

KENTUCKY RAILWAY MUSEUM

2011 ANNUAL REPORT



KRM ANNUAL REPORT 2011

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INTRODUCTION

2011 was a tumultuous and difficult year for KRM with the last half of the year filled with staff, management and Board scrambling to handle a fiscal crisis brought about by a variety of factors and events largely beyond KRM's control.

Still reeling and trying to recover from the devastating 2010 flood that left KRM without most of the Model Train Center building, the State and Nation were in the midst of a severe economic recession that further reduced visitors and income for the Museum and caused multiple problems within the banking industry. The banking problems resulted in a loss of access to loans and cash for KRM to cover operating costs monthly and when shut down during winter months. The cash situation became worse as all of KRM's available and ready cash had been used to pay contractors to rebuild and repair the railroad after the 2010 flood and those cash expenditures had not been reimbursed by FEMA, and the reimbursement dollars remained tied up with FEMA through 2011 and most are still in limbo now 4 months into 2012.

Many planned repairs, improvements, maintenance activities, restoration and preservation plans and more were put on hold indefinitely. Austerity measures were put in place, schedules for trains were reduced, staff numbers were reduced, assets sold, and more. Revenue enhancement options were discussed and some implemented and others planned. The Board, after having training in 2010 and early 2011, determined that measures would need to be taken to modernize the By Laws and Governance of the Museum. In this arena it was determined that new blood would be needed on the Board to enable the Museum to compete and survive and that fundraising for the Museum had to be a priority going forward in order to sustain and augment normal yearly operations and to retire KRM debt. As 2011 was drawing to a close with a record Christmas train season of 6300 visitors and riders, steps were being implemented to move forward.

This annual report highlights some of the events, activities, plans and issues encountered in 2011. It is not all inclusive and it cannot depict, fully describe and document the hours of commitment and struggle of the past months to keep KRM viable. But a salute and commendation is in order to those few who were in the heat of the conflict and struggle and did not waiver at crucial moments.

Greg Mathews, Executive Director

Where to begin?

When the Museum moved to New Haven in 1990, the Board at the time made some decisions that set well the direction of this Museum. It was their decision at that time that we become an operating railroad. That decision led us to offer excursions and to show off the collection of the Museum in the way it was used on a daily basis. Those same decisions would also determine there would be expenses as we maintained both the equipment and the roadbed. The track repair project of 2007-2008 was an example of the expenses that must be incurred in order to keep this an operating railroad. It would be an expense that could not be avoided, one that would be an absolute necessity. Their vision, for which I am very grateful, was extraordinary, as it gave us a venue to properly showcase L&N #152 and the other heritage equipment, but it also guaranteed that there would be big bills to pay in the future.

The "sword of Damocles" was on the horizon as the year began, and the financial woes created by the remarkably slow reimbursement process by FEMA and the default by a previous governor's office to cover (as promised) cost overruns on the track repair projects of 2007-2008 became the first major problems of the year. Couple that with required equipment and facility repairs, the current economic decline, 9% unemployment, high gasoline prices, less disposable income for many of today's families, and a less than stellar attendance total for *Day Out with Thomas* and you have the recipe for troubled times. With declining numbers of visitors because of the current economic conditions, the railroad contractors needing to be paid for the 2010 flood repairs, cash flow problems because of the huge amount of funds tied up with FEMA, and additional problems with our bank, not that we did anything wrong, and the problems only exacerbate.

Much angst and many sleepless nights brought a deep look into everything the Museum was doing. Some hard decisions were made, needed repairs were postponed, thermostats turned back, and lights turned off to reduce our expenses. Everything that could legitimately be cut back was pared as best we could. Disposition of some equipment, not central to the Museum's collection policy was undertaken. And, taking direction from the U of K School of Business, we decided to repopulate the Board with folks who had the business acumen and experience to help us focus on fundraising and the further development of current and new revenue streams. To enable this, the Board members agreed to resign their position as new leaders were found. Dr. William Huston, the President of St. Catharine College is our first new member and what a great find he is! Working with the Finance Committee, we hammered out a strict budget that will direct our path toward much better solvency. We again worked to bring temporary car storage on as a revenue stream, and it will bring much needed help for the bottom line as well. We are not out of the woods as of yet, but we are in a much better position now than previously.

