



# **rails-to-trails** conservancy

## **Financial Statements**

*For the Year Ended September 30, 2010*

*(With Summarized Financial Information for the Year Ended September 30, 2009)*



**and**  
**Report Thereon**





## INDEPENDENT AUDITOR'S REPORT

To the Board of Directors of  
Rails-to-Trails Conservancy

CONSULTING  
ACCOUNTING  
TECHNOLOGY

*Certified Public  
Accountants*

We have audited the accompanying statement of financial position of Rails-to-Trails Conservancy (the Conservancy) as of September 30, 2010, and the related statements of activities and cash flows for the year then ended. These financial statements are the responsibility of the Conservancy's management. Our responsibility is to express an opinion on these financial statements based on our audit. The prior year summarized comparative information has been derived from the Conservancy's 2009 financial statements and, in our report dated January 11, 2010, we expressed an unqualified opinion on those financial statements.

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 includes consideration of internal control over financial reporting as a basis for designing audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Conservancy's internal control over financial reporting. Accordingly, we express no such opinion. An audit also includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements, assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinion.

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of the Conservancy as of September 30, 2010, and the changes in its net assets and its cash flows for the year then ended in conformity with accounting principles generally accepted in the United States of America.

Our audit was conducted for the purpose of forming an opinion on the basic financial statements taken as a whole. The supplemental schedule of functional expenses is presented for purposes of additional analysis and is not a required part of the basic financial statements. Such information for the year ended September 30, 2010, has been subjected to the auditing procedures applied in the audit of the basic financial statements, and, in our opinion, is fairly stated in all material respects in relation to the basic financial statements taken as a whole.



**RAFFA, P.C.**

Washington, DC  
January 3, 2011

**RAILS-TO-TRAILS CONSERVANCY**  
**STATEMENT OF FINANCIAL POSITION**  
September 30, 2010  
(With Summarized Financial Information for the Year Ended September 30, 2009)

	2010	2009
<b>ASSETS</b>		
Cash and cash equivalents	\$ 386,196	\$ 1,061,739
Investments	1,879,321	1,129,821
Accounts receivable	323,500	219,183
Pledges and grants receivable	499,790	1,106,087
Prepaid expenses and other assets	84,574	81,060
Inventory	53,687	36,053
Net property and equipment	548,940	614,484
	\$ 3,776,008	\$ 4,248,427
<b>TOTAL ASSETS</b>		
<b>LIABILITIES AND NET ASSETS</b>		
<b>Liabilities</b>		
Accounts payable and accrued expenses	\$ 563,763	\$ 750,727
Grants payable	4,762	4,762
Refundable advances	100,000	65,750
Deferred lease incentive	475,972	514,306
Deferred rent	181,423	119,489
	1,325,920	1,455,034
<b>TOTAL LIABILITIES</b>		
<b>Net Assets</b>		
Unrestricted	1,280,790	652,075
Temporarily restricted	540,220	1,512,240
Permanently restricted	629,078	629,078
	2,450,088	2,793,393
<b>TOTAL NET ASSETS</b>		
<b>TOTAL LIABILITIES AND NET ASSETS</b>	\$ 3,776,008	\$ 4,248,427

The accompanying notes are an integral part of these financial statements.

**RAILS-TO-TRAILS CONSERVANCY**

**STATEMENT OF ACTIVITIES**

For the Year Ended September 30, 2010

(With Summarized Financial Information for the Year Ended September 30, 2009)

