

# **RAILS-TO-TRAILS CONSERVANCY**

## **FINANCIAL STATEMENTS AND SUPPLEMENTAL INFORMATION**

***As of and for the Year Ended September 30, 2017  
(With Summarized Financial Information for the Year  
Ended September 30, 2016)***

***And Report of Independent Auditor***

**RAILS-TO-TRAILS CONSERVANCY**

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## **Report of Independent Auditor**

To the Board of Directors  
Rails-to-Trails Conservancy  
Washington, D.C.

We have audited the accompanying financial statements of Rails-to-Trails Conservancy (a nonprofit organization), which comprise the statement of financial position as of September 30, 2017, and the related statement of activities and changes in net assets and cash flows for the year 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 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 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 auditor's 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 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 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 Rails-to-Trails Conservancy as of September 30, 2017, and the change 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.

**Report on Summarized Comparative Information**

We have previously audited the Rails-to-Trails Conservancy's September 30, 2016 financial statements, and we expressed an unmodified opinion on those audited financial statements in our report dated January 20, 2017. In our opinion, the summarized comparative information presented herein as of and for the year ended September 30, 2016, is consistent, in all material respects, with the audited financial statements from which it has been derived.

A handwritten signature in cursive script that reads "Cheryl Berkant LLP".

Bethesda, Maryland  
February 14, 2018

**RAILS-TO-TRAILS CONSERVANCY**  
**STATEMENTS OF FINANCIAL POSITION**

SEPTEMBER 30, 2017 AND 2016

	<u>2017</u>	<u>2016</u>
<b>ASSETS</b>		
Current Assets:		
Cash and cash equivalents	\$ 602,738	\$ 435,501
Short-term investments	2,263,922	2,265,263
Accounts receivable	50,557	58,167
Pledges and grants receivable	859,852	715,088
Inventory	102,577	77,352
Prepaid expenses and other assets	123,761	120,814
<b>Total Current Assets</b>	<u>4,003,407</u>	<u>3,672,185</u>
Property and equipment, net	<u>256,326</u>	<u>319,667</u>
Other Assets:		
Pledges and grants receivable, non-current	170,000	40,000
Long-term investments	4,169,355	3,780,933
<b>Total Other Assets</b>	<u>4,339,355</u>	<u>3,820,933</u>
<b>Total Assets</b>	<u>\$ 8,599,088</u>	<u>\$ 7,812,785</u>
<b>LIABILITIES AND NET ASSETS</b>		
Current Liabilities:		
Accounts payable and accrued expenses	\$ 704,470	\$ 829,703
Refundable advances	74,281	23,640
Current portion of deferred lease incentive	38,333	38,333
Current portion of deferred rent	30,993	20,257
<b>Total Current Liabilities</b>	<u>848,077</u>	<u>911,933</u>
Other Liabilities:		
Deferred lease incentive	169,306	207,640
Deferred rent	273,355	300,755
<b>Total Other Liabilities</b>	<u>442,661</u>	<u>508,395</u>
<b>Total Liabilities</b>	<u>1,290,738</u>	<u>1,420,328</u>
Net Assets:		
Unrestricted	4,167,788	3,654,855
Temporarily restricted	2,485,484	2,082,524
Permanently restricted	655,078	655,078
<b>Total Net Assets</b>	<u>7,308,350</u>	<u>6,392,457</u>
<b>Total Liabilities and Net Assets</b>	<u>\$ 8,599,088</u>	<u>\$ 7,812,785</u>