In seeking to exhibit leadership in my position as a Board member, I asked Mr. Charles Buccola to assume my role as the Chair of the Board at the February meeting. It is time for a new face to bring a new perspective to the leadership of this Museum. I have served you as well as I know how. I have no regrets except that I cannot solve, in today's economic conditions, financial situations that were beyond our control. I am grateful for your trust in me, and I wish all of you the best.

Frank D Bryan

KRM BOARD MEMBERS 2011

Frank Bryan, Chairman
Sales, Hillman Group
Elizabethtown, KY

Bob Matlock
Broker, Stern, Agee & Leach, Inc
Louisville, KY

Greg Mathews, President
Executive Director KRM
Louisville, KY

Don Parrish
Owner, Bardstown Booksellers
Bardstown, KY

Mark Johnson,
Owner, A&K Manufacturing
New Haven, KY

Lloyd Bromwell
Retired
Louisville, KY

Kim Maupin, Board Secretary
KRM Office Manager
New Haven, KY

Jeri Burks
Sales, Don's Lumber Company
New Haven, KY

William Huston
St. Catharine College
Harrodsburg, KY

Karl Lusk, Board Treasurer
Deacon,
New Haven, KY

Carl Crugar
Retired
Louisville, KY

Tim Nelson
Jefferson County Schools
Louisville, KY

Charlie Buccola, Vice President
Retired
Louisville, KY

Tim Sanders
Publishers Printing Co.
Lebanon Junction, KY

Stacia Peyton
Kentucky Government

KRM STAFF

Full Time Staff:

Greg Mathews, Executive Director
Kim Maupin, Office Manager
Lynn Dawson, Marketing and Public Relations
Brooke Routt, Gift Shop Manager
Willy Ward, Maintenance & Track Inspector

Part Time Staff:

Nick Dawson, Clerk
Dallas Dowell
Flannery Musk
Shelby Maupin
Christopher Cecil
K D Pimentel

Plus additional hourly personnel employed and utilized for special events such as Day Out With Thomas, KET Day, Christmas and other holiday trains, etc.

KRM VOLUNTEER ROSTER 2011*

Engineers, Conductors, Brakemen, Train Crews, Car Hosts, Medical Support, Signal Maintenance, Car and Engine Shop, Model train Center, and Special Activities/Event Support, etc.

Diesel Engineers:

(R= regularly scheduled)

Ray Temple R
Joe Bratcher R
Tish Knoeller R
Jim Finley
Karl Lusk
Mark Johnson
Willy Ward
Dennis Mattingly
Lester Pearsall
Lloyd Bromwell
Ted Turner
Ned Browne
Sheryl Reed
Lewis Hicks
Linn Moss
Lee Prince
Mike Holland

Steam Engineers:

Mark Johnson, R
Carl Crugar
Ray Temple
Lewis Hicks
Tim Nelson
Jimmy Zickel

Conductors:

Frank Bryan, Senior Conductor
Lloyd Bromwell, R
Ned Browne
Willy Ward
Greg Mathews
Lester Pearsall
Susan Lance
Karl Lusk
Charlie Slack, R
Jim Finley
Lee Prince

Brakemen:

Willy Ward
Greg Mathews
Rick Kustes
Mike Holland
Charlie Dewitt
Alex Moss
Ernie Reed
Sheryl Reed
Brady Sanker

Engineers in Training: (diesel)

John Southworth Ernie Reed Carl Smith
Mike Holland Rick Kustes Sheryl Reed

Crane Operator: Mark Johnson

Shop/Car Maintenance Crew:

Jeri Burks
Charlie Buccola
Mike Kley
Ernie Reed
Nick Shopa
Dale Bradley
Kevin Bradley
Jimmy Zickel
Charlie DeWitt
Daryl Pullen
Brady Sanker

Signal Maintenance:

Kenton Slayton
Nick Shopa
Jeri Burks

Track Inspectors:

Willy Ward, Chief Inspector
Mark Johnson

Model Train Center:

LeRoy Duncan, Head of MTC
Keenon Coleman
Greg Mathews
Greg Hogan
David Holton

Medical Coverage:

Susan Lance, RN
Marye Dillon Mathews, PSC

Train Shows:

