

NATIONAL ASSOCIATION OF RAILROAD PASSENGERS

**FINANCIAL STATEMENTS
AND
INDEPENDENT AUDITOR'S REPORT**

DECEMBER 31, 2016 AND 2015

FLYNN, ABELL & ASSOCIATES, LLC

CERTIFIED PUBLIC ACCOUNTANTS

7979 Old Georgetown Road • Suite 550 • Bethesda, Maryland 20814
(301) 951-1019 • Fax (301) 951-4121 • www.flynnpcpas.com

INDEPENDENT AUDITOR'S REPORT

To the Board of Directors of
National Association of Railroad Passengers

We have audited the accompanying financial statements of National Association of Railroad Passengers (NARP) (a nonprofit organization), which are comprised of the statements of financial position as of December 31, 2016 and 2015 and the related statements of activities and cash flows for the years then ended, and the related notes to the financial statements.

Management's Responsibility for the Financial Statements

Management is responsible for the preparation and fair presentation of these financial statements in accordance with accounting principles generally accepted in the United States of America; this includes the design, implementation, and maintenance of the 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 financial statements based on our audit. We conducted our audit in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risk of material misstatement of the 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 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 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 financial statements referred to above present fairly, in all material respects, the financial position of the National Association of Railroad Passengers as of December 31, 2016 and 2015, and the changes in its net assets and its cash flows for the years then ended, in accordance with accounting principles generally accepted in the United States of America.

Flynn, Abell & Associates, LLC

Flynn, Abell & Associates, LLC
Bethesda, Maryland
May 15, 2017



National Association of Railroad Passengers
 Statements of Financial Position

	December 31, 2016	December 31, 2015
Assets		
Current Assets		
Cash & Equivalents	\$ 386,848	\$ 2,513,792
Investments	1,704,098.00	-
Accounts Receivable	8,510	28,185
Prepaid Expenses	12,859	4,468
Total Current Assets	<u>2,112,315</u>	<u>2,546,445</u>
Equipment & Capitalized Costs, Net	5,363	8,232
Deposits	<u>12,253</u>	<u>4,920</u>
Total Assets	<u><u>\$ 2,129,931</u></u>	<u><u>\$ 2,559,597</u></u>
Liabilities & Net Assets		
Current Liabilities		
Accounts Payable	\$ 45,624	\$ 96,361
Accrued Expenses and Credit Cards	4,374	3,391
Total Current Liabilities	<u>49,998</u>	<u>99,752</u>
Total Liabilities	<u>49,998</u>	<u>99,752</u>
Net Assets		
General Fund	69,809	94,968
Total Board-Designated Funds	2,010,124	2,364,877
Total Unrestricted Net Assets	<u>2,079,933</u>	<u>2,459,845</u>
Total Liabilities & Net Assets	<u><u>\$ 2,129,931</u></u>	<u><u>\$ 2,559,597</u></u>

National Association of Railroad Passengers
Statements of Activities

	December 31, 2016	December 31, 2015
Revenue & Support		
Membership Dues	\$ 694,045	\$ 695,365
Contributions & Special Appeals	203,932	2,617,324
Amtrak Customer Advisory Committee	19,558	27,759
Council Meetings	58,570	69,800
Investment Income	4,098	3,179
Other Revenue	-	38
	<hr/>	<hr/>
Total Revenue & Support	980,203	3,413,465
Direct Costs		
Mailing, Renewal & Member Acquisition Costs	113,196	136,197
Amtrak Customer Advisory Committee	31,110	28,326
	<hr/>	<hr/>
Total Direct Costs	144,306	164,523
Net Revenue & Support after Direct Costs	835,897	3,248,942
Operating Expenses		
Staff Salaries	388,316	393,539
Employee Health & Other Benefits	75,106	72,761
Retirement Plan Contribution	16,738	5,480
Payroll Taxes	27,307	27,279
Rent & Occupancy Costs	54,842	51,227
Information Technology	19,423	35,786
Telecommunications	5,321	5,412
Legal, Accounting & Other Professional Services	299,511	230,956
Newsletter & other Communication Efforts	56,394	74,621
Payroll & 401(k) Administration Fees	5,401	5,626
Council & Other Meetings	89,390	75,035
Staff Travel & Conferences	71,587	76,111
Banking & Merchant Fees	63,856	34,571
Office & Administrative Expenses	39,748	40,669
Depreciation & Amortization	2,869	2,848
Taxes	-	1,689
	<hr/>	<hr/>
Total Operating Expenses	1,215,809	1,133,610
Excess of Revenue (Expenses)	<u>\$ (379,912)</u>	<u>\$ 2,115,332</u>

