

RAILS-TO-TRAILS CONSERVANCY

FINANCIAL STATEMENTS

Year Ended September 30, 2014
(With Summarized Financial Information for the
Year Ended September 30, 2013)



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INDEPENDENT AUDITORS' REPORT

To the Board of Directors

RAILS-TO-TRAILS CONSERVANCY

We have audited the accompanying financial statements of Rails-to-Trails Conservancy (the "Conservancy"), which comprise the statement of financial position as of September 30, 2014, and the related statements of activities and changes in net assets and cash flows for the year then ended, and the related notes to the financial statements. The prior year summarized comparative information has been derived from the Conservancy's September 30, 2013 financial statements, and in our report dated February 20, 2014, we expressed an unmodified opinion on those 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 internal controls relevant to the preparation and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error.

Auditors' Responsibility

Our responsibility is to express an opinion on these financial statements based on our audits. We conducted our audits in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audits to obtain reasonable assurance about whether the financial statements are free from 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 auditors' judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditors consider 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 controls. 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 Conservancy as of September 30, 2014, and the changes in its net assets and its cash flows for the year then ended in accordance with accounting principles generally accepted in the United States of America.

Bethesda, Maryland
February 11, 2015

RAILS-TO-TRAILS CONSERVANCY

STATEMENT OF FINANCIAL POSITION

September 30, 2014

(With Summarized Financial Information as of September 30, 2013)

	<u>2014</u>	<u>2013</u>
<u>ASSETS</u>		
CURRENT ASSETS		
Cash and Cash Equivalents	\$ 614,997	\$ 500,540
Short-Term Investments	1,900,532	1,583,446
Accounts Receivable	80,488	188,746
Pledges and Grants Receivable	714,948	656,580
Inventory	39,935	22,399
Prepaid Expenses and Other Assets	116,284	115,561
TOTAL CURRENT ASSETS	<u>3,467,184</u>	<u>3,067,272</u>
PROPERTY AND EQUIPMENT, NET	539,192	539,418
LONG-TERM INVESTMENTS	<u>2,597,370</u>	<u>2,344,185</u>
TOTAL ASSETS	<u>\$ 6,603,746</u>	<u>\$ 5,950,875</u>
<u>LIABILITIES AND NET ASSETS</u>		
CURRENT LIABILITIES		
Accounts Payable and Accrued Expenses	\$ 687,788	\$ 712,024
Refundable Advances	14,281	60,051
Current Portion of Deferred Lease Incentive	38,333	38,333
Current Portion of Deferred Rent	7,806	18,864
TOTAL CURRENT LIABILITIES	<u>748,208</u>	<u>829,272</u>
OTHER LIABILITIES		
Deferred Lease Incentive	284,307	322,640
Deferred Rent	304,604	280,472
TOTAL OTHER LIABILITIES	<u>588,911</u>	<u>603,112</u>
TOTAL LIABILITIES	<u>1,337,119</u>	<u>1,432,384</u>
NET ASSETS		
Unrestricted	3,221,315	2,761,108
Temporarily Restricted	1,410,234	1,127,305
Permanently Restricted	635,078	630,078
TOTAL NET ASSETS	<u>5,266,627</u>	<u>4,518,491</u>
TOTAL LIABILITIES AND NET ASSETS	<u>\$ 6,603,746</u>	<u>\$ 5,950,875</u>

See Notes to Financial Statements

RAILS-TO-TRAILS CONSERVANCY

STATEMENT OF ACTIVITIES AND CHANGES IN NET ASSETS

Year Ended September 30, 2014

(With Summarized Financial Information for the Year Ended September 30, 2013)