Frank Bryan
Marlene Bryan
LeRoy Duncan
Lynn Dawson
Greg Mathews

Car Hosts:

Frank Hall	Carl Smith	Don Cecil
Christopher Cecil	Gerry Burton	Darlene Guest
Willy Ward	Cathie Slack	Greg Mathews
Don Parrish	Ann Lusk	Vicki Moss
Bob Matlock	Marlene Bryan	Linn Moss

The hosts above are/have been those in regular service, additional volunteers are utilized as car hosts for special events and activities such as day Out With Thomas, KET Day, Special Events, and Christmas/Holiday trains

Family and friends of Kim Maupin, Brooke Routt, Lynn Dawson and other staff also provide invaluable assistance and regularly serve as car hosts, elves, Thomas Characters, Rudolph the Reindeer, KET characters and during Thomas.

KRM VOLUNTEER DEPARTMENT HEADS AND VOLUNTEER POSITIONS

Mark Johnson, Head of Steam Crew, Supervisor of Bridge and Track Maintenance and repair.

Jeri Burks, Head of Shop/Car Maintenance

Frank Bryan and Marlene Bryan, Head of On-Board Personnel

Lee Prince, Diesel Road Foreman, Rules Committee, Supervisory Diesel Engineer

Ray Temple, Tish Knoeller and Willy Ward, Supervisory Diesel Engineers

Tish Knoeller, Curator, Rules Instructor

Anne Lusk, Coordinator of school group train excursions

LeRoy Duncan, Head of Model Train Center

Willy Ward, Chief Track Inspector

Ned Browne, Safety Supervisor

Kenton Slayton, Signals Maintenance

FINANCIAL REPORT 2011 SUMMARY

Assets as of December 31, 2011

Current Assets:

Cash-Restricted, W&M	\$22,857.33
Savings, Town & Country	\$1,671.79
Petty Cash	\$471.56
Prepaid Expenses	\$6,242.83
Inventory	\$23,570.55

TOTAL OF CURRENT ASSETS: \$94,142.12

Property, Plant & Equipment*	\$746,756.41
Plant, Property & Equipment: Museum Building(s)	\$255,687.28
Accumulated Depreciation	(\$81,468.94)

TOTAL PROPERTY, LAND & EQUIPMENT \$920,974.75

TOTAL ASSETS	\$1,015,116.87
TOTAL INCOME	\$832,583.42
TOTAL EXPENSES:	\$881,351.87
PROFIT/LOSS:	(\$48,768.45)

*Total of assets does not include value of rolling stock, artifacts, collections, tools and machinery, etc.

KRM FUNDS / REIMBURSEMENTS WITH FEMA FROM 2010 FLOOD:

Project Work reimbursements due KRM:	Approximately	\$90,000+
Relief tubes at Beam amount due KRM:	Approximately	\$38,000+
Repairs to Bridge 6 amount due to KRM:	Approximately	\$59,525+
Reductions of FEMA being appealed:	Approximately	\$133,000+
Permanent Mitigation of Model Train Cntr:	Approximately	\$571,000+

2011 KRM YEAR IN REVIEW

2011 was a year of highs and lows, and above all major challenges for KRM, as the financial impacts from the 2010's disaster, a depressed economy, repairs to equipment, loss of Model Train Center and the financial problems of the banking system and problems with a local bank impacted KRM. The last half of 2011 found KRM Board and management scrambling to pay bills, re-negotiate debt, reduce expenses and staff, seeking new sources of income, scrapping and selling equipment to raise funds, beginning processes to streamline and modernize By-laws and practices, and seeking new Board members with the requisite skills, abilities and contacts that will enable KRM to go forward, do fundraising, and keep the Museum relevant and competitive in coming years.

KRM's annual budget was thrown off track in its projections and plans by the 2010 flood losses and the subsequent and continued long delays in receiving payments and reimbursement from FEMA, which remain slow and will extend well into 2012 and probably into 2013. Also affecting the budget projections were the depressed economy, increased fuel costs, drops in income as fewer visitors came to the Day Out With Thomas event and purchased less in the store, and the inability to have cash on hand or to obtain additional credit from traditional banking sources. As KRM tightened its belt, shed assets to raise cash, and reduced expenses, the year ended on a very positive note as a record number of 6300 visitors rode the Christmas trains and visited the Museum.