National Association of Railroad Passengers
Statements of Changes in Net Assets

	<u>December 31, 2016</u>	<u>December 31, 2015</u>
Beginning Net Assets	\$ 2,459,845	\$ 344,513
Excess of Revenue (Expenses)	<u>(379,912)</u>	<u>2,115,332</u>
Ending Net Assets	<u>\$ 2,079,933</u>	<u>\$ 2,459,845</u>

National Association of Railroad Passengers
 Statements of Cash Flows

	December 31, 2016	December 31, 2015
Cash Flow From Operating Activities		
Excess of Revenue (Expenses)	\$ (379,912)	\$ 2,115,332
Adjustments to reconcile net income to net cash provided by operating activities:		
Depreciation and Amortization	2,869	2,848
Realized and Unrealized (Gains)/Losses (Increase)/Decrease in Assets:		
Accounts Receivable	19,675	(26,293)
Prepaid Expenses	(8,391)	(3,661)
Deposits	(7,333)	-
Increase/(Decrease) in Liabilities:		
Accounts payable	(50,737)	56,919
Accrued expenses	983	3,391
Net Cash Provided By (Used in) Operating Activities	<u>(422,846)</u>	<u>2,148,536</u>
Cash Flow From Investing Activities		
Purchases of investment instruments	(1,704,098)	
Net Acquisitions of property and equipment		(2,357)
Net Cash Provided By (Used in) Operating Activities	<u>(1,704,098)</u>	
Net Increase (Decrease) in Cash & Equivalents	(2,126,944)	2,146,179
Cash & Equivalents - Beginning of Year	2,513,792	367,613
Cash & Equivalents - End of Year	<u>\$ 386,848</u>	<u>\$ 2,513,792</u>

National Association of Railroad Passengers
Statement of Functional Expenses
January - December 2016

	General &			
	Programs	Administrative	Fundraising	TOTAL
Direct Costs				
Mailing, Renewal & Member Acquisition Costs	\$ 113,196			\$ 113,196
Amtrak Customer Advisory Committee	31,110			31,110
Total Direct Costs	144,306	-	-	144,306
Operating Expenses				
Staff Salaries	233,548	92,699	62,069	388,316
Employee Health & Other Benefits	46,708	16,956	11,442	75,106
Retirement Plan Contribution	10,261	3,874	2,603	16,738
Payroll Taxes	16,611	6,230	4,466	27,307
Rent & Occupancy Costs	33,757	12,777	8,308	54,842
Information Technology	14,054	3,152	2,217	19,423
Telecommunications	2,805	1,835	681	5,321
Legal, Accounting & Other Professional Services	233,225	49,252	17,034	299,511
Newsletter & other Communication Efforts	56,394	-	-	56,394
Payroll & 401(k) Administration Fees	3,342	1,223	836	5,401
Council & Other Meetings	89,390	-	-	89,390
Staff Travel & Conferences	58,685	12,866	36	71,587
Banking & Merchant Fees	28,753	20,678	14,425	63,856
Office & Administrative Expenses	21,866	14,726	3,156	39,748
Depreciation & Amortization	-	2,869	-	2,869
Total Operating Expenses	849,399	239,137	127,273	1,215,809
Total Expenses	\$ 993,705	\$ 239,137	\$ 127,273	\$ 1,360,115

**National Association of Railroad Passengers
Notes to Financial Statements
December 31, 2016 and 2015**

Note 1 - The Organization and Summary of Significant Accounting Policies

Organization

The National Association of Railroad Passengers (the "Association") was organized in 1967 to perform research and inform the public about passenger railroad operations, facilities and passenger services; and to encourage and promote the maintenance and improvement of the American passenger railroad system. It is an independent, non-profit, non-partisan organization. The Association is based in Washington, DC and has approximately 20,000 dues paying members.

Basis of Accounting

The accompanying financial statements of the Association are presented on the accrual basis of accounting in accordance with accounting principles generally accepted in the United States. Under the accrual basis of accounting, revenues are recorded when earned, and expenses are recognized when incurred. This summary of accounting policies is presented to assist in understanding the Association's financial statements.

The Association is required to report information regarding its financial position and activities according to 3 classes of net assets: unrestricted net assets, temporarily restricted net assets, and permanently restricted net assets.