	<u>Unrestricted</u>	<u>Temporarily Restricted</u>	<u>Permanently Restricted</u>	<u>Total 2014</u>	<u>Total 2013</u>
REVENUE AND SUPPORT					
Membership Dues	\$ 2,976,911	\$ -	\$ -	\$ 2,976,911	\$2,841,803
Grants and Contributions					
Contributions	2,930,177	345,959	5,000	3,281,136	2,996,962
Grants	320,721	776,000	-	1,096,721	970,500
Corporate Sponsors	126,263	175,000	-	301,263	303,897
Workplace Giving	238,915	-	-	238,915	277,263
Program Revenues					
Contracts	217,581	-	-	217,581	412,531
Meeting and Events	191,650	-	-	191,650	163,226
Merchandise and Publications	150,283	-	-	150,283	82,527
Rental Income	90,326	-	-	90,326	105,852
Other Income	77,454	-	-	77,454	59,181
Investment Income	202,106	66,107	-	268,213	253,267
Net Assets Released from Restrictions	1,080,137	(1,080,137)	-	-	-
TOTAL REVENUE AND SUPPORT	<u>8,602,524</u>	<u>282,929</u>	<u>5,000</u>	<u>8,890,453</u>	<u>8,467,009</u>
EXPENSES					
Program Services					
Direct Project Assistance/Research	1,115,385	-	-	1,115,385	1,271,840
Regional Programs	1,219,786	-	-	1,219,786	1,208,832
Public Information/Education	1,808,533	-	-	1,808,533	1,865,687
National Policy	1,120,019	-	-	1,120,019	662,295
Member Programs	412,553	-	-	412,553	392,750
Trail Conservancy	59,719	-	-	59,719	4,070
Research	391,850	-	-	391,850	-
Total Program Services	<u>6,127,845</u>	<u>-</u>	<u>-</u>	<u>6,127,845</u>	<u>5,405,474</u>
Supporting Services					
Administrative Services	783,155	-	-	783,155	723,991
Fundraising	1,231,317	-	-	1,231,317	1,114,953
Total Supporting Services	<u>2,014,472</u>	<u>-</u>	<u>-</u>	<u>2,014,472</u>	<u>1,838,944</u>
TOTAL EXPENSES	<u>8,142,317</u>	<u>-</u>	<u>-</u>	<u>8,142,317</u>	<u>7,244,418</u>
CHANGE IN NET ASSETS	460,207	282,929	5,000	748,136	1,222,591
NET ASSETS, BEGINNING OF YEAR	<u>2,761,108</u>	<u>1,127,305</u>	<u>630,078</u>	<u>4,518,491</u>	<u>3,295,900</u>
NET ASSETS, END OF YEAR	<u>\$ 3,221,315</u>	<u>\$ 1,410,234</u>	<u>\$ 635,078</u>	<u>\$ 5,266,627</u>	<u>\$ 4,518,491</u>

See Notes to Financial Statements

RAILS-TO-TRAILS CONSERVANCY

STATEMENT OF CASH FLOWS

Year Ended September 30, 2014

(With Summarized Financial Information for the Year Ended September 30, 2013)

	<u>2014</u>	<u>2013</u>
CASH FLOWS FROM OPERATING ACTIVITIES		
Change in Net Assets	\$ 748,136	\$1,222,591
Adjustments to Reconcile Change in Net Assets to Net Cash		
Flows from Operating Activities		
Depreciation and Amortization	103,355	59,128
Amortization of Deferred Lease Incentive	(38,333)	(38,333)
Net Realized and Unrealized Gain on Investments	(215,030)	(221,790)
Decrease (Increase) in Operating Assets		
Accounts Receivable	108,258	111,632
Pledges and Grants Receivable	(58,368)	(387,590)
Prepaid Expenses and Other Assets	(723)	(11,916)
Inventory	(17,536)	40,336
Increase (Decrease) in Operating Liabilities		
Accounts Payable and Accrued Expenses	(24,236)	166,349
Refundable Advances	(45,770)	(28,815)
Deferred Rent	13,074	31,853
NET CASH FLOWS FROM OPERATING ACTIVITIES	<u>572,827</u>	<u>943,445</u>
CASH FLOWS FROM INVESTING ACTIVITIES		
Proceeds from Sales of Investments	2,689,109	2,641,494
Purchases of Investments	(3,044,350)	(3,479,965)
Purchases of Property and Equipment	(103,129)	(140,688)
NET CASH FLOWS FROM INVESTING ACTIVITIES	<u>(458,370)</u>	<u>(979,159)</u>
NET INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS	114,457	(35,714)
CASH AND CASH EQUIVALENTS, BEGINNING OF YEAR	<u>500,540</u>	<u>536,254</u>
CASH AND CASH EQUIVALENTS, END OF YEAR	<u>\$ 614,997</u>	<u>\$ 500,540</u>

See Notes to Financial Statements

RAILS-TO-TRAILS CONSERVANCY

NOTES TO FINANCIAL STATEMENTS

(1) Organization and purpose

The Rails-to-Trails Conservancy (the "Conservancy"), the nation's largest trails organization with more than 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 – 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, which 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.