The KRM Board of Directors amid the financial concerns and constraints began implementing some of the recommendations of the professional Board trainer and consultant who provided training in 2010. The Board members agreed to give up their individual seats as soon as new Board members with skills in the areas of fundraising, financial management, and with the ability and contacts in circles outside KRM could be found and recruited. Additional plans and goals in process in 2011 included, but were not limited to: rewrite and updating of the By-Laws and Articles of Incorporation, new operating procedures for KRM; development and utilization of an annual budget; development of a policy and prioritization of retention, preservation, restoration and reduction of KRM assets; development of a master plan for KRM property and services; plans to upgrade KRM displays and increase offerings to visitors; and the seeking and development of new sources of

revenue and with the expansion of special events and activities which have been successful and productive.

During 2011 despite the difficulties KRM continued to augment, refine, tweak and enhance our special events and activities to keep them fresh and appealing to visitors. Included in efforts to enhance the offerings for the public were continuation of costumed figures such as Rudolph at Christmas, costumes for servers and car hosts at Christmas, costumed figures at KET and Thomas events, enhancing the Murder Mystery and a new food service operation for dinner trips, Train Robberies, and other special train events. We continued the Boy and Girl Scout days, dinner trains, continued events such as the Shamrock Express, held the first Hit and Miss Engine event, had performances and music by volunteers, made repairs to equipment to insure the comfort of visitors, and took the 40 and 8 car to Louisville along with some key staff for a gala parade to celebrate the military and US history on November 11, 2011.

Speaking of tweaking, KRM continued its efforts with the social network communications area with enhancements to our web page, twitter, face book page and tweaking contacts and well as with Groupon promotions, on-line ticket sales additions and more during 2011 to stay current with world wide communication, marketing trends and advancements.

The decision made in 2009 and continued in 2010, to not run train excursions every day during the regular operating season after Memorial Day was continued during 2011 and we found that remains a positive decision as expenses were decreased and little to no impact was found on visitors and train riders. We ran trains on Tuesdays and Thursdays and on weekends. Not running trains on Mondays, Wednesdays and Fridays, except when we had a school or adult charter group saves wear and tear on equipment, saves on fuel costs, and limited use of paid staff time if volunteers were not available. Further adjustments to train excursions, hours of operation, management and conducting of events will definitely occur in 2012 to maximize income and hold down expenses.

The expected TEA/T-21 funds for Phase I, the field drainage, fill work, and turntable installation on the property across First Street and to the right of the present shop building, was approved and was expected in 2009 but did not get approved until spring of 2010. Work on the field and turn table installation began in 2011. The "Installation of an Historic 1911 Turn Table

and related site work” started in 2011 but as financial concerns arose that affected KRM as well as the funding stream from State Government, and long delays occurred with reimbursement process from FEMA which had over \$250,000 of KRM funds in limbo, the Project was put on hold from late spring through the remainder of 2011, as permission to proceed from the State was held up. It is expected that the Project will be restarted in spring of 2012 based on conversations with the State.

An amended 2009 TEA/T-21 grant request was submitted in early 2010 and approved by the State and Federal Highway Administration. That Project is requesting funds to re-deck bridge 3 and complete track work that has been on hold since the last of the State dollars for track rebuild were expended in mid 2008. As 2011 closed out we were still awaiting the approval of that project that was being held up and delayed by a reduction in federal highway funds coming to Kentucky and all other states. It is believed the release of new federal and State dollars in 2012 will occur and that Project can be ramped back up.

KRM did receive funds from the State budgeted Shortline Assistance Grant program to do track work, repair two road crossings and do other switch and track repairs in the yard areas, and as 2011 closed out initial work on that Project was underway with the bulk of the work scheduled to occur in the late winter and early spring of 2012.

KRM continued to have and seek revenue from storage of empty railcars and during 2011 there was some limited income from this activity but as 2011 ended indications were that this activity would pick up in early 2012 and provide a much needed uptick in income.

