



NRHS TELEGRAPH

SPECIAL EDITION
VOLUME 44 NUMBER 3
June, 2014

CALENDAR

June 10 - 14, 2014

2014 NRHS Convention
Springdale, AR
www.nrhs.com

NRHS RailCamp 2014

East - July 6 to 12
NorthWest - July 27 to August 3
www.nrhs.com

November 14 - 16, 2014

2014 Fall Conference
Advisory Council and Board of
Directors' Meetings
Johnson City, TN
George L. Carter Chapter

January 10 - 11, 2015

2015 Winter Conference
Advisory Council and Board of
Directors' Meetings
Roanoke, VA
Roanoke Chapter

April 15 - 19, 2015

2015 Spring Conference
Advisory Council and Board of
Directors' Meetings
York, PA
A joint conference of the
NRHS & ATRRM

Bids are being accepted for future
Conferences.

Contact Bob Bitzer for informa-
tion. Gopullman@prodigy.net

2013 Annual Report

Greg Molloy

The NRHS fiscal year 2013 ended on December 31, 2013. During Fiscal Year 2013, NRHS operated within the budget that the NRHS Board of Directors had approved despite shaving to absorb some unplanned expenses. We continued to lose money, however, and the Society's financial position continued to deteriorate. Membership and the number of chapters also continued to decline. Our efforts to reinvent the NRHS continued to drop further behind schedule.

In short, the outlook for the future of the NRHS is guarded. The Society must make some significant changes very quickly if it is going to survive as a meaningful part of railway history preservation.

Part 1: The Data

Financial:

The financial information that follows comes from the 2013 Audit Report, which was completed in late May of 2014. The Society's IRS Form 990 for fiscal year 2013 will be filed before the extended due date of August 15, 2014. The numbers cited here apply to the NRHS national organization only. All chapters are organized or incorporated separately, and their finances are not included in those of the national organization.

In 2013, the NRHS suffered a financial loss of \$72,000. This was a considerable improvement over the \$272,000 loss we experienced in 2012, but it was still a loss. The Society's approved budget for 2013 predicted a loss of \$74,000, so the financial results were actually within budget.

Furthermore, the NRHS achieved these results despite some significant costs that were not in the original budget. First, NRHS was forced to defend itself against litigation. This legal defense cost the NRHS \$38,000 in 2013. The lawsuits are not yet settled, so the legal costs will continue into 2014. Second, NRHS had to spend an unplanned \$7,000 on additional membership communications to

Continued on Page 2:

Continued from Page 1:

counteract a number of inaccurate statements that were circulating after the Board of Directors approved an increase in membership dues starting in 2014. These two items alone accounted for more than half of the Society's deficit in 2013.

Most other income and expense accounts had results close to their budgets. The convention earned a positive return. The one-year suspension of the RailCamp program in 2013 meant there was no income from that program, although some expense spending was required to prepare for the 2014 program. The NRHS made \$36,000 in capital gains, but this will not be repeated in the future since we had to close out our investment program in 2013 to maintain liquidity. During 2013, the Society also received a bequest of artwork appraised at \$16,000. We will sell this material in 2014.

Membership:

NRHS year-end membership is measured on September 30 of each year, at the start of the renewal season for the following membership year. Year-end membership for 2013 stood at 11,537, a decline of 7.2% from the year before. The Society has experienced membership declines of 4% to 6% annually for several years. Chapter primary memberships declined by 7.4%, At-Large memberships by 5.9% and Family memberships by 7.8%. Once again, the Society made no significant progress in implementing a new Organizational class of membership in 2013.

Chapters:

During 2013, NRHS added two new chapters: Southern Kentucky Chapter in Bowling Green, Kentucky and Monterrey Chapter in Monterrey, Tennessee. The previously chartered Bradford, Ohio chapter was also reinstated. These gains were offset, however, by the loss of four chapters that either disbanded or disassociated from the NRHS during the year: Central Florida, Bluebonnet, Chiloquin and North Alabama Chapters. At the end of 2013, the number of chartered chapters stood at 150.

Programs:

The 2013 NRHS Convention was held in September in Anchorage, Alaska, with pre-convention activities in Fairbanks and Denali Park. 371 people registered for the convention, and over 400 local riders participated in a pair of public passenger trains operated by the NRHS out of Fairbanks. All convention events operated as planned except for one small activity that had to be canceled because of highway construction. The convention resulted in net earnings (profit) of \$48,000, including revenues and expenses incurred in previous years.