Research – The Conservancy's Research program monitors state utilization of federal alternatives funding, evaluates the economic impact of trails, and conducts national trail bike and pedestrian counts to model and predict trail use. Trail connectivity research will assist communities in prioritizing trail improvement projects.

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 policies 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 trail mapping initiative enriches trail information with interactive GIS maps, which also serve the Conservancy's trail development and policy initiatives.

National Policy – The Conservancy promotes policies 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 Alternatives program, 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 railbanking.

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.

RAILS-TO-TRAILS CONSERVANCY

NOTES TO FINANCIAL STATEMENTS

(2) Summary of significant accounting policies

Basis of accounting – The Conservancy’s financial statements have been prepared on the accrual basis of accounting. Revenue is recognized when earned and expenses are recognized when incurred.

Financial statement presentation – The Conservancy reports contributions as support in the period received or when an unconditional promise to give has been made.

Net assets are classified as permanently restricted (the net assets must not be spent because of permanent restrictions placed by the donor on their use), temporarily restricted (the net assets may be expended but only in accordance with donor-imposed restrictions), or unrestricted (the net assets may be spent in accordance with management and Board wishes). When the donor restrictions expire, either through the passage of time or by accomplishing the restricted purpose, temporarily restricted net assets are reclassified to unrestricted net assets and are reported as “net assets released from restrictions” on the statement of activities and changes in net assets. Temporarily restricted net assets as of September 30, 2014 were \$1,410,234 and permanently restricted net assets as of September 30, 2014 were \$635,078.

Cash and cash equivalents – Investments purchased with a maturity of three months or less are considered cash equivalents.

Receivables – Receivables due in less than one year are reported at their outstanding balance. Receivables due beyond one year are discounted to their net present value of future cash flows, if material. Receivables are carried at original amount less an estimate made for doubtful receivables based on a review of all outstanding amounts. Management determines the allowance for doubtful accounts by regularly evaluating individual receivables and considering payment history and current economic conditions. Receivables are written-off when deemed uncollectible. Recoveries of receivables previously written-off are recorded when received. Management considers all receivables to be fully collectible; therefore, no allowance for doubtful accounts is recorded.

Property and equipment – Property and equipment items with a value of \$500 or more are capitalized and recorded at cost. Depreciation is computed over an estimated useful life ranging from three to ten years on the straight-line method. The costs of leasehold improvements are capitalized and amortized using the straight-line method over the remaining term of the related lease or life of the asset, whichever is shorter. Software is amortized using the straight-line method over three years. Depreciation and amortization expense for the year ended September 30, 2014 was \$103,355.

Revenue – In accordance with accounting principles generally accepted in the United States of America, contributions and grants are recorded as unrestricted, temporarily restricted, or permanently restricted support depending on the existence and/or nature of any donor restrictions. All contributions and grants are considered to be available for unrestricted use unless specifically restricted by the donor. Amounts that are restricted for use in future periods or restricted for specific purposes are reported as temporarily restricted. Amounts that are restricted for investment in perpetuity are reported as permanently restricted.

RAILS-TO-TRAILS CONSERVANCY

NOTES TO FINANCIAL STATEMENTS

(2) Summary of significant accounting policies (continued)

Contributed services and donations-in-kind are reported as contributions at their fair value if 1) such services create or enhance nonfinancial assets, or 2) would have been purchased if not provided by donation, require specialized skills, and are provided by individuals possessing such specialized skills. The value of contributed services and donations-in-kind recognized as revenue in the accompanying statement of activities and changes in net assets includes legal and advertising services. For the year ended September 30, 2014, donations-in-kind of \$812,747 were received by the Conservancy.

Contract revenue is recognized in the period when earned.