KRM was plagued again in 2011 with metal thieves who pulled up spikes, tie plates, rail anchors and other items from live track on at least three occasions, continued to break into railcars used for storage and occasionally broke windows in coaches. On two separate occasions thieves were caught either in process of stealing items or caught trying to sell stolen items. Unfortunately the thieves have little assets so recovery of our losses to repair and replace damaged items is usually minimal if at all. As 2011 closed two criminal cases were active in the Nelson County Court system.

KRM Board identified equipment, materials, and other items that were deemed to be no longer needed to meet the core Mission of KRM which

includes the collection policy of concentrating on railroads and their equipment which operated in Kentucky. Equipment identified for sale or scrapping included old engines and rolling stock and miscellaneous other items that had been collected over the years that were no longer needed, beyond practical use or economical repair in the near term. The sale of identified items began in the fall of 2011 and continued through the end of 2011 and provided much needed revenue at a critical time to pay bills and keep the operations going at the Museum. This process will continue into 2012 as additional funds are still needed to pay debts and maintain operations until other revenue streams resume or begin in 2012. Some equipment such as the NC&StL boxcar were offered to historical groups or individuals for preservation rather than have them scrapped or face serious deterioration exposed to the elements.

Repairs to engines and coaches during 2011 were the minimal amount necessary to keep things functional and able to meet scheduled excursions and special events. Preliminary data was gathered for estimates to restore the Southern and Monon cabooses to support requests for grants if and when available. Also lists were compiled of repairs, parts and improvements needed and desired on regularly used equipment if sufficient funds could be found. Some of these items included window glass gaskets on several coaches, seat re-covering and repairs, floor repairs or new carpet or tile, exterior repair and painting, etc.

152 was taken out of service in the fall of 2011 with leaking super heater tubes and will now be out of service until its FRA mandated and required 15 year teardown and rebuild can be completed. Finding the funds in these tight economic and troubled times, including KRM's current fiscal situation will be challenging but the Board is committed to getting the engine as the "Official Steam Engine of the Commonwealth" back in service as soon as possible. Corporate sponsorship or financial assistance, donations and possible Transportation Enhancement funds (TEA/T-21) may be sought if those funds become available to finance the rebuild of 152.

The Santa Fe had mostly maintenance issues attended to and required little in way of heavy repairs. MONON BL 2 was back in service until an oil leak occurred and after it gradually became worse the engine was taken out of service. Both KRM engines (nee former Air Force engines) had normal repairs as well as some heavy repairs to replace worn and no longer fully functioning springs on the trucks. Continual maintenance and upgrades

occurred to 1616 the combination Power Car and Coach to keep it functional and repairs to other coaches were primarily done to keep electrical systems up to par and HVAC systems working as needed. Future work to replace power assemblies in the Santa Fe and correct the oil leak in the BL2 will be scheduled as finances allow. Additional work on engine #21 the GE Center Cab in B&O paint that we now have running as replacement for engine #77 will also have to wait until funds are available.

The same is true for coaches where replacement of window gaskets and seals on two cars, reupholstering seats in one car, HVAC work and electrical work on a couple of cars and major repairs to the two 1920s heavyweight former L&N open window cars, will also await better financial conditions or the possible receiving of a grant that will provide funds.

Also on hold until finances or conditions allow is work on the second power car, work on 1603 the Combine car, work on the Kentucky and work on the two cars in Florida, the Kentucky Club and the Cape Tormentine.

As in prior years rules classes, engineer and brakeman training occurred with some new volunteers being certified as engineers and brakemen as well as some new faces volunteering to be car hosts and a few who are now working in the shop on 152, coaches etc. In addition to the regular training and rules classes, a rewrite of the current rules book occurred and that was put in place during 2011.

TRACK AND BRIDGES

Bridge 3 will need to be re-decked in 2012. It is hoped that the 2009 T grant will be approved and activated during mid 2012. A Bridge Inspection and Maintenance / Management Plan required of all Railroads by September 2012 was approved by KRM Board after submittal by the Director. The plan and FRA regulations require that an experienced and licensed PE Bridge Inspector does the plan activities that include the baseline structure inspections and detailed reports on the individual bridges for 2012.

