

NATIONAL RAILWAY
HISTORICAL SOCIETY AND
AFFILIATE

COMBINED FINANCIAL STATEMENTS

December 31, 2022

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NATIONAL RAILWAY HISTORICAL SOCIETY AND AFFILIATE

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INDEPENDENT AUDITOR'S REPORT

BOARD OF DIRECTORS NATIONAL RAILWAY HISTORICAL SOCIETY AND AFFILIATE

Opinion

We have audited the accompanying combined financial statements of National Railway Historical Society and Affiliate (the "Organization"), which comprise the combined statement of financial position as of December 31, 2022 and the related combined statements of activities, functional expenses, and cash flows for the year then ended, and the related notes to the combined financial statements (collectively, the "combined financial statements").

In our opinion, the combined financial statements referred to above present fairly, in all material respects, the financial position of National Railway Historical Society and Affiliate as of December 31, 2022, and the changes in their net assets and their cash flows for the year then ended in accordance with accounting principles generally accepted in the United States of America.

Basis for Opinion

We conducted our audit in accordance with auditing standards generally accepted in the United States of America. Our responsibilities under those standards are further described in the Auditor's Responsibilities for the Audit of the Combined Financial Statements section of our report. We are required to be independent of National Railway Historical Society and Affiliate and to meet our other ethical responsibilities in accordance with the relevant ethical requirements relating to our audit. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Responsibilities of Management for the Combined Financial Statements

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

In preparing the combined financial statements, management is required to evaluate whether there are conditions or events, considered in the aggregate, that raise substantial doubt about National Railway Historical Society and Affiliate's ability to continue as a going concern within one year after the date that the combined financial statements are available to be issued.

Auditor's Responsibilities for the Audit of the Combined Financial Statements

Our objectives are to obtain reasonable assurance about whether the combined financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion. Reasonable assurance is a high level of assurance but is not absolute assurance and therefore is not a guarantee that an audit conducted in accordance with generally accepted auditing standards will always detect a material misstatement when it exists. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control. Misstatements are considered material if there is a substantial likelihood that, individually or in the aggregate, they would influence the judgment made by a reasonable user based on the combined financial statements.

In performing an audit in accordance with generally accepted auditing standards, we:

- Exercise professional judgment and maintain professional skepticism throughout the audit.
- Identify and assess the risks of material misstatement of the combined financial statements, whether due to fraud or error, and design and perform audit procedures responsive to those risks. Such procedures include examining, on a test basis, evidence regarding the amounts and disclosures in the combined financial statements.
- Obtain an understanding of internal control relevant to the audit 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 National Railway Historical Society and Affiliate's internal control. Accordingly, no such opinion is expressed.
- Evaluate the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluate the overall presentation of the combined financial statements.
- Conclude whether, in our judgment, there are conditions or events, considered in the aggregate, that raise substantial doubt about National Railway Historical Society and Affiliate's ability to continue as a going concern for a reasonable period of time.

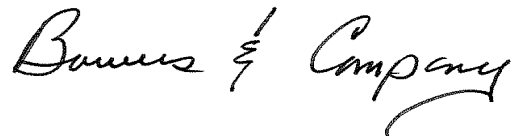
We are required to communicate with those charged with governance regarding, among other matters, the planned scope and timing of the audit, significant audit findings, and certain internal control related matters that we identified during the audit.

Adjustment to Prior Period Consolidated Financial Statements

The consolidated financial statements of National Railway Historical Society and Affiliate as of December 31, 2021, were audited by other auditors whose report dated May 11, 2023, expressed an unmodified opinion on those statements. As discussed in Note 2, the Organization has restated its 2021 consolidated financial statements during the current year to correct for prior period errors in the classification of contributions received as without donor restrictions which should have been classified as with donor restrictions in accordance with accounting principles generally accepted in the United States of America. The other auditors reported on the 2021 consolidated financial statements before the restatement. As part of our audit of the 2022 combined financial statements, we also audited the adjustments described in Note 2 that were applied to restate the 2021 consolidated financial statements. In our opinion, such adjustments are appropriate and have been appropriately applied. We were not engaged to audit, review, or apply any procedures to the 2021 consolidated financial statements of the Organization other than with respect to the adjustments and, accordingly, we do not express an opinion or any other form of assurance on the 2021 consolidated financial statements as a whole.