Indirect cost allocation – Expenses are presented by their natural classification on the schedule of functional expenses. For purposes of the statement of activities and changes in net assets, certain indirect costs are allocated to program expense. Indirect costs are allocated to the various programs based on the proportion of direct expense for each program to total program expense.

Income taxes – The Conservancy is exempt from Federal income taxes, except for tax on unrelated business income, under Section 501(c)(3) of the Internal Revenue Code and applicable tax provisions of the District of Columbia. The Conservancy is a publicly supported organization under 509(a)(1) of the Internal Revenue Code. Since there was no unrelated business income for the year ended September 30, 2014, there is no provision for income tax expense in these financial statements.

Accounting for uncertainty in income taxes – The Conservancy accounts for the effect of any uncertain tax positions based on a “more likely than not” threshold to the recognition of the tax positions being sustained based on the technical merits of the position under scrutiny by the applicable taxing authority. If a tax position or positions are deemed to result in uncertainties of those positions, the unrecognized tax benefit is estimated based on a “cumulative probability assessment” that aggregates the estimated tax liability for all uncertain tax positions. It is management’s belief that the Conservancy does not hold any uncertain tax positions. The Conservancy’s returns are subject to examination by the IRS generally for three years after they were filed.

Fair value measurements – The Conservancy reports investments at fair value on a recurring basis. These standards require an entity to maximize the use of observable inputs (such as quoted prices in active markets) and minimize the use of unobservable inputs (such as appraisals or valuation techniques) to determine fair value. Fair value standards also require the Conservancy to classify these financial instruments into a three-level hierarchy, based on the priority of inputs to the valuation technique.

RAILS-TO-TRAILS CONSERVANCY

NOTES TO FINANCIAL STATEMENTS

(2) Summary of significant accounting policies (continued)

Instruments measured and reported at fair value are classified and disclosed in one of the following categories:

- Level 1 – Inputs to the valuation methodology are quoted prices available in active markets for identical investments as of the reporting date. The types of investments generally included in Level 1 include listed equity and debt securities publicly traded on a stock exchange.
- Level 2 – Inputs to the valuation methodology are other than quoted prices in active markets, which are either directly or indirectly observable as of the reporting date, and fair value is determined through the use of models or other valuation methodologies.
- Level 3 – Inputs to the valuation methodology are unobservable for the instrument and include situations where there is little, if any, market activity for the instrument. The inputs into the determination of fair value require significant management judgment or estimation.

A financial instrument's level within the fair value hierarchy is based on the lowest level of any input that is significant to the fair value measurement. There were no significant transfers between the levels of hierarchy in valuing the Conservancy's assets and liabilities. Note 4 summarizes, by level, the Conservancy's investments within the fair value hierarchy.

Use of 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 the reported amounts of assets and liabilities and the disclosure of contingent assets and liabilities at the date of the financial statements, and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates.

Subsequent events – The Conservancy has evaluated subsequent events through February 11, 2015, which is the date the financial statements were available to be issued. There were no subsequent events to be disclosed based on this evaluation.

RAILS-TO-TRAILS CONSERVANCY
NOTES TO FINANCIAL STATEMENTS

(3) Investments

The following table summarizes the Conservancy's investments as of September 30, 2014:

	<u>Fair Value</u>	<u>Cost</u>
Investments in Exchange-Traded Funds - Equity	\$ 1,536,250	\$ 1,164,451
Investments in Exchange-Traded Funds - Fixed Income	1,054,705	1,053,665
Investments in Certificates of Deposit	1,528,188	1,529,004
Cash and Cash Equivalents	<u>378,759</u>	<u>378,759</u>
Total	<u>\$ 4,497,902</u>	<u>\$ 4,125,879</u>

The following table sets forth by level, within the fair value hierarchy, the Conservancy's investments at fair value as of September 30, 2014:

	<u>Level 1</u>	<u>Level 2</u>	<u>Level 3</u>	<u>Total</u>
Investments in Exchange-Traded Funds - Equity	\$ 1,536,250	\$ -	\$ -	\$ 1,536,250
Investments in Exchange-Traded Funds - Fixed Income	1,054,705	-	-	1,054,705
Investments in Certificates of Deposit	-	1,528,188	-	1,528,188
Cash and Cash Equivalents	<u>378,759</u>	<u>-</u>	<u>-</u>	<u>378,759</u>
Total Investments at Fair Value	<u>\$ 2,969,714</u>	<u>\$ 1,528,188</u>	<u>\$ -</u>	<u>\$ 4,497,902</u>