KRM received a Shortline Assistance Grant from the State in 2011 and as 2011 was winding down preliminary work on that grant was begun with volunteers collecting and placing in New Haven and to selected track sites where work will occur, old ties still suitable for relay use from the mainline areas where track work has occurred in the past few years. The Shortline Grant using State Budget dollars will involve replacement of 3700 ties, 30 switch ties, repairs and improvements to two road crossings, (Holton Valley and Lyons Station), repairs to some switches in yard areas and some ballast work. With the completion of repairs and re-doing main highway crossings at Boston, Nelsonville, Howell's Crossing and Main Street in New Haven with the State and Insurance dollars as well as KRM funds in 2010 and 2011, and the Shortline Grant work to occur in 2012 on two other crossings, nearly all road crossings have been repaired and or will be repaired or upgraded by end of 2012.

MUSEUM INTERIOR AND GROUNDS MODEL TRAIN CENTER MUSEUM DISPLAYS AND ARTIFACTS

The main museum building, as with all KRM facilities, is in a state of flux and transition as a result of the 2010 flood and loss of the Model Train Building that was structurally damaged and will need to be torn down at a future date, when hopefully FEMA permanent mitigation funds will be awarded for that project. In the interim many items previously stored and exhibited in the Model Train Center, or in the Curator's Office have been moved into storage and other items are on loan to another small museum group in LaGrange, and still others remain in the Model Train Center until suitable locations can be obtained for them.

The Main Museum Building display hall has been rearranged to accommodate a variety of functions with some displays condensed, large pictures moved or stored and space made to display three running model and toy trains that are on loan to the Museum from a benefactor and supporter.

The loss of the Model Train Center building has resulted in many issues that remain to be resolved and will get more complicated at the point that KRM hears from FEMA on the permanent mitigation decision for the building that will result in its being torn down and the site cleared. At that point we lose space and functions that are crucial to KRM and include but are not limited to: majority of the public bathrooms; gardener's room and equipment storage; office and storage space of Curator, Track Inspector, Train Crew Office, Shop Personnel, artifacts and trains, and two large storage rooms etc. Planning for this event and for a possible replacement building space will be a major issue for Board and staff.

Application for potential shop and building space with Tiger IV Federal Stimulus funds will occur in early 2012 and should that application be accepted and funded, the planning of and then construction of a new shop and mixed use building could commence as soon as early winter 2012.

CURATOR'S REPORT

Most of our work for 2011 consisted of sorting and moving the library and artifacts to a safe and secure location. Due to 2 devastating floods, we have lost several significant documents, so preparations have been made to store these items out of the flood plain. Books, magazines, and papers have been boxed in preparation of going into storage.

We recently have acquired several blueprints of steam locomotives and parts as well as photographs. We now have a section of wrought iron strap rail possibly from the Lexington & Ohio- which will be placed on display. This may be our oldest artifact as this type of rail may have been installed in the early 1830's. Other artifacts will be retrieved from storage and placed on display in the near future. They also will be cataloged and accessioned as the original records were a casualty of the flood waters.

Since I no longer have an office, I have been reading the L&N employees magazine as well as popular rail related magazine, journals, books-some which were printed in the early 1900's-and enumerating subjects relating to any railroads that served Kentucky. Much of what has been found is not on line at this time. We are also attempting to compile a collection of copies of photographs of railroad subjects. We are also trying to locate, copy and/or laminate old news clippings-as well as current one-concerning the KRM

Tish Knoeller

MEMBER DATA AND VOLUNTEERS

Volunteers are the backbone of the Museum and we welcome those who have joined us and wish those well that had to leave our Museum family.

KRM at the close of 2011 had 197 paid members,

2011 saw the departure of some dear friends and supporters who passed and others who suffered medical crisis or injuries. They were:

JIM FINLEY

JOHN RANKIN

MARKETING AND PUBLIC RELATIONS

Marketing and public relations continues to be a vital part of the success of KRM.

In the off season KRM worked with the Web Guys to revamp the website. New enhancements were added and more user friendly software was installed so that much of the editing could be done in-house. Having the ability to maintain your own site saves not only on time but money as well.

The year 2011 was our first full year with on line ticketing. Kentucky Railway Museum partnering with Whistle Tix was the best business decision we made. Our customers are pleased, the marketing tools it provides, and the website integration make it a perfect fit for KRM. In 2012 we hope to move 100% of our pre-sales through on-line ticketing.