Report on Other Financial Information

Our audit was conducted for the purpose of forming an opinion on the combined financial statements as a whole. The combining information on pages 20 to 21 is presented for purposes of additional analysis and is not a required part of the combined 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 combined financial statements. The information has been subjected to the auditing procedures applied in the audit of the combined financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the combined financial statements or to the combined financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the information is fairly stated in all material respects in relation to the combined financial statements as a whole.

A handwritten signature in cursive script that reads "Bowers & Company". The signature is written in black ink and is positioned to the right of the date and location text.

Syracuse, New York
May 3, 2024

NATIONAL RAILWAY HISTORICAL SOCIETY AND AFFILIATE, INC.
AUDITED COMBINED FINANCIAL STATEMENTS

COMBINED STATEMENT OF FINANCIAL POSITION

December 31, 2022

ASSETS

CURRENT ASSETS

Cash and Cash Equivalents	\$ 261,771
Accounts Receivable	139
Prepaid Expenses	3,200
Inventory	7,851
Total Current Assets	<u>272,961</u>

OTHER ASSETS

Investments	977,597
Historical Collections	5,500
Total Other Assets	<u>983,097</u>

TOTAL ASSETS

\$ 1,256,058

LIABILITIES AND NET ASSETS

CURRENT LIABILITIES

Accounts Payable	\$ 21,910
Promissory Note, Current Portion	8,000
Deferred Income	81,641
Total Current Liabilities	<u>111,551</u>

PROMISSORY NOTE, LONG-TERM PORTION

24,000

Total Liabilities

135,551

NET ASSETS

Without Donor Restrictions	564,383
With Donor Restrictions	556,124
Total Net Assets	<u>1,120,507</u>

TOTAL LIABILITIES AND NET ASSETS

\$ 1,256,058

See accompanying notes to combined financial statements and independent auditor's report.

NATIONAL RAILWAY HISTORICAL SOCIETY AND AFFILIATE, INC.

COMBINED STATEMENT OF ACTIVITIES

Year Ended December 31, 2022

	Without Donor Restrictions	With Donor Restrictions	Total
SUPPORT AND REVENUE			
Member Dues	\$ 196,963	\$ 0	\$ 196,963
Sales	1,839	0	1,839
Convention	46,631	0	46,631
Interest and Dividends	24,912	0	24,912
Contributions	43,570	27,634	71,204
	<hr/>	<hr/>	<hr/>
Total Support and Revenue	313,915	27,634	341,549
EXPENSES			
Program Services	255,282	0	255,282
Supporting Services	98,457	0	98,457
	<hr/>	<hr/>	<hr/>
Total Operating Expenses	353,739	0	353,739
OTHER NONOPERATING GAIN (LOSS)			
Net Unrealized Loss on Investments	(126,515)	0	(126,515)
Net Realized Gain on Investments	23,972	0	23,972
	<hr/>	<hr/>	<hr/>
Total Other Nonoperating Loss	(102,543)	0	(102,543)
Change in Net Assets	(142,367)	27,634	(114,733)
Net Assets, Beginning of Year (As Restated)	706,750	528,490	1,235,240
	<hr/>	<hr/>	<hr/>
Net Assets, End of Year	<u>\$ 564,383</u>	<u>\$ 556,124</u>	<u>\$ 1,120,507</u>

See accompanying notes to combined financial statements and independent auditor's report.

NATIONAL RAILWAY HISTORICAL SOCIETY AND AFFILIATE, INC.

COMBINED STATEMENT OF FUNCTIONAL EXPENSES

Year Ended December 31, 2022

	Program Services	Supporting Services		Total
		General and Administrative	Fundraising	
Publications	\$ 63,249	\$ 0	\$ 0	\$ 63,249
Grants and Donations	99,130	0	0	99,130
Administrative and Other Expenses	24,274	25,588	1,020	50,882
Conferences, Conventions, and Meetings	36,397	873	0	37,270
Legal and Professional	0	44,303	0	44,303
Travel	21,603	11,509	0	33,112
Insurance	6,328	5,111	0	11,439
Information Technology	331	0	0	331
Occupancy	1,060	4,676	0	5,736
Supplies and Minor Equipment	0	3,253	0	3,253
Periodicals and Books	1,233	0	0	1,233
Depreciation	0	2,124	0	2,124
RailCamp	1,677	0	0	1,677
Total Expenses	\$ 255,282	\$ 97,437	\$ 1,020	\$ 353,739

See accompanying notes to combined financial statements and independent auditor's report.