The following table summarizes investment returns as of September 30, 2014:

Interest and dividends	\$ 53,183
Realized and unrealized gains on investments	<u>215,030</u>
Total	<u>\$ 268,213</u>

RAILS-TO-TRAILS CONSERVANCY
NOTES TO FINANCIAL STATEMENTS

(4) Property and equipment

Property and equipment consisted of the following at September 30, 2014:

	<u>Cost</u>	<u>Accumulated Depreciation</u>	<u>Net Book Value</u>
Furniture and Equipment	\$ 343,615	\$ (312,199)	\$ 31,416
Software	217,500	(45,904)	171,596
Leasehold Improvements	603,832	(267,652)	336,180
	<u>\$ 1,164,947</u>	<u>\$ (625,755)</u>	<u>\$ 539,192</u>

(5) Net assets

Temporarily Restricted Net Assets

Temporarily restricted net assets at September 30, 2014 are restricted to the following program purposes, which are described in Note 1.

Direct Project Assistance/Research	\$ 870,234
Regional Programs	500,000
Public Information/Education	40,000
	<u>\$ 1,410,234</u>

Net assets were released from donor restrictions by incurring expenses satisfying the restricted purpose. Purpose restrictions accomplished during the year ended September 30, 2014 were as follows:

Direct Project Assistance/Research	\$ 790,437
Regional Programs	239,700
Public Information/Education	50,000
	<u>\$ 1,080,137</u>

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 and includes an additional \$44,433 in accumulated investment earnings, which are also considered permanently restricted. The donor stipulated that the principal be invested in perpetuity; however, thirty years from the date of the gift, the fund will revert to the Conservancy's general endowment.

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.

RAILS-TO-TRAILS CONSERVANCY

NOTES TO FINANCIAL STATEMENTS

(6) Endowment funds

At September 30, 2014, the Conservancy's endowment consists of multiple donor-restricted funds established for Conservancy programs. As required by generally accepted accounting principles, net assets associated with endowment funds are classified and reported based on the existence or absence of donor-imposed restrictions.

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 (a) the original value of gifts donated to the permanent endowment, (b) the original value of subsequent gifts to the permanent endowment, and (c) accumulations to the permanent endowment made in accordance with the direction of the applicable donor gift instrument at the time the accumulation is added to the fund. The remaining portion of the donor-restricted endowment fund that is not classified in permanently restricted net assets (consisting of earnings on the permanently restricted amounts) is classified as temporarily restricted net assets until those amounts are appropriated for expenditure by the Conservancy in a manner consistent with its spending policy and the standard of prudence prescribed by UPMIFA. In accordance with UPMIFA, the Conservancy considers the following factors in making a determination to appropriate or accumulate donor-restricted endowment funds: (1) the duration and preservation of the funds, (2) the purposes of the donor-restricted endowment funds, (3) general economic conditions, (4) the possible effect of inflation and deflation, (5) the expected total return from income and the appreciation of investments, (6) other resources of the Conservancy, and (7) the Conservancy's investment policies.

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, 2014, there were no such deficiencies.

Investment and Spending Policies

The Conservancy has adopted investment and spending policies, approved by the Board of Directors, for endowment assets that attempt to provide a predictable stream of funding to programs supported by its endowment funds while also maintaining the purchasing power of those endowment assets over the long-term. Endowment assets include those assets of donor-restricted funds that the Conservancy must hold in perpetuity.

Under this policy, the primary emphasis of the endowment assets is the preservation of capital with a secondary emphasis on growth of principal and income. The Conservancy seeks a rate of return that exceeds or meets a blended S&P and Barclay's bond index that correlates with the assets allocation guidelines in the Conservancy's investment policy. To satisfy its long-term rate-of-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 at least annually by the Board of Directors.

RAILS-TO-TRAILS CONSERVANCY

NOTES TO FINANCIAL STATEMENTS

(6) Endowment funds (continued)

In accordance with the donor's instructions, earnings on Fund 1 are available to support the Conservancy's general operations. 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.