Internet Marketing or Social Media Marketing continue to be a low cost initiative for KRM to reach large numbers of users and gain brand recognition. With the recent upgrades to Whistle Tix and our website all events are posted automatically to our fan page.

Deal of the Day websites such as Groupon and Living Social also provided marketing opportunities for KRM. These on-line sites help us increase our business by introducing new customers to KRM.

Train Shows and Marketing shows continued to be an essential part of the marketing plan in 2011. We attended more than 15 train and marketing shows in the state. These shows enabled KRM to market ourselves as a family destination right in your own back yard. With the continued depressed economy and high fuel prices families are staying closer to home.

With the increasing cost of print media advertising we will continue to reach out to our tourism partners for co-op opportunities. Our local co-op partners include Bardstown-Nelson County Tourism and the Stephen Foster Story. The state of Kentucky continued in 2011 with its Marketing Incentive Program of which KRM participates and receives grant funding. The program offers reimbursement for projects that meet state guidelines and are in direct support of promotion and marketing.

KRM has many challenges ahead of us, with the efforts of our staff, dedicated membership and volunteers we will face those challenges and together make them our center of attention in 2012.

SPECIAL EVENTS

Special Events continue to be the largest revenue source at KRM.

The first specialty train excursion of the season was The Shamrock Express. This popular train ride takes place around St. Patrick's Day and is popular with those who are Irish and those who are not.

Our Day Out With Thomas event remains the largest attended event with over 10,000 people attending in 2011.

Family pizza trains were a new addition in 2011, with many visitors riding in the dining car while enjoying a family favorite Pizza!

The first annual Hit and Miss Engine Show came to KRM in October, due to the popularity of the event many participants will return in October of 2012 for the second annual Hit and Miss Engine Show.

Oldies but goodies include Dinner Trains, Mystery Trains, and Train Robberies. These specialty trains are very popular and frequently sell out.

Other specialty trains in 2011 were Easter Excursions, Halloween Train rides, Boy Scout and Girl Scout Days, Spring Break trains and much more.

Our Christmas season was one for the record books. Over 6,000 people walked through KRM's doors during the month of December. Our visitors were treated to cookies, hot chocolate, holiday music, Rudolph and Santa. This event draws families from all over the state; many of these families are repeat visitors.

In 2012 Specialty trains will be vital to the success of KRM. A new event will be added to the calendar, 40's weekend will take place April 28-29. This event will consist of 40's costumes, military equipment, swing dancers and 40's live music.

We encourage our members and volunteers to continue their dedicated service to this organization. Without the volunteer hours many of these special events would not be possible.

FUNDRAISING

During 2011, there was no organized fundraising except for the annual dinner auction. The Board of Directors received training in 2010 and 2011 through the University of Kentucky's Non-Profit Initiative. As part of the training, Board Members learned one duty of a non profit board is to do fundraising for the organization. As a result of that training, the Board realized that the skills, abilities, and contacts needed to do fundraising were not present on the Board and they agreed to give up their seats on the Board if new Board Members with the needed abilities and contacts could be found and brought onto the Board. The process to locate and recruit new Board Members has begun and as 2011 drew to a close, the first new Board Members with the needed talent was added to the Board. An active search will continue in 2012 for more replacement Board Members as well as developing and putting into place a definitive fundraising plan and fundraising goals annually.

MUSEUM INTERIORS AND GROUNDS, ARTIFACTS AND MODEL TRAIN CENTER

The flood of 2010 which caused much damage to the Model Train Center building is still an unresolved issue for KRM going into 2012. A formal 404 permanent mitigation request application was completed and sent to FEMA in November of 2011 that would result in a financial buyout and compensation for the damaged structure and some of the contents from FEMA in an approximate amount of \$571,000. If the application is accepted and approved KRM would receive the funds requested and out of those funds would tear down the existing structurally damaged and mostly unusable building, level the ground, and give title to the property to the City of New Haven for use as an open space or allow construction of a building that is a flood proofed structure or something elevated above the 100 year flood level depth of approximately 5' at that location. KRM would use the remaining funds to construct another facility elsewhere on KRM owned property at or above the 100 year flood level depth.