NATIONAL RAILWAY HISTORICAL SOCIETY AND AFFILIATE, INC.

COMBINED STATEMENT OF CASH FLOWS

Year Ended December 31, 2022

CASH FLOWS FROM OPERATING ACTIVITIES

Change in Net Assets	\$ (114,733)
Adjustments to Reconcile Change in Net Assets to Net Cash and Cash Equivalents Used In Operating Activities:	
Depreciation	2,124
Net Realized Gain on Investments	(23,972)
Unrealized Loss on Investments	126,515
(Increase) Decrease in Operating Assets:	
Accounts Receivable	2,350
Inventory	256
Prepaid Expenses	(3,200)
Increase (Decrease) in Operating Liabilities:	
Accounts Payable	10,169
Deferred Income	(35,530)
Net Cash Used In Operating Activities	<u>(36,021)</u>

CASH FLOWS FROM INVESTING ACTIVITIES

Net Purchase of Investments	(260,815)
Sales of Historical Collections	3,400
Net Cash Used In Investing Activities	<u>(257,415)</u>

CASH FLOWS FROM FINANCING ACTIVITIES

Payments on Promissory Note	<u>(8,000)</u>
Net Cash Used In Financing Activities	<u>(8,000)</u>

Net Decrease in Cash and Cash Equivalents	(301,436)
Cash and Cash Equivalents, Beginning of Year	<u>563,207</u>
Cash and Cash Equivalents, End of Year	<u><u>\$ 261,771</u></u>

See accompanying notes to combined financial statements and independent auditor's report.

NATIONAL RAILWAY HISTORICAL SOCIETY AND AFFILIATE, INC.

NOTES TO THE COMBINED FINANCIAL STATEMENTS

December 31, 2022

NOTE 1 – NATURE OF OPERATIONS

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 publication throughout the year in exchange for an annual dues payment. The Society is supported primarily through this dues payment, donor contributions, and special event revenues. There are local chapters of the Society located in the United States, Canada, and Japan. All local chapters of the Society are separate entities and their financial information is not included in this report. 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 trustees serve voluntarily, without remuneration and are appointed by the Society.

NOTE 2 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Principles of Combination

The combined financial statements include the accounts of National Railway Historical Society, Inc. and National Railway Historical Society Fund, an affiliate of the National Railway Historical Society, Inc. 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. The “Organization”, as used in the combined financial statements, refers to the accounts of the National Railway Historical Society, Inc. and its affiliate, the National Railway Historical Society Fund.

Basis of Accounting

The Organization’s assets and liabilities, revenues and expenses are recorded using the accrual method of accounting. The Organization records revenue as it is earned. Costs and expenses are recognized when incurred.

NATIONAL RAILWAY HISTORICAL SOCIETY AND AFFILIATE, INC.

NOTES TO THE COMBINED FINANCIAL STATEMENTS

December 31, 2022

NOTE 2 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES – CONTINUED

Prior Period Adjustments

During the current year, beginning net assets was restated to correct for prior period errors in the classification of contributions received by the Fund as without donor restrictions which should have been classified as with donor restrictions. Beginning net assets as of January 1, 2022 has been restated to correct for these prior period adjustments.