NRHS was forced to suspend the RailCamp program in 2013 because of the unresolved liability insurance issues with the colleges we used for student housing. The Society continued to work on improving the programs, and RailCamp will return in 2014, again in two locations, but using different universities for housing and with expanded and improved educational programs.

The NRHS Railway Heritage Grants Program continued to provide support for rail history preservation projects across the country, distributing \$50,000 in financial aid to a variety of preservation projects. As always, the grants were funded entirely from donations and not from dues.

The NRHS also issued its first Most-At-Risk list in 2013, resulting in a wave of publicity for several endangered rail artifacts. In some cases, this publicity led directly to increased financial aid and community support that advanced the projects. The most notable success was in advancing the preservation project for ACL steam locomotive No. 1504, a community effort led by the NRHS North Florida Chapter.

During the year, the NRHS published four editions of the *NRHS Bulletin* and six editions of the *NRHS News*, with both publications running on schedule. Improvements were made to the nrhs.com website, and the NRHS Facebook page and Twitter feed both gained readership during the year.

Part 2: The Future

The NRHS cannot continue on its current course.

Continued on Page 3:

Continued from Page 2:

Our membership and finances are declining. The Society's basic business model is obsolete, and we need to make some serious changes now.

This is not new information. The trends have been visible for years. It has been four years since the Society adopted a strategic plan that envisioned major changes to our scope and business. But design and implementation of these changes has lagged badly, in large part because of continued resistance to change within the Society. We are rapidly running out of financial resources to continue current operations. Change cannot be put off any longer.

This is not to say that some progress has not been made. The NRHS has implemented a new governance system, and we now have a smaller Board of Directors that is much more suited to managing our business. We have managed to keep delivering important NRHS programs. We have restored the RailCamp program after a one-year suspension. We have dealt with some difficult legal and administrative issues while largely insulating them from our regular programs.

Unfortunately, as many members have observed, the Society's core mission and its very survival are not where our collective energy has been. Way too much time, effort and emotion has been invested in issues that are not about railway history preservation and not about assuring our own survival. Meaningful changes have come slowly if at all.

We cannot defer the serious decisions any longer. The Society's financial reserves are depleted, membership is declining and resistance to change is growing. On top of that, some of our key supplier agreements are expiring and must be renegotiated. If we as a collective society are going to survive, we must direct our collective energy to survival issues.

We already know that the NRHS does not deal well with either change or uncertainty, so there will be some uncomfortable times ahead. Change must happen, because we already know that NRHS cannot do everything that the members, chapters and outside world want us to do, at least not at a price that most NRHS members are willing to pay. We

know changes are coming, and we don't have all the answers. Meeting notices and publication deadlines won't wait for decisions to be made.

But changes are coming. It's just a question of whether the NRHS will make those changes or whether external forces will make them for us.

THE ELEPHANT IN THE ROOM

Gary Reinbolt

There is a poem called "The Blind Men And The Elephant". It relates the story of a group of blind men who come upon an elephant. Each investigates by touch a different aspect of the animal. The man touching the side declares "An elephant is like a wall". The man who felt the tail said "An elephant is like a rope", while the man investigating the ear declares "No, an elephant is like a fan".

Each member, and each chapter, has an expectation that NRHS will devote all of its resources to their particular interest. This is how we evolved to become the administrative center for Chapters, a publisher of magazines which can hold their own against any like-minded competitors on the national scene, the granting agency of substantial sums of money, a preservation organization, a travel organization who operates rail conventions, a place for rail fans to share information and camaraderie, a resource for serious historians, and educator of the next generation.

The Society was created in an age when the US Postal Service was the primary transmitter of information and moving pictures were still an exotic event one put on a suit and tie to go see. The only way to share a common interest was to physically meet, and rail transportation was the premier, and sometimes only method of transportation outside one's local city limits.

NRHS's structure at the time of incorporation suited the needs of that organization. Whether those decisions were right or wrong are no longer at issue. The model still operates perfectly for the organization that created it, but the world in which that organization exists is vastly different. It has been overtaken

Continued on Page 4:

Continued from Page 3:

by technology, vast economic changes, and modifications in social dynamics which would be inconceivable in the age when FDR was in the White House.