	<u>Unrestricted</u>	<u>Temporarily Restricted</u>	<u>Permanently Restricted</u>	<u>2010 Total</u>	<u>2009 Total</u>
<b>REVENUE AND SUPPORT</b>					
Membership dues	\$ 2,243,995	\$ -	\$ -	\$ 2,243,995	\$ 2,195,471
Grants and contributions:					
Contributions	2,155,116	5,583	-	2,160,699	1,853,726
Grants	40,000	189,000	-	229,000	1,512,000
Corporate sponsors	391,677	-	-	391,677	75,000
Workplace giving	362,985	-	-	362,985	409,763
Program revenues:					
Contracts	482,165	-	-	482,165	482,175
Meetings and events	216,968	-	-	216,968	88,824
Merchandise and publications	45,848	-	-	45,848	43,028
Rental income	106,406	-	-	106,406	65,918
Other income	18,566	-	-	18,566	47,652
Investment income	48,028	36,542	-	84,570	16,581
Net assets released from restrictions:					
Satisfaction of program restrictions	<u>1,203,145</u>	<u>(1,203,145)</u>	<u>-</u>	<u>-</u>	<u>-</u>
<b>TOTAL REVENUE AND SUPPORT</b>	<u>7,314,899</u>	<u>(972,020)</u>	<u>-</u>	<u>6,342,879</u>	<u>6,790,138</u>
<b>EXPENSES</b>					
Program Services:					
Direct Project Assistance/Research	1,582,525	-	-	1,582,525	1,246,404
Regional Programs	1,099,628	-	-	1,099,628	924,755
Public Information/Education	1,253,609	-	-	1,253,609	1,070,243
National Policy	837,494	-	-	837,494	733,468
Member Programs	391,331	-	-	391,331	244,415
Trail Conservancy	<u>5,083</u>	<u>-</u>	<u>-</u>	<u>5,083</u>	<u>5,529</u>
<b>Total Program Services</b>	<b>5,169,670</b>	<b>-</b>	<b>-</b>	<b>5,169,670</b>	<b>4,224,814</b>
Supporting Services:					
Administrative services	681,980	-	-	681,980	738,779
Fundraising	<u>834,534</u>	<u>-</u>	<u>-</u>	<u>834,534</u>	<u>837,250</u>
<b>Total Supporting Services</b>	<b>1,516,514</b>	<b>-</b>	<b>-</b>	<b>1,516,514</b>	<b>1,576,029</b>
<b>TOTAL EXPENSES</b>	<u>6,686,184</u>	<u>-</u>	<u>-</u>	<u>6,686,184</u>	<u>5,800,843</u>
<b>CHANGE IN NET ASSETS</b>	<u>628,715</u>	<u>(972,020)</u>	<u>-</u>	<u>(343,305)</u>	<u>989,295</u>
<b>NET ASSETS, BEGINNING OF YEAR</b>	<u>652,075</u>	<u>1,512,240</u>	<u>629,078</u>	<u>2,793,393</u>	<u>1,804,098</u>
<b>NET ASSETS, END OF YEAR</b>	<u>\$ 1,280,790</u>	<u>\$ 540,220</u>	<u>\$ 629,078</u>	<u>\$ 2,450,088</u>	<u>\$ 2,793,393</u>

The accompanying notes are an integral part of these financial statements.

## RAILS-TO-TRAILS CONSERVANCY

### STATEMENT OF CASH FLOWS

For the Year Ended September 30, 2010

(With Summarized Financial Information for the Year Ended September 30, 2009)

Increase (Decrease) in Cash and Cash Equivalents

	<u>2010</u>	<u>2009</u>
<b>CASH FLOWS FROM OPERATING ACTIVITIES</b>		
Change in net assets	\$ (343,305)	\$ 989,295
Adjustments to reconcile change in net assets to net cash provided by operating activities:		
Depreciation and amortization	68,686	69,404
Amortization of deferred lease incentive	(38,334)	(38,333)
Net realized loss on investments	35,361	20,350
Net unrealized gain on investments	(102,174)	(16,073)
Changes in assets and liabilities:		
Accounts receivable	(104,317)	21,465
Pledges and grants receivable	606,297	(573,500)
Prepaid expenses and other assets	(3,514)	23,656
Inventory	(17,634)	6,889
Accounts payable and accrued expenses	(186,964)	309,083
Refundable advances	34,250	20,000
Deferred rent	61,934	74,339
	<u>10,286</u>	<u>906,575</u>
<b>NET CASH PROVIDED BY OPERATING ACTIVITIES</b>		
<b>CASH FLOWS FROM INVESTING ACTIVITIES</b>		
Proceeds from sales of investments	1,970,939	557,926
Purchases of investments	(2,653,626)	(824,691)
Purchases of property and equipment	(3,142)	(20,832)
	<u>(685,829)</u>	<u>(287,597)</u>
<b>NET CASH USED IN INVESTING ACTIVITIES</b>		
<b>CASH FLOWS FROM FINANCING ACTIVITIES</b>		
Borrowings under the line of credit agreement	-	-
	<u>-</u>	<u>-</u>
<b>NET CASH USED IN FINANCING ACTIVITIES</b>		
<b>NET (DECREASE) INCREASE IN CASH AND CASH EQUIVALENTS</b>	(675,543)	618,978
<b>CASH AND CASH EQUIVALENTS, BEGINNING OF YEAR</b>	<u>1,061,739</u>	<u>442,761</u>
<b>CASH AND CASH EQUIVALENTS, END OF YEAR</b>	<u>\$ 386,196</u>	<u>\$ 1,061,739</u>

The accompanying notes are an integral part of these financial statements.