	Without Donor Restrictions	With Donor Restrictions	Total
Beginning Net Assets, as Previously Reported	\$ 783,008	\$ 452,232	\$1,235,240
Effects of the Prior Period Adjustments	<u>(76,258)</u>	<u>76,258</u>	<u>0</u>
Beginning Net Assets, as Restated	<u>\$ 706,750</u>	<u>\$ 528,490</u>	<u>\$1,235,240</u>

Basis of Presentation

The Society and the Fund follow Financial Accounting Standards Board (FASB) Accounting Standards Codification (ASC) 958, *Not-for-Profit Entities – Presentation of Financial Statements*. Under FASB ASC 958, the Society and the Fund are required to report information regarding its financial position and activities according to two classes of net assets that are based upon the existence or absence of restrictions on use that are placed by its donors:

Net Assets Without Donor Restrictions – Are currently available for operating purposes subject only to the broad limits resulting from the nature of the organization. Net assets without donor restrictions generally result from contributions, less expenses incurred in providing program-related services and performing administrative functions. At December 31, 2022 there were no board limits placed on the net assets without donor restrictions.

Net Assets With Donor Restrictions – Net Assets whose use is limited by donor-imposed time and/or purpose restrictions.

NOTES TO THE COMBINED FINANCIAL STATEMENTS

December 31, 2022

NOTE 2 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES – CONTINUED

Revenue Recognition

Revenue from the sale of memberships is recognized ratably over the length of the membership term, which is 12 months. Collected but unearned membership dues are presented as deferred revenue and are fully recognized in the applicable membership period. The Society offers members exclusive access to opportunities for involvement, specialized information, and a wide range of events and training, development opportunities, and member publications. The membership level selected determines if there are additional performance obligations associated with the membership. If additional performance obligations occur, the revenue for these obligations are recognized when the product or service is provided.

The Society produces a number of meetings, educational programs, and training events each year. Revenues consist primarily of registration fees and are recognized in the period in which the event occurs. Any amounts collected but unearned are classified as deferred revenue and recognized as revenue in the applicable period.

The Society and the Fund recognize contributions in accordance with ASC Subtopic 958-605, *Not-for-Profit Entities – Revenue Recognition*. Contributions are recognized when cash, securities or other assets, an unconditional promise to give, or a notification of a beneficial interest is received. Conditional promises to give, that is, those with a measurable performance or other barrier, and a right of return, are not recognized until the conditions on which they depend have been substantially met.

Cash and Cash Equivalents

For purposes of the consolidated statement of cash flows, the Society and the Fund use the indirect method of reporting net cash flows from operating activities and considers all short-term debt securities with an original maturity of three months or less to be cash equivalents.

Accounts Receivable

Accounts receivable are stated at the amount management expects to collect from outstanding balances. The Organization considers accounts receivable to be fully collectible; accordingly, no allowance for doubtful accounts is considered necessary. If amounts become uncollectible, they will be charged directly to bad debt expense when that determination is made. For the year ended December 31, 2022, there were no amounts written off.

NOTES TO THE COMBINED FINANCIAL STATEMENTS

December 31, 2022

NOTE 2 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES – CONTINUED

Property and Equipment

Property and equipment are stated at cost. Depreciation is recorded on the straight-line method over the economic useful life of the respective asset. When properties are retired or otherwise disposed of, the related costs and accumulated depreciation are removed from the accounts and any gain or loss is recorded in the statements of activities. Expenditures for repairs and maintenance not considered to substantially lengthen property life are charged to expense as incurred. Depreciation charged to expense for the year ended December 31, 2022 was approximately \$2,000.

Valuation of Long-Lived Assets

The Organization accounts for the valuation of long-lived assets under FASB ASC 360, *Property, Plant, and Equipment*. This guidance requires that long-lived assets and certain identifiable intangible assets be reviewed for impairment whenever events or changes in circumstances indicate that the carrying amount of an asset may not be recoverable. Recoverability of the long-lived asset is measured by a comparison of the carrying amount of the asset to future undiscounted net cash flows expected to be generated by the asset. If such assets are considered to be impaired, the impairment to be recognized is measured by the amount by which the carrying amount of the assets exceeds the estimated fair value of the assets. Assets to be disposed of are reportable at the lower of the carrying amount or fair value, less cost to sell.

Library, Film, and Art Collections

The collections consist of film and photographs, which were acquired through purchases and contributions since the Organization's inception, are not recognized as assets on the combined statement of financial position. Purchases of collection items are recorded as decreases in net assets without donor restrictions in the year in which the items are acquired or net assets with donor restrictions if the assets used to purchase the items are restricted by donors. Contributed collection items are not reflected on the combined financial statements. As of December 31, 2022, collections consisting of historical paintings are reflected on the combined financial statements and valued at fair market value.