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

**RAILS-TO-TRAILS CONSERVANCY**  
**STATEMENT OF ACTIVITIES AND CHANGES IN NET ASSETS**

*YEAR ENDED SEPTEMBER 30, 2017*

*(WITH SUMMARIZED FINANCIAL INFORMATION FOR THE YEAR ENDED SEPTEMBER 30, 2016)*

	<u>Unrestricted</u>	<u>Temporarily Restricted</u>	<u>Permanently Restricted</u>	<u>Total 2017</u>	<u>Total 2016</u>
Revenue and Support:					
Membership dues	\$ 3,024,234	\$ -	\$ -	\$ 3,024,234	\$ 3,098,333
Grants and Contributions:					
Contributions	3,196,059	974,201		4,170,260	3,686,885
Grants	97,924	1,308,493	-	1,406,417	1,262,974
Corporate sponsors	414,387	540,000	-	954,387	149,120
Workplace giving	209,133	-	-	209,133	194,376
Program Revenues:					
Contracts	90,669	-	-	90,669	138,980
Meetings and events	127,550	-	-	127,550	134,921
Merchandise and publications	244,657	-	-	244,657	191,428
Rental income	31,906	-	-	31,906	94,712
Other income	58,977	-	-	58,977	78,868
Investment income	424,854	-	-	424,854	358,741
Net assets released from restrictions	<u>2,419,734</u>	<u>(2,419,734)</u>	<u>-</u>	<u>-</u>	<u>-</u>
Total Revenue and Support	<u>10,340,084</u>	<u>402,960</u>	<u>-</u>	<u>10,743,044</u>	<u>9,389,338</u>
Expenses:					
Program Services:					
Public information/events	2,177,226	-	-	2,177,226	2,300,758
National and state policy	1,433,135	-	-	1,433,135	1,306,447
Member programs	470,949	-	-	470,949	418,475
Trail development	3,320,970	-	-	3,320,970	2,827,874
Research	196,064	-	-	196,064	341,854
Total Program Services	<u>7,598,344</u>	<u>-</u>	<u>-</u>	<u>7,598,344</u>	<u>7,195,408</u>
Supporting Services:					
Administrative services	925,152	-	-	925,152	843,917
Fundraising	1,303,655	-	-	1,303,655	1,309,360
Total Supporting Services	<u>2,228,807</u>	<u>-</u>	<u>-</u>	<u>2,228,807</u>	<u>2,153,277</u>
Total Expenses	<u>9,827,151</u>	<u>-</u>	<u>-</u>	<u>9,827,151</u>	<u>9,348,685</u>
Changes in net assets	512,933	402,960	-	915,893	40,653
Net assets, beginning of year	<u>3,654,855</u>	<u>2,082,524</u>	<u>655,078</u>	<u>6,392,457</u>	<u>6,351,804</u>
Net assets, end of year	<u>\$ 4,167,788</u>	<u>\$ 2,485,484</u>	<u>\$ 655,078</u>	<u>\$ 7,308,350</u>	<u>\$ 6,392,457</u>

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

**RAILS-TO-TRAILS CONSERVANCY**  
**STATEMENTS OF CASH FLOWS**

YEARS ENDED SEPTEMBER 30, 2017 AND 2016

	<u>2017</u>	<u>2016</u>
<b>Cash flows from operating activities:</b>		
Changes in net assets	\$ 915,893	\$ 40,653
Adjustments to reconcile changes in net assets to net cash flows from operating activities:		
Depreciation and amortization	94,539	134,128
Amortization of deferred lease incentive	(38,334)	(38,333)
Net realized and unrealized (gain) loss on investments	(332,016)	(275,497)
Decrease (increase) in operating assets:		
Accounts receivable	7,610	88,719
Pledges and grants receivable	(274,764)	312,309
Prepaid expenses and other assets	(2,947)	(2,041)
Inventory	(25,225)	(12,331)
Increase (decrease) in operating liabilities:		
Accounts payable and accrued expenses	(125,233)	(260,820)
Refundable advances	50,641	(37,620)
Deferred rent	(16,664)	(3,302)
Net cash flows provided by (used in) operating activities	<u>253,500</u>	<u>(54,135)</u>
<b>Cash flows from investing activities:</b>		
Proceeds from sales of investments	1,048,342	2,955,682
Purchase of investments	(1,103,407)	(3,235,359)
Purchase of property and equipment	(31,198)	(19,137)
Net cash flows used in investing activities	<u>(86,263)</u>	<u>(298,814)</u>
Net increase (decrease) in cash and cash equivalents	167,237	(352,949)
Cash and cash equivalents, beginning of year	435,501	788,450
Cash and cash equivalents, end of year	<u>\$ 602,738</u>	<u>\$ 435,501</u>