# RAILS-TO-TRAILS CONSERVANCY

## NOTES TO FINANCIAL STATEMENTS For the Year Ended September 30, 2010

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### 1. Organization and Summary of Significant Accounting Policies

#### **Organization**

Rails-to-Trails Conservancy (the Conservancy), the nation's largest trails organization with over 150,000 members and supporters, is dedicated to working with communities to preserve and transform unused rail corridors into linear parks that enhance the health of America's environment, economy, neighborhoods and people. Founded in 1985, the Conservancy is located in Washington, DC and has four regional offices. The Conservancy's activities are funded primarily through membership dues and contributions. The Conservancy's major program services are as follows:

*Direct Project Assistance/Research* – The Conservancy assists in building trails through a variety of programs. An early warning system notifies communities, state and local agencies of upcoming railway abandonment. Technical assistance is provided through a Trails and Greenways Clearinghouse and through a TrailDart Program that provides a development assistance response team for rail-trail projects. The Conservancy's work with corporate and foundation partners has allowed the Conservancy to provide direct financial support and amenities to trail projects and open trails.

*Regional Programs* – The Conservancy maintains regional offices in the Northeast, Midwest, South and West to support rail-trail development at the local level. Field office activities include promotion of local policy to support trail building, development of statewide trail inventories and development plans, technical assistance for local projects, and training and education for communities and trail building groups.

*Public Information/Education* – The Conservancy promotes the benefits of rail-trails to the public. Rail-trails provide places for cyclists, hikers, walkers, and runners to exercise and experience the many natural and cultural wonders of the nation's environments. By providing a place for so many types of recreational use, rail-trails can greatly help to improve public health. The Conservancy provides rail-trail information through its website, quarterly magazine, media outlets and publications. The Conservancy's mapping initiative will enrich trail information with interactive GIS maps which will also serve the Conservancy's trail development and policy initiatives.

*National Policy* – The Conservancy promotes policy at the national and state levels to create the conditions that make trail building possible. The Conservancy is a leader in the fight to protect the Federal Transportation Enhancements programs which is the largest source of funding for trail development. The Conservancy steadfastly defends the Federal Railbanking Statute in Congress and the courts as an essential tool to preserve unused rail corridors. The Conservancy also monitors litigation on cases involving enforcement of Federal laws related to rail banking.

Continued

# RAILS-TO-TRAILS CONSERVANCY

## NOTES TO FINANCIAL STATEMENTS For the Year Ended September 30, 2010

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1. Organization and Summary of Significant Accounting Policies (continued)

**Organization (continued)**

*Member Programs* – In addition to the programs provided to members through public information and education, the Conservancy is also digitizing member and constituent information and trails information; creating a centralized database that will assist the Conservancy in identifying opportunities for linking trail systems and catalyzing support of trail projects. Other activities include delivery of member benefit and service programs.

*Trail Conservancy* – The Conservancy promotes the preservation of rail corridors for trail creation. The program generally involves the acquisition of abandoned rail corridors on behalf of the Conservancy. The Conservancy has purchased rail corridors in approximately ten states across the country.

**Cash Equivalents**

The Conservancy considers money market funds not held for long-term investment purposes to be cash equivalents.

**Investments**

Investments consist of equity and fixed income exchange traded funds, a real estate investment trust (REIT) exchange traded fund, certificates of deposit and a money market fund. These investments are reported in the accompanying financial statements at their fair value, as based upon quoted market prices, as of September 30<sup>th</sup>.

**Fair Value of Financial Instruments**

In accordance with the accounting standards for fair value measurements for those assets and liabilities which are measured at fair value on a recurring basis, as of and for the year ended September 30, 2010, the Conservancy has categorized its applicable financial instruments into a required fair value hierarchy. The fair value hierarchy gives the highest priority to quoted prices in active markets for identical assets or liabilities (Level 1) and the lowest priority to unobservable inputs (Level 3). If the inputs used to measure the financial instruments fall within different levels of the hierarchy, the categorization is based on the lowest level input that is significant to the fair value measurement of the instrument.