NOTES TO THE COMBINED FINANCIAL STATEMENTS

December 31, 2022

NOTE 2 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES – CONTINUED

Investments

Investments are carried at fair value determined by quoted prices on the last business day of the calendar year. Investment income may be either unrestricted or restricted when earned, according to donor-imposed restrictions. Investment income and realized and unrealized gains (losses) may be either with or without donor restrictions when earned, according to donor-imposed restrictions, and are included within changes in net assets in the statement of activities.

Donor-Restricted Gifts

The Society and the Fund report gifts of cash and other assets as restricted support if they are received with donor stipulations that limit the use of the donated assets. When a restriction expires (that is, when a stipulated time restriction ends or purpose restriction is accomplished), net assets with donor restrictions are reclassified to net assets without donor restrictions and reported in the consolidated statement of activities as net assets released from restrictions. However, if restrictions expire for contributions with donor restrictions in the same year that the contribution is received, then the contribution is reported as an increase in net assets without donor restrictions.

Concentrations of Credit Risk

The Organization maintains its cash deposits with one financial institution. The Federal Deposit Insurance Corporation insures deposits at any one financial institution up to prescribed limits as set by law. The Organization may, at times, exceed these limits.

Donated Services

Donated services are recognized as contributions if the services (a) create or enhance nonfinancial assets or (b) require specialized skills, are performed by people with those skills, and would otherwise be purchased by the Organization. However, many individuals volunteer their time and perform a variety of tasks that assist the Organization with specific assistance programs, and various fundraising events. These services are not recognized as contributions in the combined financial statements since the criteria for ASC 958 was not met.

NATIONAL RAILWAY HISTORICAL SOCIETY AND AFFILIATE, INC.

NOTES TO THE COMBINED FINANCIAL STATEMENTS

December 31, 2022

NOTE 2 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES – CONTINUED

Functional Allocation of Expenses

The costs of providing various programs and activities have been summarized on a functional basis in the combined statement of functional expenses. The combined statement of functional expenses presents the natural classification detail of expense by function. Management has specifically identified costs as program or supporting services. Supporting services consist of general, administrative, and fundraising expenses. The Organization's operating costs have been allocated based on direct identification when possible, and allocation if a single expenditure benefits more than one function. Expenditures that require allocation are allocated on a personnel-cost basis based on estimates of time and effort.

Use of Estimates

The preparation of combined financial statements in conformity with generally accepted accounting principles requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities at the date of the combined financial statements and the reported amounts of revenues and expenses during the reporting period. Accordingly, actual results could differ from those estimates.

Advertising and Promotion Costs

The Organization expenses advertising and promotion costs as incurred. Advertising and promotion expense was approximately \$1,000 for the year ended December 31, 2022.

Income Taxes

The Society and the Fund are not-for-profit entities described in Section 501(c)(3) of the Internal Revenue Code (IRC) and are exempt from income taxes on related activities pursuant to 509(a) of the IRC. In addition, the Society and the Fund were organized under the Pennsylvania Nonprofit Corporation Law and are exempt from state income taxes.

The Organization's Forms 990, *Return of Organization Exempt from Income Tax*, for the years ended 2021, 2020, and 2019 are subject to examination by the IRS, generally for 3 years after they were filed. Based on its analysis, the Organization has determined that there were no uncertain tax positions and that the Organization should prevail upon examination by the taxing authorities.

NOTES TO THE COMBINED FINANCIAL STATEMENTS

December 31, 2022

NOTE 2 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES – CONTINUED

Recent Accounting Pronouncements

In February 2016, the FASB issued ASU 2016-02, *Leases* (Topic 842), and subsequently amended in ASU 2019-10 and ASU 2020-05. The guidance in these ASUs supersedes the leasing guidance in Topic 840, *Leases*, which sets out the principles for the recognition, measurement, presentation, and disclosure of leases for both parties to a contract (i.e. lessees and lessors). The new standard requires lessees to apply a dual approach, classifying leases as either finance or operating leases, based on the principle of whether or not the lease is effectively a financed purchase by the lessee. This classification will determine whether lease expense is recognized based on an effective interest method or on a straight-line basis over the term of the lease, respectively. A lessee is also required to record a right-of-use asset and a lease liability for all leases with a term of greater than 12 months regardless of their classification. Leases with a term of 12 months or less will be accounted for similar to existing guidance for operating leases today. The new standard requires lessors to account for leases using an approach that is substantially equivalent to existing guidance for-type leases, direct financing leases, and operating leases. The new standard is effective for privately held companies for fiscal years beginning after December 15, 2021, including interim periods within fiscal years beginning after December 15, 2022.