# RAILS-TO-TRAILS CONSERVANCY

## NOTES TO THE FINANCIAL STATEMENTS

SEPTEMBER 30, 2017

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### Note 1—Organization and nature of operations

Rails-to-Trails Conservancy (“RTC”), the nation’s largest trails organization with more than 160,000 members and supporters, is dedicated to working with communities to preserve and transform unused rail corridors into multiuse trails and trail networks, creating healthier places for healthier people. Founded in 1985, RTC is located in Washington, D.C. and has four regional offices in Pennsylvania, Ohio, California, and Florida. Funding for RTC’s activities come primarily through membership dues and contributions.

RTC’s major program services are as follows:

*Trail Development:* Since its inception, RTC has supported trail building through a variety of **strategic initiatives**: managing an early warning system that notifies communities and state and local agencies of upcoming railway abandonments; creating statewide trail inventories and development plans; providing technical assistance for local trail development and management projects; and offering training and education for communities and trail-building groups.

RTC’s **TrailNation project portfolio** represents the organization’s largest trail development initiative. These projects are intended to spur trail-network development nationwide, changing the landscape for active transportation by establishing trail systems that get people where they want to go. The heart of this work comes through smart investments that close gaps in trail systems and improve access to major destinations across communities and entire regions. The scope of this work is a placemaking strategy, with trails as the catalyst. Currently, RTC operates a portfolio of eight projects of national significance, with a goal of 12 projects by the year 2020.

*Research:* RTC’s **research program** focuses on creating innovative tools that can empower communities to advance trail systems in their cities and towns and regions, while also monitoring the benefits trails bring to communities and the implementation of state and federal programs that provide the funding and resources to build and maintain trails.

*Public Information / Events:* While the benefits of trail use are far-reaching, not everyone knows how to access trails. RTC’s trail-use initiatives provide tips for getting out on the trail and connect people with local trails and bucket-list destinations. RTC’s flagship initiative, **TrailLink.com** served more than 7 million visitors in FY17 connecting them to over 30,000 miles of trails through its free website and mobile apps. Trail use **campaigns** include Opening Day for Trails—building excitement for the start of the trail use season in the spring; Share the Trails—promoting safe and respectful trail use; and the Sojourn series—educating about how trails are built through an experiential, multi-day trail ride. RTC also provides rail-trail information through its quarterly magazine, monthly eNews, social media, news media, and publications.

*Trail Policy:* RTC’s policy and advocacy work ensures public investment in rail-trails at all levels of government, focusing on opportunities to support communities in building critical trail, biking, and walking infrastructure. RTC promotes policies at the federal and state level that make trail building possible.

RTC is a leader in the fight to protect the federal Transportation Alternatives Program (TAP), which is the largest source of funding for trail development. RTC steadfastly defends the federal Railbanking Statute in Congress and the courts as an essential tool to preserve unused rail corridors. RTC 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, RTC is also digitizing member and constituent information and trails information, creating a centralized database that will assist the organization 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 THE FINANCIAL STATEMENTS

SEPTEMBER 30, 2017

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### Note 2—Summary of significant accounting policies

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

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, 2017 were \$2,485,484 and permanently restricted net assets as of September 30, 2017 were \$655,078.

*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, 2017 was \$94,539.

*Revenue and Support* – 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.

RTC reports contributions as support in the period received or when an unconditional promise to give has been made.

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 and expense in the accompanying statement of activities and changes in net assets includes legal and advertising services. For the year ended September 30, 2017, donations-in-kind of \$575,295 was received by RTC.

# RAILS-TO-TRAILS CONSERVANCY

## NOTES TO THE FINANCIAL STATEMENTS

SEPTEMBER 30, 2017

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### Note 2—Summary of significant accounting policies (continued)

Contract revenue is recognized in the period when earned. Meetings and events revenue is recognized in the period in which the particular meeting or event is held. Merchandise and publications revenue is recognized when the goods are shipped to the customer.