Unrestricted Net Assets

This classification is used to record all assets that are not required to be reported as either temporarily or permanently restricted. This category is used to record activity which has not been restricted by a donor or funding source. The Board designated to a separate account funds that were received from a bequest in 2015. The amount designated to this account as of December 31, 2016 was \$2,333,621. These board-designated funds are considered unrestricted, since there was not a restriction placed by the donor.

Temporarily Restricted Net Assets

This classification is used to record contributions that have been specifically restricted in some manner by the donor. Typically, these restrictions relate to a time period for which the contribution has been designated or for a special purpose or project for which the donor has provided funding. Restricted contributions are recorded as revenue when the donor has made a gift rather than when the cash is actually received. Once the restriction has been satisfied, a transfer is made through net assets released from restrictions from temporarily restricted net assets to unrestricted net assets. As of December 31, 2016 and 2015 there were no temporarily restricted net assets.

Permanently Restricted Net Assets

This classification includes contributions that the donor has indicated must remain preserved and remains intact. Unless the donor has specified otherwise, interest and capital gains from these investments are used in the following manner: (1) if restricted by the donor, they are recorded as revenue of the temporarily restricted net assets section and used in accordance with the donor's instructions, (2) if unrestricted, they are included in the unrestricted section used for overall operations of the Association. As of December 31, 2016 and 2015 there were no permanently restricted net assets.

**National Association of Railroad Passengers
Notes to Financial Statements
December 31, 2016 and 2015**

Note 1 - Summary of Significant Accounting Policies (continued)

Membership Dues

The Association receives much of its support from dues from members. Revenue from membership dues is recognized during the period the dues are received.

Contributions

Contributions including unconditional promises to give are required to be recognized as revenue in the period in which the contribution is made. Contributions received are recorded as unrestricted, temporarily restricted or permanently restricted support depending on the existence and nature of any donor restrictions.

Income Taxes

The Association is exempt from federal and state income taxes under Section 501(c)(3) of the Internal Revenue Code. This code section establishes the Association as a public charity rather than a private foundation and enables the Association to accept donations which qualify as charitable deductions to the donor. The Association is subject to income taxes on any unrelated trade or business income. For the years ended December 31, 2016 and 2015, the Association incurred tax of \$0 and \$0, respectively, on unrelated business income.

The Association believes that it has appropriate support for any tax positions taken, and as such, does not have any uncertain tax positions that are material to the financial statements or that would have an effect on its tax-exempt status. There are no unrecognized tax benefits or liabilities that need to be recorded.

The Association's income tax returns are subject to examination by the Internal Revenue Service for a period of three years from the date they were filed, except under certain circumstances. The Association's Form 990 tax returns for the years 2013 through 2016 are open for a tax examination by the Internal Revenue Service, although no request has been made as of the date of these financial statements.

Cash and Cash Equivalents

The Association classifies all investments with a maturity date of 90 days or less as cash equivalents. The Association invests in business savings and money market accounts with FDIC insured financial institutions.

Concentration of Credit Risk

The Association often maintains cash balances at financial institutions in excess of the Federal Deposit Insurance Corporation's (FDIC) insurance limitation of \$250,000. The limitation was increased by the federal government temporarily to \$250,000 during 2008, and was permanently increased to \$250,000 when the Dodd-Frank Wall Street Reform and Consumer Protection Act was signed by the President on July 21, 2010.

**National Association of Railroad Passengers
Notes to Financial Statements
December 31, 2016 and 2015**

Note 1 - Summary of Significant Accounting Policies (continued)

Donated Services

The Association's Board of Directors is not compensated. Directors are elected as detailed in the Association's By-Laws ARTICLE VII Sections 5 and 6 (a) thru (c) while Officers are elected as outlined in ARTICLE VIII, Sections 3 and 4. The Board contributes services for program, management and general activities, however, no amounts are reflected in the financial statements for donated services and no objective and verifiable system exists to measure the value of these services.

Furniture, Equipment & Capitalized Costs

These assets are recorded at cost and depreciated or amortized using the straight-line method over the estimated useful life of the assets, generally 3 to 10 years. The Association typically capitalizes asset expenditures in excess of \$500.

The book value of Furniture, Equipment & Capitalized Costs was as follows as of December 31, 2016 (this schedule does not include fully amortized costs related to the Association's internet domain name).

Asset	Original Cost	Accumulated Depreciation	Net Book Value 12/31/15
Office Furniture & Equipment	30,309	24,946	5,363
Leasehold Improvements	4,148	4,148	0
Totals	34,457	29,904	5,363

Use of Estimates

The preparation of financial statements in conformity with generally accepted accounting principles typically requires the use of estimates and assumptions that affect the reported amounts of assets and liabilities as of the date of the financial statements and reported amounts of revenue and expenses during the reporting period. Actual results could differ from these estimates, and the differences could be material.