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# **RAILS-TO-TRAILS CONSERVANCY**

## **NOTES TO FINANCIAL STATEMENTS For the Year Ended September 30, 2010**

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### 1. Organization and Summary of Significant Accounting Policies (continued)

#### **Fair Value of Financial Instruments (continued)**

Applicable financial assets and liabilities are categorized based on the inputs to the valuation techniques as follows:

*Level 1* – Financial assets and liabilities whose values are based on unadjusted quoted prices for identical assets or liabilities in an active market that the Conservancy has the ability to access.

*Level 2* – Financial assets and liabilities whose values are based on quoted prices in markets that are not active or model inputs that are observable either directly or indirectly for substantially the full term of the asset or liability.

*Level 3* – Financial assets and liabilities whose values are based on prices or valuation techniques that require inputs that are both unobservable and significant to the overall fair value measurement. These inputs reflect management's own assumptions about the assumptions a market participant would use in pricing the asset or liability.

As of and for the year ended September 30, 2010, only the Conservancy's investments, as described in Note 2 of these financial statements, were measured at fair value on a recurring basis.

#### **Pledges, Grants and Accounts Receivable**

Pledges and grants receivable represent contributions from foundations and corporations. Accounts receivable consist of amounts due as reimbursements for expenses incurred under contract terms and amounts due for event registrations, sponsorships and sublessee occupancy expenses paid by the Conservancy on behalf of the sublessee. As of September 30, 2010, all receivables are considered fully collectible.

#### **Property and Equipment and Related Depreciation and Amortization**

Property and equipment are stated at cost and are principally depreciated on a straight-line basis over the estimated useful lives of the respective assets, which range from three to seven years. Leasehold improvements are amortized over the shorter of the lease period or useful life of the improvements. Expenditures for major repairs and improvements are capitalized; conversely, expenditures for minor repairs and maintenance costs are expensed when incurred. Upon the retirement or disposal of assets, the cost and accumulated depreciation are eliminated from the respective accounts and the resulting gain or loss is included in revenue or expenses.

Continued

## **RAILS-TO-TRAILS CONSERVANCY**

### **NOTES TO FINANCIAL STATEMENTS**

**For the Year Ended September 30, 2010**

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#### **1. Organization and Summary of Significant Accounting Policies (continued)**

##### **Classification of Net Assets**

The net assets of the Conservancy are reported as follows:

- Unrestricted net assets represent the portion of expendable funds that are available for support of the Conservancy's operations.
- Temporarily restricted net assets represent amounts that are specifically restricted by donors or grantors for various purposes or future time periods.
- Permanently restricted net assets represent endowment gifts with donor stipulations requiring that the principal be held in perpetuity and permit only the income to be spent for the purpose designated by the donor.

##### **Revenue Recognition**

Membership dues are considered contributions and are recognized as unrestricted revenue when received.

The Conservancy recognizes all unconditional contributed support in the period in which the commitment is made. The Conservancy reports gifts of cash and other assets as temporarily restricted if they are received with donor stipulations that limit the use of the donated assets as to a particular purpose or to future periods. When the stipulated time restriction ends or the purpose of the restriction is met, temporarily restricted net assets are reclassified to unrestricted net assets and reported in the accompanying statement of activities as net assets released from restrictions. Revenue recognized on grants and contributions which have been promised to the Conservancy but have not been received is reflected as pledges and grants receivable in the accompanying statement of financial position.

Contract revenue is recognized as costs are incurred on the basis of direct costs plus allowable indirect expenses. Revenue recognized on contracts for which billings have not been presented to or collected from the awarding agency is included in accounts receivable in the accompanying statement of financial position. Amounts received but not yet expended for the purpose of the contract are reflected as refundable advances in the accompanying statement of financial position.

##### **Functional Allocation of Expenses**

The costs of the various programs and other activities are summarized on a functional basis in the accompanying statement of activities. Accordingly, certain costs have been allocated among the programs and supporting services based upon various methods deemed to justify the benefits received by the programs and supporting services.

Continued

## RAILS-TO-TRAILS CONSERVANCY

### NOTES TO FINANCIAL STATEMENTS

For the Year Ended September 30, 2010

1. Organization and Summary of Significant Accounting Policies (continued)

**Estimates**

The preparation of financial statements in conformity with accounting principles generally accepted in the United States of America requires management to make estimates and assumptions that affect certain reported amounts and disclosures. Accordingly, actual results could differ from those estimates.