*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* – RTC 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. RTC 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, 2017, there is no provision for income tax expense in these financial statements.

*Accounting for Uncertainty in Income Taxes* – RTC 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 RTC does not hold any uncertain tax positions. RTC’s returns are subject to examination by the IRS generally for three years after they were filed.

*Fair Value Measurements* – RTC reports investments at fair value. 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 RTC to classify these financial instruments into a three-level hierarchy, based on the priority of inputs to the valuation technique.

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.

**RAILS-TO-TRAILS CONSERVANCY**  
**NOTES TO THE FINANCIAL STATEMENTS**

SEPTEMBER 30, 2017

**Note 2—Summary of significant accounting policies (continued)**

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 RTC's assets and liabilities. Note 4 summarizes, by level, RTC's investments within the fair value hierarchy.

Investments are classified as current or long-term based on donor intent and RTC's investment policy guidelines.

*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* – RTC has evaluated subsequent events through February 14, 2018, which is the date the financial statements were available to be issued. There were no subsequent events to be disclosed based on this evaluation.

**Note 3—Pledges and grants receivable**

Pledges and grants receivable consist of the following as of September 30, 2017:

Amounts due in:	
Less than one year	\$ 859,852
One to five years	170,000
Total	<u>\$ 1,029,852</u>

**Note 4—Investments**

The following table summarizes RTC's investments as of September 30, 2017:

	<u>Fair Value</u>	<u>Cost</u>
Investments in exchange-traded funds - equity	\$ 2,917,578	\$ 2,052,741
Investments in exchange-traded funds - fixed income	1,548,362	1,691,000
Investments in certificates of deposit	1,963,106	1,963,963
Cash and Cash Equivalents	4,231	4,231
Total	<u>\$ 6,433,277</u>	<u>\$ 5,711,935</u>

**RAILS-TO-TRAILS CONSERVANCY**  
**NOTES TO THE FINANCIAL STATEMENTS**

SEPTEMBER 30, 2017

**Note 4—Investments (continued)**

The following table sets forth by level, within the fair value hierarchy, RTC's investments at fair value as of September 30, 2017:

	<u>Level 1</u>	<u>Level 2</u>	<u>Level 3</u>	<u>Total</u>
Investments in exchange-traded funds - equity	\$ 2,917,578	\$ -	\$ -	\$ 2,917,578
Investments in exchange-traded funds - fixed income	1,548,362	-	-	1,548,362
Investments in certificates of deposit	1,963,106	-	-	1,963,106
Cash and Cash Equivalents	4,231	-	-	4,231
Total investments at fair value	<u>\$ 6,433,277</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 6,433,277</u>

The following table summarizes investment returns as of September 30, 2017:

Interest and dividends	\$ 92,838
Realized and unrealized gain on investments	332,016
Total	<u>\$ 424,854</u>

**Note 5—Property and equipment**

Property and equipment consisted of the following at September 30, 2017:

	<u>Cost</u>	<u>Accumulated Depreciation</u>	<u>Net Book Value</u>
Furniture and equipment	\$ 334,576	\$ (291,146)	\$ 43,430
Software	218,603	(218,052)	551
Leasehold improvements	603,832	(391,487)	212,345
	<u>\$ 1,157,011</u>	<u>\$ (900,685)</u>	<u>\$ 256,326</u>

**Note 6—Net assets**

*Temporarily Restricted Net Assets* – Temporarily restricted net assets at September 30, 2017 are restricted to the following program purposes, which are described in Note 1.

Trail development	\$ 2,209,484
National and state policy	221,000
General support – time or match restriction	5,000
Public information/events	50,000
	<u>\$ 2,485,484</u>

# RAILS-TO-TRAILS CONSERVANCY

## NOTES TO THE FINANCIAL STATEMENTS

SEPTEMBER 30, 2017

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### Note 6—Net assets (continued)

Net assets were released from donor restrictions by incurring expenses satisfying the restricted purpose. Purpose restrictions accomplished during the year ended September 30, 2017 were as follows:

Trail development	\$ 2,170,741
National and state policy	91,493
General support – time or match restriction	22,500
Public information/events	<u>135,000</u>
	<u>\$ 2,419,734</u>

*Permanently Restricted Net Assets* – During the year ended September 30, 1997, RTC 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, 30 years from the date of the gift, the fund will revert to RTC’s general endowment.