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 to override this provision. In prior years, the Conservancy's Board of Directors resolved that all of the 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.

The changes in endowment funds for the year ended September 30, 2014 are as follows:

	<u>Unrestricted</u>	<u>Temporarily Restricted</u>	<u>Permanently Restricted</u>
Net Assets, September 30, 2013	\$ 134,080	\$ -	\$ 630,078
Contributions	-	-	5,000
Interest and Dividends	-	13,407	-
Change in Fair Market Value	-	7,519	-
Realized Gains	-	45,181	-
Transfer to Unrestricted from Temporarily Restricted	66,107	(66,107)	-
Net Assets, September 30, 2014	<u>\$ 200,187</u>	<u>\$ -</u>	<u>\$ 635,078</u>

(7) Commitments

The Conservancy leases office space in Washington, DC, Pennsylvania, Ohio and California with various expiration dates through February 2023, with scheduled annual increases over the term of the lease. In addition, the Conservancy entered into various non-cancelable three- and five-year sublease 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 3% per year. The Washington, DC lease also provided for an allowance of up to \$575,000 for building and improvements as an incentive to enter the lease.

The 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.

In addition, the Conservancy leases certain equipment and vehicles under non-cancelable operating leases with expiration dates through March 2017.

RAILS-TO-TRAILS CONSERVANCY

NOTES TO FINANCIAL STATEMENTS

(7) Commitments (continued)

The future minimum rental payments and non-cancelable sublease income due under the current lease and sublease agreements are as follows:

<u>Years Ending September 30,</u>	<u>Total</u>	<u>Subleases</u>	<u>Net</u>
2015	\$ 436,676	\$ 51,040	\$ 385,636
2016	447,447	50,712	396,735
2017	436,964	12,771	424,193
2018	440,424	-	440,424
2019	449,161	-	449,161
Thereafter	<u>1,561,858</u>	<u>-</u>	<u>1,561,858</u>
	<u>\$ 3,772,530</u>	<u>\$ 114,523</u>	<u>\$ 3,658,007</u>

Rent expense for the year ended September 30, 2014 was \$459,729.

(8) Concentrations

Credit risk – The Conservancy maintains cash balances at several financial institutions, which, at times, may exceed federally insured limits. The Conservancy monitors its exposure associated with cash in bank deposits and has not experienced any losses in such accounts.

(9) Retirement plan

The Conservancy sponsors a tax-deferred annuity plan for all employees that is qualified under Section 403(b) of the Internal Revenue Code. The plan provides for employee salary reduction contributions and employer discretionary base contributions. All employees who have completed six months of service are eligible for an employer contribution.

The Conservancy made a discretionary contribution of 6%, or a total of \$144,108, for the year ended September 30, 2014.

(10) Lines of credit

The Conservancy maintains a \$250,000 secured line of credit with SunTrust Bank, to be drawn upon as needed, with an interest rate using one month London Interbank Offered Rate (LIBOR) as of September 30, 2014 plus 2%. As of and during the year ended September 30, 2014, no amounts had been drawn from the line of credit. The line of credit expires on April 24, 2015.

RAILS-TO-TRAILS CONSERVANCY

NOTES TO FINANCIAL STATEMENTS

(11) Allocation of joint costs

During the year ended September 30, 2014, the Conservancy incurred joint costs of \$1,226,059 from activities that included both educational materials and fundraising appeals. Of those costs, \$521,778 was allocated to programs, \$592,413 was allocated to fundraising, and \$111,868 was allocated to administrative expenses.

(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, 2013, from which the summarized information was derived.

SUPPLEMENTARY INFORMATION



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INDEPENDENT AUDITORS' REPORT ON SUPPLEMENTARY INFORMATION

To the Board of Directors

RAILS-TO-TRAILS CONSERVANCY

We have audited the financial statements of Rails-to-Trails Conservancy (the "Conservancy") as of and for the year ended September 30, 2014, and our report thereon dated February 11, 2015, which expressed an unmodified opinion on those financial statements, appears on pages 1 and 2. Our audit was conducted for the purpose of forming an opinion on the financial statements as a whole. The schedule of functional expenses for the year ended September 30, 2014 and comparative totals for 2013, which follow, are presented for purposes of additional analysis and are not a required part of the financial statements. Such information is the responsibility of the Conservancy's management and was derived from and relates directly to the underlying accounting and other records used to prepare the financial statements. The information has been subjected to the auditing procedures applied in the audit of the financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying and other accounting records used to prepare the financial statements or to the 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 financial statements as a whole.

