are incurred. Advertising expense for the years ended December 31, 2015 and 2014 was zero dollars and \$19,290, respectively.

4. Functional Expenses

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

	2015	2014
Program Services	\$ 422,316	\$ 453,601
Management and General	97,047	414,050
Fundraising	8,363	35,939
	\$ 527,726	\$ 903,590

5. Related Party Transactions

National Railway Historical Society Fund is under common ownership with National Railway Historical Society, Inc. During 2015, working capital loans were made between the two entities when needed. At December 31, 2015 and 2014, the net receivable from National Railway Historical Society Fund totaled \$72,407 and \$63,749, respectively.

6. Promissory Note

During 2014, the Society signed a promissory note as a result of a settlement of a lawsuit in the amount of \$100,000. Under the note, twelve annual payments are due through 2026 in the following amounts: \$10,000 for each of the first two years and \$8,000 thereafter. This is a non-interest bearing note.

Principal maturities for the next 5 years and in the aggregate are as follows:

2016	\$ 10,000
2017	8,000
2018	8,000
2019	8,000
2020	8,000
Thereafter	48,000
	\$ 90,000

CONSOLIDATING INFORMATION

NATIONAL RAILWAY HISTORICAL SOCIETY
CONSOLIDATING STATEMENT OF FINANCIAL POSITION
DECEMBER 31, 2015
(See Independent Auditor's Report)

ASSETS

	Society	Fund	Eliminations	Consolidated Total
Current Assets				
Cash and cash equivalents	\$ 197,731	\$ 49,130	\$ -	\$ 246,861
Accounts receivable	22,407	-	(22,407)	-
Inventory	5,102	-	-	5,102
Prepaid expenses	106	-	-	106
Loan to the Fund	50,000	-	(50,000)	-
Total Current Assets	275,346	49,130	(72,407)	252,069
Historical Collections	14,940	-	-	14,940
Fixed Assets, Net of Accumulated Depreciation				
	893	3,734	-	\$ 4,627
TOTAL ASSETS	\$ 291,179	\$ 52,864	\$ (72,407)	\$ 271,636

LIABILITIES AND NET ASSETS

	Society	Fund	Eliminations	Consolidated Total
Current Liabilities				
Accounts payable	5,174	22,407	(22,407)	5,174
Promissory note, current portion	10,000	-	-	10,000
Deferred income	43,502	-	-	43,502
Loan payable to the Society	-	50,000	(50,000)	-
Total Current Liabilities	58,676	72,407	(72,407)	58,676
Promissory note, long-term portion	80,000	-	-	80,000
Total Liabilities	138,676	-	-	138,676
Net Assets				
Unrestricted	47,219	(30,417)	-	16,802
Temporarily restricted	87,885	10,874	-	98,759
Permanently restricted	17,399	-	-	17,399
Total Net Assets	152,503	(19,543)	-	132,960
TOTAL LIABILITIES AND NET ASSETS	\$ 291,179	\$ 52,864	\$ (72,407)	\$ 271,636

NATIONAL RAILWAY HISTORICAL SOCIETY
CONSOLIDATING STATEMENT OF ACTIVITIES
YEAR ENDED DECEMBER 31, 2015
(See Independent Auditor's Report)

	<u>Society</u>	<u>Fund</u>	<u>Eliminations</u>	<u>Consolidated Total</u>
Support and Revenues				
Member dues	\$ 311,878	\$ -	\$ -	\$ 311,878
Emblem sales	3,168	-	-	3,168
RailCamp	46,600	-	-	46,600
Convention	273,616	-	-	273,616
Interest and dividend	31	2	-	33
Contributions	92,006	11,942	-	103,948
Miscellaneous	4,981	-	-	4,981
	<u>732,280</u>	<u>11,944</u>	<u>-</u>	<u>744,224</u>
Total Unrestricted Revenues				
Expenses				
Convention	255,771	-	-	255,771
Bulletin	27,546	-	-	27,546
Publication	8,580	-	-	8,580
Membership records	13,292	-	-	13,292
Office	4,480	-	-	4,480
Meeting and travel	1,701	-	-	1,701
Rent	78	-	-	78
Insurance	8,542	-	-	8,542
Bank and investment fees	12,918	306	-	13,224
Corporate	3,066	73	-	3,139
Professional fees	62,219	7,863	-	70,082
Fundraising	500	-	-	500
Emblem sales	6,383	-	-	6,383
RailCamp	48,689	-	-	48,689
Grants and donations	13,285	-	-	13,285
Management fees	26,965	-	-	26,965
Depreciation	-	2,292	-	2,292
Other miscellaneous	23,177	-	-	23,177
	<u>517,192</u>	<u>10,534</u>	<u>-</u>	<u>527,726</u>
Total Expenses				
Increase in Net Assets	215,088	1,410	-	216,498
Net Assets, Beginning of Year	<u>(62,585)</u>	<u>(20,953)</u>	<u>-</u>	<u>(83,538)</u>
Net Assets, End of Year	<u>\$ 152,503</u>	<u>\$ (19,543)</u>	<u>\$ -</u>	<u>\$ 132,960</u>