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

### Note 7—Endowment funds

At September 30, 2017, RTC’s endowment consists of multiple donor-restricted funds established for RTC 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 RTC 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, RTC 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 RTC in a manner consistent with its spending policy and the standard of prudence prescribed by UPMIFA. In accordance with UPMIFA, RTC 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 RTC, and (7) RTC’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, 2017, there were no such deficiencies.

# RAILS-TO-TRAILS CONSERVANCY

## NOTES TO THE FINANCIAL STATEMENTS

SEPTEMBER 30, 2017

### Note 7—Endowment funds (continued)

*Investment and Spending Policies* – RTC 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 RTC 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. RTC 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 RTC's investment policy. To satisfy its long-term rate-of-return objectives, RTC 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.

In accordance with the donor's instructions, earnings on Fund 1 are available to support RTC's general operations. Under RTC'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, RTC's Board of Directors resolved that all of the investment earnings on Fund 2 be considered unrestricted and available to support general operations. Under RTC'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, 2017 are as follows:

	<u>Unrestricted</u>	<u>Temporarily Restricted</u>	<u>Permanently Restricted</u>
Net assets, September 30, 2016	\$ 235,186	\$ -	\$ 655,078
Interest and dividends, net of fees	-	4,781	-
Change in fair market value	-	40,613	-
Realized gains	-	4,653	-
Transfer to unrestricted from temporarily restricted	50,047	(50,047)	-
Net assets, September 30, 2017	<u>\$ 285,233</u>	<u>\$ -</u>	<u>\$ 655,078</u>

### Note 8—Commitments

RTC leases office space in Washington, DC, Baltimore, Pennsylvania, Ohio, and California with various expiration dates through February 2022, with scheduled annual increases over the term of the lease. In addition, RTC has a noncancelable year-to-year sublease agreement.

The Washington, D.C. 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, D.C. lease also provided for an allowance of up to \$575,000 for building and improvements as an incentive to enter the lease.

# RAILS-TO-TRAILS CONSERVANCY

## NOTES TO THE FINANCIAL STATEMENTS

SEPTEMBER 30, 2017

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### Note 8—Commitments (continued)

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, RTC leases certain equipment and vehicles under noncancelable operating leases with expiration dates through January 2022.

The future minimum rental payments and noncancelable 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>
2018	\$ 473,380	\$ 9,280	\$ 464,100
2019	469,406	-	469,406
2020	456,584	-	456,584
2021	462,684	-	462,684
2022	466,948	-	466,948
	<u>\$ 2,329,002</u>	<u>\$ 9,280</u>	<u>\$ 2,319,722</u>

Rent expense for the year ended September 30, 2017 was \$511,195.

### Note 9—Concentrations

*Credit Risk* – RTC maintains cash balances at several financial institutions, which, at times, may exceed federally insured limits. As of September 30, 2017, RTC's cash balances in excess of FDIC insured amounts totaled \$297,975. RTC monitors its exposure associated with cash in bank deposits and has not experienced any losses in such accounts.

### Note 10—Retirement plan

RTC 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.

RTC made a discretionary contribution of 6% of qualified compensation or a total of \$167,426 for the year ended September 30, 2017.

### Note 11—Allocation of joint costs

During the year ended September 30, 2017, RTC incurred joint costs of \$1,322,196 from activities that included both educational materials and fundraising appeals. Of those costs, \$605,029 was allocated to programs, \$529,686 was allocated to fundraising, and \$187,481 was allocated to administrative expenses.

**RAILS-TO-TRAILS CONSERVANCY**  
**NOTES TO THE FINANCIAL STATEMENTS**

*SEPTEMBER 30, 2017*

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**Note 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 RTC's financial statements for the year ended September 30, 2016, from which the summarized information was derived.