2. Investments

The Conservancy has used the following fair value measurements as of September 30, 2010:

	Total	Quoted Prices in Active Markets for Identical Assets (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)
Exchange traded funds - equities	\$ 968,103	\$ 968,103	\$ -	\$ -
Exchange traded funds - fixed income	231,636	231,636	-	-
Exchange traded fund - REIT	3,854	3,854	-	-
Certificates of deposit	375,423	-	375,423	-
Money market fund	300,305	300,305	-	-
Total	\$ 1,879,321	\$ 1,503,898	\$ 375,423	\$ -

The fair value and cost of the Conservancy's investments are summarized as follows:

	Cost	Fair Value
Exchange traded funds - equities	\$ 964,689	\$ 968,103
Exchange traded fund - fixed income	225,989	231,636
Exchange traded fund - REIT	3,514	3,854
Certificates of deposit	375,423	375,423
Money market fund	300,305	300,305
Total	\$ 1,869,920	\$ 1,879,321

Continued

**RAILS-TO-TRAILS CONSERVANCY**

**NOTES TO FINANCIAL STATEMENTS**  
**For the Year Ended September 30, 2010**

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2. Investments (continued)

Investment returns for the year ended September 30, 2010, are summarized as follows:

Interest and dividends	\$ 17,757
Unrealized gains on investments	102,174
Realized losses on investments	<u>(35,361)</u>
Total	<u>\$ 84,570</u>

3. Pledges and Grants Receivable

Pledges and grants receivable represent unconditional promises to give and are recorded at net realizable value. All receivables are expected to be collected within one year and are considered fully collectible.

4. Property and Equipment and Accumulated Depreciation and Amortization

The Conservancy held the following property and equipment as of September 30, 2010:

Furniture and equipment	\$ 294,018
Leasehold improvements	<u>597,932</u>
Total Fixed Assets	891,950
Less: Accumulated Depreciation and Amortization	<u>(343,010)</u>
Net Property and Equipment	<u>\$ 548,940</u>

Depreciation expense for the year ended September 30, 2010 was \$68,686.

5. Net Assets

**Temporarily Restricted Net Assets**

Temporarily restricted net assets of the Conservancy are available for the following programs as of September 30, 2010:

Direct Project Assistance	\$ 392,720
Public Information/Education	100,000
Regional Programs	<u>47,500</u>
Total Temporarily Restricted Net Assets	<u>\$ 540,220</u>

Continued

# RAILS-TO-TRAILS CONSERVANCY

## NOTES TO FINANCIAL STATEMENTS

For the Year Ended September 30, 2010

5. Net Assets (continued)

**Permanently Restricted Net Assets**

During the year ended September 30, 1997, the Conservancy established the Langdon Gates Burwell Endowment Fund (Fund 1). This fund was established with a gift of stock valued at \$334,645 at the date of the gift. The donor stipulated that the principal be invested in perpetuity but thirty years from the date of the gift, the Fund will revert to the general endowment of the Conservancy.

During the year ended September 30, 1998, the Conservancy established the Wyss Endowment Fund (Fund 2). This fund was established with a gift of cash of \$250,000.

**Endowments**

For the year ended September 30, 2010, the Conservancy's endowments had the following activity:

	<u>Unrestricted</u>	<u>Temporarily Restricted</u>	<u>Permanently Restricted</u>
Endowment net assets at September 30, 2009	\$ -	\$ -	\$ 629,078
Investment returns:			
Interest and dividends	-	11,376	-
Realized losses	-	(30,433)	-
Unrealized gains	-	55,599	-
Amounts appropriated for expenditure	<u>36,542</u>	<u>(36,542)</u>	<u>-</u>
Endowment net assets at September 30, 2010	<u>\$ 36,542</u>	<u>\$ -</u>	<u>\$ 629,078</u>

Continued

## **RAILS-TO-TRAILS CONSERVANCY**

### **NOTES TO FINANCIAL STATEMENTS**

**For the Year Ended September 30, 2010**

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5. Net Assets (continued)

**Interpretation of Relevant Law**

The Board of Directors of the Conservancy has interpreted the Uniform Prudent Management of Institutional Funds Act (UPMIFA) as requiring the preservation of the fair value of the original gift as of the gift date of the donor-restricted endowment funds, absent explicit donor stipulations to the contrary. As a result of this interpretation, the Conservancy classifies as permanently restricted net assets the original value of gifts donated to the permanent endowment and the original value of subsequent gifts to the permanent endowment. Investment returns on permanently restricted endowments are classified in accordance with donor specifications. When no specifications are outlined by the donor, investment earnings are classified as temporarily restricted net assets until those amounts are appropriated for expenditure by the Conservancy in a manner consistent with the standard of prudence prescribed by UPMIFA. Management's opinion is that the Conservancy is in compliance with the requirements of UPMIFA.