Bethesda, Maryland
February 11, 2015

RAILS-TO-TRAILS CONSERVANCY

SUPPLEMENTARY INFORMATION – SCHEDULE OF FUNCTIONAL EXPENSES

Year Ended September 30, 2014

(With Summarized Financial Information for the Year Ended September 30, 2013)

	Program Services							Supporting Services			Total 2014	Total 2013	
	Direct Project Assistance	Regional Programs	Public Information/ Education	National Policy	Member Programs	Trail Conservancy	Research	Total Program Services	Administrative Services	Fundraising			Total Supporting Services
Salaries and Related Expenses	\$ 482,660	\$ 841,524	\$ 650,596	\$ 551,364	\$ 50,345	\$ 4,582	\$ 105,058	\$ 2,686,129	\$ 375,259	\$ 295,498	\$ 670,757	\$ 3,356,886	\$2,976,421
Professional Fees	37,181	70,974	159,281	400,654	13,924	54,520	133,424	869,958	56,682	90,796	147,478	1,017,436	724,332
Printing and Production	92,178	10,522	162,309	15,346	30,079	29	27	310,490	16,802	221,597	238,399	548,889	516,213
Advertising and Media	132	-	480,200	7,150	2,000	-	-	489,482	4,427	1,000	5,427	494,909	486,546
Postage and Fulfillment	127,495	1,118	59,747	361	72,288	-	20	261,029	38,893	212,775	251,668	512,697	470,933
Rent	-	45,746	-	-	-	-	-	45,746	413,983	-	413,983	459,729	456,038
List Management Services	65,943	993	11,983	-	117,841	-	-	196,760	16,890	91,108	107,998	304,758	305,688
Travel, Meals and Entertainment	19,181	127,249	3,970	24,046	16,275	-	13,041	203,762	47,746	13,631	61,377	265,139	254,306
Grants and Scholarships	106,000	43,520	-	-	-	-	-	149,520	-	-	-	149,520	213,537
Merchandise Costs	17,158	8,588	21,711	-	73,188	-	-	120,645	29,017	152,677	181,694	302,339	291,596
Office Expenses and Supplies	235	37,539	262	78	1,104	-	61	39,279	81,056	(188)	80,868	120,147	130,868
Telephone and Facsimile	7,618	8,046	1,443	56	292	-	331	17,786	94,837	20	94,857	112,643	103,627
Miscellaneous	(1,813)	1,726	29,637	16,840	4,441	-	101,870	152,701	4,785	51,078	55,863	208,564	83,654
Depreciation and Amortization	-	3,719	44,000	-	-	-	-	47,719	55,636	-	55,636	103,355	59,128
Bank Fees	-	4,791	20,838	-	13,877	-	-	39,506	22,267	47,244	69,511	109,017	91,046
Business Insurance	-	2,980	-	-	-	-	-	2,980	29,163	-	29,163	32,143	32,165
Meetings	150	-	-	-	-	-	-	150	600	-	600	750	8,769
Staff Development	2,499	9,213	-	3,257	-	-	940	15,909	-	99	99	16,008	20,217
Dues and Subscription	5,211	1,460	4,212	4,983	45	-	80	15,991	81	-	81	16,072	11,632
Taxes and Licenses	-	78	1,424	456	5,632	-	43	7,633	917	-	917	8,550	7,702
Indirect Cost Allocation	153,557	-	156,920	95,428	11,222	588	36,955	454,670	(505,886)	53,982	(451,904)	2,766	-
TOTAL EXPENSES	\$ 1,115,385	\$ 1,219,786	\$ 1,808,533	\$1,120,019	\$ 412,553	\$ 59,719	\$ 391,850	\$ 6,127,845	\$ 783,155	\$ 1,231,317	\$ 2,014,472	\$ 8,142,317	\$ 7,244,418

See Independent Auditors' Report on Supplementary Information