## **SUPPLEMENTAL INFORMATION**

## Report of Independent Auditor on Supplemental Information

To the Board of Directors  
Rails-to-Trails Conservancy  
Washington, D.C.

We have audited the financial statements of Rails-to-Trails Conservancy (“RTC”) as of and for the year ended September 30, 2017, and our report thereon dated February 14, 2018, which expressed an unmodified opinion on those financial statements, appears on page 1. 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, 2017 and comparative totals for 2016, 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 RTC’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 14, 2018

**RAILS-TO-TRAILS CONSERVANCY**  
**SCHEDULE OF FUNCTIONAL EXPENSES**

YEAR ENDED SEPTEMBER 30, 2017

(WITH SUMMARIZED FINANCIAL INFORMATION FOR THE YEAR ENDED SEPTEMBER 30, 2016)

	Program Services					Supporting Services				Total 2017	Total 2016
	Trail Development	Research	Public Information/ Events	National and State Policy	Member Programs	Total Program Services	Administrative Services	Fundraising	Total Supporting Services		
Salaries and related expenses	\$ 1,615,849	\$ 141,468	\$ 862,248	\$ 944,598	\$ 40,456	\$ 3,604,619	\$ 421,259	\$ 376,834	\$ 798,093	\$ 4,402,712	\$ 3,877,064
Professional fees	359,015	24,808	328,591	244,148	-	956,562	140,374	110,942	251,316	1,207,878	1,440,473
Printing and production	111,458	-	103,654	2,969	27,350	245,431	16,255	251,686	267,941	513,372	516,089
Advertising and media	170,028	-	410,677	1,000	2,000	583,705	6,640	6,419	13,059	596,764	668,304
Postage and fulfillment	106,759	-	60,804	269	128,993	296,825	42,153	141,660	183,813	480,638	507,910
Rent	67,001	-	5	-	-	67,006	444,189	-	444,189	511,195	509,434
List management services	39,799	-	25,061	99	138,903	203,862	16,393	140,858	157,251	361,113	259,941
Travel, meals, and entertainment	150,860	1,721	95,229	38,937	61	286,808	72,298	23,363	95,661	382,469	380,767
Grants and scholarships	347,509	-	-	-	-	347,509	-	-	-	347,509	217,075
Merchandise costs	18,454	-	27,749	285	101,227	147,715	34,807	27,266	62,073	209,788	241,481
Office expenses and supplies	51,329	26	18,874	400	-	70,629	96,065	1,242	97,307	167,936	124,474
Voice and data services	5,920	251	4,716	777	316	11,980	64,993	1,445	66,438	78,418	95,361
Miscellaneous	1,188	-	40,946	50,066	1,634	93,834	8,764	83,107	91,871	185,705	144,809
Depreciation and amortization	-	-	26,965	-	-	26,965	67,569	5	67,574	94,539	134,128
Bank fees	-	-	28,870	-	17,633	46,503	33,353	86,527	119,880	166,383	151,810
Business insurance	-	-	5,650	-	-	5,650	32,266	-	32,266	37,916	34,104
Conferences	11,238	-	490	-	-	11,728	1,590	-	1,590	13,318	4,554
Professional development	22,204	725	2,737	1,946	1,660	29,272	653	584	1,237	30,509	11,982
Dues and subscription	9,843	621	9,234	6,150	-	25,848	-	718	718	26,566	23,417
Taxes and licenses	-	-	534	-	5,033	5,567	6,456	400	6,856	12,423	5,508
Indirect cost allocation	232,516	26,444	124,192	141,491	5,683	530,326	(580,925)	50,599	(530,326)	-	-
<b>Total Expenses</b>	<b>\$ 3,320,970</b>	<b>\$ 196,064</b>	<b>\$ 2,177,226</b>	<b>\$ 1,433,135</b>	<b>\$ 470,949</b>	<b>\$ 7,598,344</b>	<b>\$ 925,152</b>	<b>\$ 1,303,655</b>	<b>\$ 2,228,807</b>	<b>\$ 9,827,151</b>	<b>\$ 9,348,685</b>