**Funds with Deficiencies**

From time to time, the fair value of assets associated with individual endowment funds may fall below the fair value of the original gift(s). Deficiencies of this nature are reported as part of unrestricted net assets. As of September 30, 2010, there were no such deficiencies.

**\*Return Objectives and Risk Parameters**

The Conservancy has adopted investment and spending policies for endowment assets that attempt to provide a predictable stream of funding to programs supported by its endowments while seeking to maintain the purchasing power of the endowment assets. Endowment assets include those assets of donor-restricted funds that the Conservancy must hold in perpetuity or for a donor-specified long-term period. Under this policy, as approved by the Board of Directors, the primary emphasis of the endowment assets is the preservation of capital with secondary emphasis on growth of principal and income. Over a three-year moving time period, the Conservancy seeks a rate of return which exceeds the increase in the Consumer Price Index by 4% annually and exceeds the increase in the Treasury Bill Index by a minimum of 3% annually.

**Strategies Employed for Achieving Objectives**

To satisfy its long term return objectives, the Conservancy relies on a total return strategy in which investment returns are achieved through both capital appreciation (realized and unrealized) and current yield (interest and dividends). The strategy is reviewed as necessary by the Board of Directors.

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## **RAILS-TO-TRAILS CONSERVANCY**

### **NOTES TO FINANCIAL STATEMENTS**

**For the Year Ended September 30, 2010**

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5. Net Assets (continued)

**Spending Policy on Endowment Funds**

In accordance with the donor's instructions, earnings on Fund 1 are available to support general operations of the Conservancy. Under the Conservancy's investment policy, earnings on this fund, up to 5% of Fund 1's market value as of the prior year, are considered available for current operations. Actual earnings on Fund 1 for the year ended September 30, 2010 were less than 5% of Fund 1's market value as of September 30, 2010. Accordingly, all investment earnings on Fund 1 for the year ended September 30, 2010 were considered appropriated for use in general operations in accordance with the Conservancy's spending policy.

For investment earnings on Fund 2, the donor recommended that half of the annual earnings from the endowment be used for general operating expenses and the other half be used to increase the endowment, with an allowance for the Board of Directors of the Conservancy to override this provision. The Conservancy's Board of Directors resolved in prior years that all investment earnings on Fund 2 be considered unrestricted and available to support general operations. Under the Conservancy's investment policy, earnings on Fund 2, up to 5% of Fund 2's market value as of the prior year, are considered available for current operations. Actual earnings on Fund 2 for the year ended September 30, 2010 were less than 5% of Fund 2's market value as of September 30, 2009. Accordingly, all investment earnings on Fund 2 for the year ended September 30, 2010 were considered appropriated for use in general operations in accordance with the Conservancy's spending policy.

6. Office Leases

The Conservancy is obligated under non-cancelable operating leases for office space in Washington, DC; Pennsylvania; Ohio and California. The leases expire at various dates through February 2023. A portion of the Washington, DC office space has been subleased under five and three-year non-cancelable agreements.

The Washington, DC and California leases provide for rent adjustments based on increases in real estate taxes and operating expenses as well as increases in the base rent of 2.5% per year. The Washington, DC lease also provided for an allowance of up to \$575,000 for building improvements as an incentive to enter into the lease. Under accounting principles generally accepted in the United States of America, all fixed rent increases and lease incentives are recognized on a straight-line basis over the term of the lease. The difference between this expense and the required lease payments is reflected as deferred rent and deferred lease incentive in the accompanying statement of financial position.

Continued

## RAILS-TO-TRAILS CONSERVANCY

### NOTES TO FINANCIAL STATEMENTS

For the Year Ended September 30, 2010

#### 6. Office Leases (continued)

In addition, the Conservancy leases certain equipment and vehicles under non-cancelable operating leases that expire through 2012.