Board-Designated Funds

The Association received \$68,927 in 2016 and \$2,560,093 in 2015 from bequests. The Association is keeping these assets in three different Board Designated Endowment Funds

	<u>12/31/16 Balance</u>
• Strategic Investment Fund	\$1,702,328
• Reserve Fund	60,266
• Special Projects Fund	<u>247,530</u>
Total	<u>\$2,010,124</u>

**National Association of Railroad Passengers
Notes to Financial Statements
December 31, 2016 and 2015**

Note 2 - Investments

Composition of investment income is as follows at December 31, 2016:

Unrealized Investment Gains/(Losses)	\$ 286
Investments and interest income	<u>3,812</u>
Total Income	<u><u>\$ 4,098</u></u>

Note 3 – Fair Value Measurements

The Association follows the Codification topic 820, Fair Value Measurements. The Codification applies to all assets and liabilities that are being measured and reported on a fair value basis. The Codification requires disclosure that establishes a framework for measuring fair value of GAAP, and expands disclosure about fair value measurements. The Codification enables the reader of the financial statements to assess the inputs used to develop those measurements by establishing a hierarchy for ranking the quality and reliability of the information used to determine fair values. The Codification requires that assets and liabilities carried at fair value will be classified and disclosed in one of the following three categories.

- Level 1: Quoted market prices in active markets for identical assets or liabilities
- Level 2: Observable market based inputs or unobservable inputs corroborated by market data
- Level 3: Unobservable inputs that are not corroborated by market data

The estimated fair values of the Association's short-term financial instruments, including receivables and payables arising in the ordinary course of operations, approximate their individual carrying amounts due to the relatively short period of time between their origination and expected realization.

In determining the appropriate level, the Association performs a detailed analysis of the assets and liabilities that are subject to fair value measurements.

The table below presents the balances of assets and liabilities measured at fair value on a recurring basis by level within the hierarchy:

Assets	Level 1	Level 2	Level 3	Total
Mutual Funds	\$1,704,098			\$1,704,098
Total Assets	\$1,704,098			\$1,704,098

Mutual funds are classified as Level 1 instruments as they are actively traded on public exchanges.

**National Association of Railroad Passengers
Notes to Financial Statements
December 31, 2016 and 2015**

Note 4 - Accounts Receivable

The Association recognizes membership revenue and contributions as revenue in the year of actual receipts. These forms of support are effectively recognized using the cash basis of accounting, so they generally do not give rise to Accounts Receivable (see Note 1).

Note 5 - Lease Commitments

Operating Lease

Effective November 7, 2009 the Association moved to offices located at 505 Capitol Court, Suite #300, and signed a 3-year lease on its Washington, DC headquarters. In 2012, a five-year extension through November, 2017 was agreed to. Rent is paid monthly. In August 2016, the Association submitted notification that they would be terminating their lease 6 months early. The Association will be liable in 2017 for an early termination fee of \$7,098.

On May 7, 2017, the Association moved to new offices located at 1200 G Street, NW, Suite 240 and signed a seven-year lease.

Future minimum annual payments required under the leases are as follows:

Year ending December 31,	2017	34,946
	2018	89,908
	2019	92,832
	2020	95,848
	2021 and later	<u>342,176</u>
		\$ <u>655,710</u>

Note 6 - Retirement Plan

The Association maintains a 401(k) discretionary contribution plan. Employees are eligible to participate in the plan in accordance with government regulations. For the years ended December 31, 2016 and 2015, the discretionary contributions by NARP were \$16,737 and \$5,480, respectively.

Note 7 - Customer Advisory Committee Agreement

The Association has an agreement with Amtrak to provide support for an Amtrak Customer Advisory Committee. The agreement specifies an annual budget of approximately \$45,000 for personnel and other costs. The agreement is year to year, renewable annually, and can be terminated by either party under the provisions of the agreement.

Note 8 - Subsequent Events

The Association's management has evaluated subsequent events for potential required disclosures through May 15, 2017, which is the date the financial statements are available to be issued. There

**National Association of Railroad Passengers
Notes to Financial Statements
December 31, 2016 and 2015**

were no additional events or transactions that were discovered during the evaluation that required further disclosure, except that the Association will receive additional funds from the previously mentioned bequest in either 2017 and/or 2018. The amount to be received and the timing of any receipts from this bequest is currently unascertainable, but it is expected to be material to the financial statements as a whole when received.