In September 2020, the FASB issued ASU 2020-07, *Not-for-Profit Entities* (Topic 958): *Presentation and Disclosure by Not-for-Profit Entities for Contributed Nonfinancial Assets*, which will require not-for-profit entities to present, contributes nonfinancial assets as a separate line item in the statement of activities, apart from contributions of cash and other financial assets. Also, this ASU will require disclosure of a disaggregation of the amount of contributed nonfinancial assets by category that depicts the type of contributed nonfinancial assets as well as additional information around valuation and usage of the contributed nonfinancial assets. The amendments in this standard should be applied on a retrospective basis and are effective for annual periods beginning after June 15, 2021, and interim periods within annual period beginning after June 15, 2022.

The Organization has adopted these new standards for the year ended December 31, 2022 and based on the current operations of the Organization, has determined there was no impact on the combined financial statements.

Subsequent Events

Management has evaluated subsequent events and transactions that occurred between December 31, 2022 through May 3, 2024, which is date the combined financial statements were available to be issued. Management has determined no such events have occurred.

NATIONAL RAILWAY HISTORICAL SOCIETY AND AFFILIATE, INC.

NOTES TO THE COMBINED FINANCIAL STATEMENTS

December 31, 2022

NOTE 3 – LIQUIDITY AND AVAILABILITY OF FINANCIAL RESOURCES

The Society and the Fund monitor their liquidity so that they are able to meet operating needs and other contractual commitments while maximizing the investment of their excess operating cash. The Society and the Fund operate within a balanced budget and anticipate generating sufficient revenue to cover general expenditures.

The following table reflects the Society and the Fund’s financial assets available to meet general expenditures within one year of the combined statement of financial position date of December 31, 2022:

Cash and Cash Equivalents	\$ 261,771
Accounts Receivable	139
Investments	<u>977,597</u>
Total Financial Assets	<u>1,239,507</u>
Amounts That Are Internally Designated or Externally Restricted	<u>(556,124)</u>
Financial Assets Available to Meet Cash Needs for General Expenditures Within One Year	<u><u>\$ 683,383</u></u>

The Society and the Fund have assets limited to use due to being donor restricted for investment and other specific purposes. These assets limited to use, which are more fully described in Note 7, are not available for general expenditure within the next year.

NOTE 4 – CONCENTRATIONS OF CREDIT RISK ARISING FROM CASH DEPOSITS

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

NATIONAL RAILWAY HISTORICAL SOCIETY AND AFFILIATE, INC.

NOTES TO THE COMBINED FINANCIAL STATEMENTS

December 31, 2022

NOTE 5 – RELATED PARTY TRANSACTIONS

The Fund is under common ownership with the Society. The Fund often borrows working capital from the Society when needed. At December 31, 2022, the net receivable from the Fund totaled \$139.

During the year ended December 31, 2022, the Fund received cash transfers from the Society totaling approximately \$244,000 which were used to purchase investments. Additionally, during the year ended December 31, 2022, the Society received cash transfers from the Fund totaling approximately \$47,000 which were used to fund Heritage Grants related to the period.

NOTE 6 – PROMISSORY NOTE

During 2014, the Organization 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 four years are as follows:

2023	\$	8,000
2024		8,000
2025		8,000
2026		<u>8,000</u>
Total	\$	<u><u>32,000</u></u>

NATIONAL RAILWAY HISTORICAL SOCIETY AND AFFILIATE, INC.