As of September 30, 2010, total future minimum lease payments for the operating leases, net of the sub-lease rental income, are as follows:

<u>For the Years Ending September 30,</u>	<u>Total</u>	<u>Subleases</u>	<u>Net</u>
2011	\$ 428,453	\$ 73,067	\$ 355,386
2012	416,024	56,421	359,603
2013	387,426	-	387,426
2014	386,044	-	386,044
2015	379,671	-	379,671
Thereafter	<u>3,193,445</u>	<u>-</u>	<u>3,193,445</u>
Total	<u>\$ 5,191,063</u>	<u>\$ 129,488</u>	<u>\$ 5,061,575</u>

Rent expense under the office space leases was \$451,332 for the year ended September 30, 2010.

#### 7. Contributed Services

The Conservancy received \$542,268 of donated professional services during the year ended September 30, 2010, primarily consisting of donated advertising and donated legal services provided in cases affecting the Conservancy's interests. This amount is included in contributions in the accompanying statement of activities and in professional fees and advertising in the accompanying supplemental schedule of functional expenses. The programs benefited from these contributed professional services are the National Policy program in the amount of \$182,268 and the Public Information and Education program in the amount of \$360,000.

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**RAILS-TO-TRAILS CONSERVANCY**

**NOTES TO FINANCIAL STATEMENTS**

**For the Year Ended September 30, 2010**

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8. Commitments and Risks

**Line of Credit**

The Conservancy entered into a revolving line of credit agreement with a bank. Under the agreement, the Conservancy can borrow up to \$250,000. Interest accrues daily at the prime rate and is payable monthly. The line of credit agreement expires April 29, 2011. No amounts were advanced under this agreement during the year ended September 30, 2010 and there was no balance due as of September 30, 2010.

**Concentration of Credit Risk**

The Conservancy maintains its cash and cash equivalents in various bank deposit accounts which, at times, exceed federally insured limits, and, therefore, bear some risk. The amount in excess of the limit guaranteed by Federal agencies was \$63,637 as of September 30, 2010. The Conservancy has not experienced, nor does it anticipate, any loss of funds.

9. Retirement Plan

The Conservancy maintains a tax deferred annuity plan for all employees that is qualified under Section 403(b) of the Internal Revenue Code. Participating employees may make salary reduction contributions to the Plan up to the maximum amount permitted by the Internal Revenue Code. Employer contributions are discretionary. During the year ended September 30, 2010, the Conservancy made a discretionary contribution of 6% of each participant's compensation to the Plan.

Employer contributions are subject to the following vesting requirements:

<u>Completed Years of Service</u>	<u>Percent Vested</u>
Less than 1	0%
1 but less than 2	50%
More than 2	100%

Retirement expense for the year ended September 30, 2010 was \$115,981 and is included in salaries and related expenses in the accompanying supplemental schedule of functional expenses.

Continued

## **RAILS-TO-TRAILS CONSERVANCY**

### **NOTES TO FINANCIAL STATEMENTS**

**For the Year Ended September 30, 2010**

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10. Allocation of Joint Costs

During the year ended September 30, 2010, the Conservancy incurred joint costs of \$1,537,214 from activities such as direct mail and telemarketing that included both educational materials and fundraising appeals. Of those costs, \$573,559 was allocated to programs, \$834,265 was allocated to fundraising, and \$129,390 was allocated to administrative services expenses.

11. Income Taxes

The Conservancy is exempt from federal income taxes under Section 501(c)(3) of the Internal Revenue Code and is classified as a public charity. No provision for income taxes was required for the year ended September 30, 2010 as the Conservancy had no net unrelated business income.

The Conservancy reviews and assesses all activities annually to identify any changes in the scope of the activities and revenue sources and the tax treatment thereof to identify any uncertain tax positions. For the year ended September 30, 2010, management did not identify any uncertain tax positions requiring recognition or disclosure in these financial statements. Tax years reasonably considered open and subject to examination include returns for the years ended September 30, 2007 through 2009.

12. Prior Year Summarized Financial Information

The accompanying financial statements include certain prior year summarized comparative information in total but not by net asset class. Such information does not include sufficient detail to constitute a presentation in conformity with accounting principles generally accepted in the United States of America. Accordingly, such information should be read in conjunction with the Conservancy's financial statements for the year ended September 30, 2009, from which the summarized information was derived.

13. Subsequent Events

The Conservancy's management has evaluated subsequent events through January 3, 2011, the date the financial statements were available to be issued. There were no subsequent events identified through January 3, 2011, required to be disclosed in these financial statements.