Compounding our problem is the diversity and accompanying fragmentation of purpose represented by the elements that compose the Society. We have been so long looking at component pieces of the organization - the relationships with Chapters, the photography in the *Bulletin*, the cost of administration overhead, the logo that we have mistaken them for the actual business of the organization. "NRHS is like a wall", "NRHS is like a rope", "NRHS is like a fan."

But the undeniable truth is, NRHS is an elephant, and elephants are ungainly, not readily adaptable when their ecological niche disappears, and are enormously expensive to house and feed. Like the elephant, NRHS is at best endangered and on its way to extinction without intervention.

This brings us to the present. Last November, we began to assess our financial data to prepare a budget for 2014. We found substantial problems in the bookkeeping and accounting functions at Fernley & Fernley. We have devoted many uncharged personnel hours to correcting these errors, changing personnel servicing our account, and putting safeguards in place that these errors will not be repeated.

We have also received the audit for 2013 that will be posted under separate cover, and while it echoes the dismal message that we are receiving from our current financial statements, it does show that our accounting problems were procedural in nature, and there was no misappropriation, mismanagement, or malfeasance involved in arriving at this critical fiscal state.

With this depressing yet accurate reflection of the current financial position of the Society, various members of the Board recently convened in a budget working session to develop a budget for 2014. When we reflected steady-state activities (same revenue levels, same expense levels), we came up with a negative balance in excess of \$100,000 for the fiscal year we are already six months through.

We had hoped to eliminate this outcome when we instituted the dues increase last year. Despite our best projections, because of losses of members and Chapters and the accompanying revenue, what we had hoped to be a one-time balancing of the budget did not happen. *Our reserves are gone, and so are our options of achieving fiscal stability with tweaks and line item reductions.*

There are no good options available to maintain this elephant. Accordingly, we began to identify outcomes for our members from cuts in various services, knowing that we were cutting not fat, or even muscle, but we would be digging something sharp deep into the very bones of the organization. To say that this outcome is distressing to members of the Board is an understatement, and we are certain the Chapters and the membership also feel this distress.

We started by targeting Publicity, advertising, IT technology, and social media. But, removing them from the budget eliminates those things that most effectively reach out to those who are not currently members, and therefore our opportunity to grow our membership rolls and our revenue.

We considered the impact of the draconian step of eliminating one issue of the *NEWS*, and one issue of the *Bulletin*. Our core identity revolves around them, but they're also our most expensive activities after the member processing services we provide for Chapters and members.

We are in what has been characterized as a death spiral. We reduce operating cost, which reduces value to the member, which reduces the number of members willing to support, which leads to more cuts...

We need to stop being an elephant, and start being something else. *Change is coming, and we can no longer use denial, bargaining or any of our favorite methods to pretend it isn't so.* We must exercise one of two options: build a new organization around those programs that align with our mission, core business, and vision, and which are essential, unique, and fundable; or remain as we are and finish our now short journey to the elephant's graveyard.

Continued from Page 4:

We wanted to bring this information forward prior to the Advisory Council meeting, general membership meeting, and Board meeting slated at the convention in Springdale mid-June. We made a commitment to transparency and improved communication, and we are dedicated to living up to it.

We have done the structural and strategic work to identify and refine our vision, and core business:

Core Business

Be the unifying organization that brings together the rail preservation community.

Vision Statement

NRHS will promote rail history and educate the public about rail heritage by unifying rail preservation organizations through funding, information, advocacy, outreach, and coordination.

That vision and core business must be the yardstick by which all of our future activities are measured. We have not actually changed any of our activities to bring them into alignment with where the organization needs to be if it is to adapt and survive to the new reality. We must look at those goals, then look at our programs and say: Are we the best at this particular activity? Do we have enough resources to continue to do this well? Is there someone else who can do this program better that we should give it to? Is the outcome of the program effective? And what are we not doing that could build an effective and stable future for the organization because we are doing this current program?

As the Board of NRHS wrestles with these decisions, it has two overriding imperatives it must meet: Not for profit does not mean for loss; and the decisions must benefit and ensure the continuance of the national organization. Those are not only the Board's ethical duties, it is their legal fiduciary duty. Decisions that are made must be in the interest of the survival of the chartered organization the Board serves.

We have heard many say that this is a conscious design on the part of national to rid itself of the Chapters. Even under these conditions, that that is not so. The relationship between National and the

Chapters is not one of competition, it is one of complement and mutual benefit. Chapters are not on a siding, the two organizations are on parallel tracks.