NOTES TO THE COMBINED FINANCIAL STATEMENTS

December 31, 2022

NOTE 7 – NET ASSETS WITH DONOR RESTRICTIONS

Net assets with donor restrictions are restricted for the following purposes or periods as of December 31, 2022:

Subject to Expenditure for a Specified Purpose:

Film and Video	\$ 32,514
Grants	131,883
RailCamp	48,082
Educational Programs	57,445

Perpetual in Nature:

Restricted for Investment Purposes	<u>286,200</u>
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Total Net Assets with Donor Restrictions	<u><u>\$ 556,124</u></u>
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Net assets restricted for investment purposes are to be held in perpetuity and the income is available for general purposes.

NOTE 8 – FAIR VALUE MEASUREMENTS

FASB ASC 820, *Fair Value Measurements*, clarifies that fair value is an exit price, representing the amount that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants. Under this guidance, fair value measurements are not adjusted for transaction costs. This guidance establishes a fair value hierarchy that prioritizes the inputs to valuation techniques used to measure fair value. The hierarchy gives the highest priority to unadjusted quoted prices in active markets for identical assets or liabilities (Level 1 measurements) and the lowest priority to unobservable inputs (Level 3 measurements). The three levels of the fair value hierarchy under this guidance are described below:

- Level 1 — Valuation is based on quoted prices in active markets for identical assets or liabilities that the Organization has the ability to access at the measurement date. Level 1 assets and liabilities generally include debt and equity securities that are traded in an active exchange market. Valuations are obtained from readily available pricing sources for market transactions involving identical assets or liabilities.

NOTES TO THE COMBINED FINANCIAL STATEMENTS

December 31, 2022

NOTE 8 – FAIR VALUE MEASUREMENTS– CONTINUED

- Level 2 — Valuation is based on inputs other than quoted prices included within level 1 that are observable for the asset or liability, either directly or indirectly. The valuation may be based on 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 for substantially the full term of the asset or liability.
- Level 3 — Valuation is based on unobservable inputs that are supported by little or no market activity and that are significant to the fair value of the assets or liabilities. Level 3 assets and liabilities include financial instruments whose value is determined using pricing models, discounted cash flow methodologies, or similar techniques, as well as instruments for which determination of fair value requires significant management judgment or estimation.

A financial instrument's level within the fair value hierarchy is based on the lowest level of input that is significant to the fair value measurement.

The types of instruments valued based on quoted market prices in active markets include most U.S. government and agency securities, active listed equities and most money market securities. Such instruments are generally classified within Level 1 or Level 2 of the fair value hierarchy. As required by this guidance, the Organization does not adjust the quoted price for such instruments.

The types of instruments valued based on quoted prices in markets that are not active, broker or dealer quotations, or alternative pricing sources with reasonable levels of price transparency include most investment-grade and high-yield corporate bonds, less liquid equities, state, municipal and provincial obligations, and certain physical commodities. Such instruments are generally classified within Level 2 of the fair value hierarchy.

Level 3 is for positions that are not traded in active markets or are subject to transfer restrictions, valuations are adjusted to reflect illiquidity and/or non-transferability, and such adjustments are generally based on available market evidence, in the absence of such evidence, management's best estimate is used.

The following are descriptions of the valuation techniques and inputs used for assets and liabilities measured at fair value on a recurring basis and recognized in the accompanying combined statement of financial position, as well as general classification of such assets and liabilities pursuant to the valuation hierarchy. There have been no changes in the valuation techniques during the year ended December 31, 2022.

NATIONAL RAILWAY HISTORICAL SOCIETY AND AFFILIATE, INC.

NOTES TO THE COMBINED FINANCIAL STATEMENTS

December 31, 2022

NOTE 8 – FAIR VALUE MEASUREMENTS– CONTINUED

Common Stock

Fair value is determined by reference to quoted market prices and other relevant information generated by market transactions.

Fixed Income Securities

Long-term certificates of deposit (maturity beyond one year from date of issue) are priced using a market value pricing model.

Mutual Funds

Valued at the daily closing price as reported by the fund. Mutual funds are open-end mutual funds that are registered with the SEC. These funds are required to publish their daily net asset value (NAV) and to transact at that price. The mutual funds are deemed to be actively traded.