**SUPPLEMENTAL INFORMATION**

**RAILS-TO-TRAILS CONSERVANCY**

**SCHEDULE OF FUNCTIONAL EXPENSES**

For the Year Ended September 30, 2010

(With Summarized Financial Information for the Year Ended September 30, 2009)

	Program Services							Supporting Services			2009 Total	
	Direct Project Assistance/ Research	Regional Programs	Public Information/ Education	National Policy	Member Programs	Trail Conservancy	Total Program Services	Administrative Services	Fundraising	Total Supporting Services		
Salaries and related expenses	\$ 533,619	\$ 672,094	\$ 432,592	\$ 412,634	\$ 34,381	\$ 4,412	\$ 2,089,732	\$ 334,808	\$ 207,234	\$ 542,042	\$ 2,631,774	\$ 2,690,450
Printing and production	128,963	5,485	119,674	4,008	18,464	-	276,594	18,249	191,133	209,382	485,976	532,694
Postage and delivery	146,035	1,460	44,789	344	3,198	-	195,826	35,991	226,926	262,917	458,743	436,486
Professional fees	54,349	7,410	83,213	278,883	94,254	-	518,109	45,688	37,446	83,134	601,243	379,072
Rent	-	50,587	-	-	-	-	50,587	400,745	-	400,745	451,332	438,425
List management services	75,526	25	9,673	-	110,270	-	195,494	17,444	84,046	101,490	296,984	262,722
Travel, meals, and entertainment	60,777	114,798	6,840	24,393	394	75	207,277	19,627	17,777	37,404	244,681	166,104
Merchandise costs	600	4,772	8,233	-	90,922	-	104,527	7,854	-	7,854	112,381	102,210
Office expenses and supplies	5,281	51,518	224	314	74	-	57,411	139,353	-	139,353	196,764	179,081
Grants and scholarships	338,343	149,800	-	-	-	-	488,143	-	-	-	488,143	139,130
Telephone and facsimile	3,923	5,612	322	4,082	394	-	14,333	74,648	-	74,648	88,981	84,639
Miscellaneous	10,368	-	37,598	2,873	3,843	-	54,682	8,969	4,830	13,799	68,481	80,717
Business insurance	-	3,673	-	-	-	-	3,673	22,320	-	22,320	25,993	27,095
Depreciation and amortization	-	1,868	-	-	-	-	1,868	66,818	-	66,818	68,686	69,404
Bank fees	-	-	11,959	-	13,712	-	25,671	6,983	9,046	16,029	41,700	39,340
Meetings	750	26,655	-	1,095	-	-	28,500	-	-	-	28,500	3,689
Advertising and media	435	35	360,000	-	2,000	-	362,470	2,979	-	2,979	365,449	124,385
Staff development	5,159	2,901	-	4,640	-	-	12,700	375	-	375	13,075	6,402
Taxes and licenses	140	104	466	35	5,217	-	5,962	382	-	382	6,344	7,482
Dues and subscriptions	895	831	4,144	3,550	859	-	10,279	250	425	675	10,954	11,316
Indirect cost allocation	217,362	-	133,882	100,643	13,349	596	465,832	(521,503)	55,671	(465,832)	-	-
<b>TOTAL EXPENSES</b>	<b>\$ 1,582,525</b>	<b>\$ 1,099,628</b>	<b>\$ 1,253,609</b>	<b>\$ 837,494</b>	<b>\$ 391,331</b>	<b>\$ 5,083</b>	<b>\$ 5,169,670</b>	<b>\$ 681,980</b>	<b>\$ 834,534</b>	<b>\$ 1,516,514</b>	<b>\$ 6,686,184</b>	<b>\$ 5,800,843</b>

Note from Management

**Return Objectives and Risk Parameters**

The Conservancy modified its return objectives and the following sentence on page 12 under Return Objectives and Risk Parameters is no longer relevant and has been replaced with the following:

**Old Return Objective**

Over a three year moving time period, the Conservancy seeks a rate of return which exceeds the increase in the Consumer Price Index by 4% annually and exceeds the increase in the Treasury Bill Index by a minimum of 3% annually.

**New Return Objective**

The Conservancy seeks a rate of return that exceeds or meets a blended S&P and Barclay Bond index that correlates with the asset allocation guidelines in the Conservancy's Investment Policy.