The Chapters can survive without National, and vice versa. But, both of them will be lessened without some kind of relationship between them. The answer to both our problems lies in the power of collective action. Chapters are still the most effective face to the public, and National can provide the RailCamps, Heritage Grants, and online information exchanges that solitary Chapters can't. *The Chapters and National can move forward together in a mutually beneficial relationship, or they can continue to value internal finger-pointing and recrimination until there is no one left alive to point at.*

Nonprofits are about mission! *If we fail to achieve survival for either element, it will not just be organizations that will go down, the valuable resources for preservation and cultivation of rail history that the greater NRHS provides will go down with us.* We must re-focus the National Society on the business of rail history preservation.

Whatever else emerges, National NRHS will maintain our commitment to RailCamp, and Heritage Grants because we already have evidence of approval of these programs from the membership in the form of \$115,000 in voluntary gifts above and beyond dues. Not to put too fine a point on it: there is no vote of support quite like a vote with a checkbook.

In the next few months the Board will be meeting very frequently both in convened meetings, and as working subgroups. As we all begin to think about solutions to these critical problems, we seek input from all. One never knows where the next great idea will come from. **BUT MAKE NO MISTAKE, THESE ARE NOT GOING TO BE DISCUSSION GROUPS, THEY WILL BE ACTION TEAMS.**

NRHS has at most a year to reinvent itself. In the next six months there is one strategic goal: begin the new year with the organization restructured in activities, and pursuing new types of revenue to support them. Very probably that will mean moving

Continued on Page 6

Continued from Page 5:

forward without some of the activities that our current members would consider essential, but the NRHS that emerges must look far more like a greyhound than an elephant!

If you have any questions regarding this, please feel free to contact your Board representative, Chapter representative, or email us at info@NRHS.com. We will see you in Springdale and will pick up the conversation where this document leaves off.

The NRHS Rumor Mill Is Churning Again

Greg Molloy

The NRHS rumor mill has been very active of late. All of the stories below have appeared in one or more NRHS chapter newsletters recently. As is often the case, reality is less exciting than some of the stories.

Rumor: Because of accounting problems at Fernley & Fernley, the auditors were unable to complete an audit of the NRHS for Fiscal Year 2013.

Reality: The auditors have completed their 2013 audit of NRHS. They released their audit report to the NRHS in late May, the same timing as most previous years. The Board of Directors will receive the complete audit report at their Summer meeting (June 13), after which it will be released within the Society. The NRHS Form 990 will be filed by the extended deadline of August 15, as it is every year.

Rumor: Not only is the Board of Directors unable to complete a budget for 2014, they still have yet to pass a budget for 2013.

Reality: The Board of Directors approved a 2013 budget last year and published it in the minutes. Preparation of the budget for 2014 has not been finished. The work was delayed several months because of the need to fix some accounting management issues first. It is currently being held up in order to resolve some major issues that significantly impact the budget, especially contract negotiations and decisions on which current programs need to be modified.

Rumor: The NRHS Board of Directors will decide in

July whether or not to implement a new web-based dues renewal system.

Reality: The Board of Directors approved the new renewal system last January. In July, we expect to be in implementation and early testing. The Board of Directors is not currently scheduled to meet in July.

Rumor: Members who don't use e-mail will have no way to renew their memberships in the new renewal system.

Reality: A committee (of both Directors and general members) has been working since last January to establish an alternative system for members who do not have computer access. The committee is also planning to set up procedures for chapters to provide this service to their members as an added benefit of chapter membership. The committee is on track to have this service in place at the national level in time for the 2015 dues renewals. It will be up to individual chapters to decide whether they will provide this benefit to their own members.

Rumor: Quality control problems with Fernley & Fernley's accounting department are the biggest problem facing the NRHS.

Reality: Fernley & Fernley did have some serious management issues in their accounting department last year following unplanned personnel changes for medical reasons. Dealing with those issues consumed Society resources, occupied NRHS management attention and ultimately delayed our budgeting process by a few months. But NRHS management did what was necessary for the well being of the Society. Fernley & Fernley management, with strong encouragement from NRHS, has also taken steps to address the problems.

These accounting problems were a significant annoyance and they did tie up a lot of attention until they were fixed. But they are hardly the biggest problems facing the NRHS. As discussed elsewhere in the *Telegraph*, we face far bigger problems with shrinking finances, declining membership, an obsolete business model and slowness to respond to this deteriorating situation.