Fair values of assets and liabilities measured on a recurring basis at December 31, 2022 are as follows:

	Fair Value	Quoted Prices in Active Markets for Identical Assets (Level 1)	Significant Other Observable Input (Level 2)	Significant Unobservable Inputs (Level 3)
Investments				
Common Stocks	\$ 705,443	\$ 705,443	\$ 0	\$ 0
Fixed Income Securities	43,694	43,694	0	0
Mutual Funds	228,460	228,460	0	0
Total	<u>\$ 977,597</u>	<u>\$ 977,597</u>	<u>\$ 0</u>	<u>\$ 0</u>

NATIONAL RAILWAY HISTORICAL SOCIETY AND AFFILIATE, INC.

OTHER FINANCIAL INFORMATION

COMBINING STATEMENT OF FINANCIAL POSITION

December 31, 2022

	ASSETS		
	<u>Society</u>	<u>Fund</u>	<u>Combining Total</u>
CURRENT ASSETS			
Cash and Cash Equivalents	\$ 169,103	\$ 92,668	\$ 261,771
Accounts Receivable	139	0	139
Prepaid Expenses	3,200	0	3,200
Inventory	7,851	0	7,851
Total Current Assets	<u>180,293</u>	<u>92,668</u>	<u>272,961</u>
OTHER ASSETS			
Investments	0	977,597	977,597
Historical Collections	5,500	0	5,500
Total Other Assets	<u>5,500</u>	<u>977,597</u>	<u>983,097</u>
TOTAL ASSETS	<u>\$ 185,793</u>	<u>\$ 1,070,265</u>	<u>\$ 1,256,058</u>
LIABILITIES AND NET ASSETS			
CURRENT LIABILITIES			
Accounts Payable	\$ 2	\$ 21,908	\$ 21,910
Promissory Note, Current Portion	8,000	0	8,000
Deferred Income	81,641	0	81,641
Total Current Liabilities	<u>89,643</u>	<u>21,908</u>	<u>111,551</u>
PROMISSORY NOTE, LONG-TERM PORTION	<u>24,000</u>	<u>0</u>	<u>24,000</u>
Total Liabilities	<u>113,643</u>	<u>21,908</u>	<u>135,551</u>
NET ASSETS			
Without Donor Restrictions	(8,192)	572,575	564,383
With Donor Restrictions	80,342	475,782	556,124
Total Net Assets	<u>72,150</u>	<u>1,048,357</u>	<u>1,120,507</u>
TOTAL LIABILITIES AND NET ASSETS	<u>\$ 185,793</u>	<u>\$ 1,070,265</u>	<u>\$ 1,256,058</u>

NATIONAL RAILWAY HISTORICAL SOCIETY AND AFFILIATE, INC.

COMBINING STATEMENT OF ACTIVITIES

Year Ended December 31, 2022

	<u>Society</u>	<u>Fund</u>	<u>Eliminations</u>	<u>Combining Total</u>
SUPPORT AND REVENUE				
Member Dues	\$ 196,963	\$ 0	\$ 0	\$ 196,963
Sales	1,839	0	0	1,839
Convention	46,631	0	0	46,631
Interest and Dividends	103	24,809	0	24,912
Contributions	87,938	274,125	(290,859)	71,204
	<u>333,474</u>	<u>298,934</u>	<u>(290,859)</u>	<u>341,549</u>
EXPENSES				
Program Services	490,655	55,486	(290,859)	255,282
Supporting Services	76,529	21,928	0	98,457
	<u>567,184</u>	<u>77,414</u>	<u>(290,859)</u>	<u>353,739</u>
OTHER NONOPERATING GAIN (LOSS)				
Net Unrealized Loss on Investments	0	(126,515)	0	(126,515)
Net Realized Gain on Investments	0	23,972	0	23,972
	<u>0</u>	<u>(102,543)</u>	<u>0</u>	<u>(102,543)</u>
Change in Net Assets	(233,710)	118,977	0	(114,733)
Net Assets, Beginning of Year	<u>305,860</u>	<u>929,380</u>	<u>0</u>	<u>1,235,240</u>
Net Assets, End of Year	<u>\$ 72,150</u>	<u>\$ 1,048,357</u>	<u>\$ 0</u>	<u>\$ 1,120,507</u>