With the loss of the Model Train Center building and the very popular model train exhibits and working train layouts, KRM worked out an agreement with a professional modeler from Louisville to have on loan three (3) operating Model and Toy train layouts and they were placed in the main Museum Station display hall during November. Other displays in the display hall were consolidated or put in storage to allow the model trains to be placed in the room and they were a big draw during the Christmas train season and continue to be so as we move into 2012.

Changes to the displays and display hall are under discussion by KRM staff and Board and decisions of what will be in that area are under discussion. KRM really needs one or two additional buildings and storage space in the coming 18 months to two years.

Grounds and building area maintenance are now totally in the hands of volunteers as outside labor is now very limited or non-existent. Flowers, plantings, grass cutting and other similar activities are being handled where possible by volunteers. Weed control and tree or foliage control out on the tracks is also dependant upon volunteers as scarce dollars and reduced income during 2011 will continue into 2012 and limit the use of outside contractors to handle those functions of spraying and clearing unwanted growth that blocks visitor views and poses clearance problems for engines and cars traversing the tracks. Nonetheless, great strides were made in cleaning up the Museum property in New Haven. Ties and other materials were removed from the field to the east of the shop building and general cleanup in the shop and yard areas was completed and additional work begun on removal of unneeded items from the field / lot where the turntable will be installed with the re-start of the 2008 T Project.

2012 should see resumption of the 2008 T project the Turntable installation in the field across First Street that was suspended due to funding issues at Federal levels with Transportation funds. Drainage work, fill work, track work, and turn table installation work should resume in the summer of 2012. This work will undoubtedly result in some adjustments to visitor access, movement and may impeded normal flow at events such as Thomas so as the work progresses we may call upon volunteers for additional assistance with grounds and maintenance activities and work.

MAJOR PROJECTS COMPLETED IN 2011, NEW PLANS AND PROJECTS FOR 2012, AND 2011 PROJECTS THAT WILL CONTINUE INTO 2012

Many projects were completed in 2011, and some will be continuing into 2012 and beyond. Projects completed:

- Keeping #152 in service
- Repairs to engines to keep them in service (2546, 4010, 4044, 21, 77)
- Increasing seating capacity on trains and for special events
- Getting diner Alta Lake back on line with new HVAC
- Enhance and add additional special events and activities
- Increase visitors and riders over 2010 numbers
- Development and put in place a Budget for KRM
- Complete repairs to railroad from the 2010 flood.
- Development and put in place a staff personnel manual.
- Complete scheduled repair and rebuilds of 4 road crossings
- Display of the 40 & 8 car at Veterans Day Parade in Louisville

PLANS AND PROJECTS FOR 2012

- Re-start 2008 TEA Project, Phase I, Turn Table Installation
- Start 2009 TEA Project, Re-decking Bridge 3 and track work
- Begin the Shortline Railroad Assistance Grant work
- Receive FEMA reimbursement and damaged funds owed to KRM and begin planning for replacement of the Model Train Center Building that is structurally damaged
- Get two rail road crossings repaired and or replaced
- Get Kentucky Club to KRM from Florida Railway Museum and the Cape Tormentine if not sold prior to move of Club
- Get new electrical components for 884 HVAC
- Get MONON BL2 repaired and on line
- Continue successful special events and improve them
- Increase visitor and ridership over 2011 levels
- Restructure KRM Board and acquire new Board members with needed skills and abilities
- Adopt a new annual budget
- Re-work and refine KRM By-Laws for present day needs in order to remain current and competitive
- Adjust budget as needed and work to reduce debt and expenses
- Continue car storage and increase that income stream
- Explore new revenue streams and start a fundraising plan
- Seek funding for the 152 overhaul
- Increase publicity and enhance image of Museum
- Continue working to maintain positive feedback from visitors
- Continue to develop positive relationships and support of elected officials

PROJECTS CONTINUED INTO 2012 FROM 2011

- Work to finalize and close out all FEMA claims and receive reimbursement dollars due to KRM
- Resolve with FEMA a decision on the application for acquisition of the structurally damaged Model Train Center Building and plan for a new building
- When 2009 TEA funds are released re-deck bridge 3 and do scheduled track work
- Complete track, crossing, and switch work under the Shortline Assistance Grant program of the State
- Continue the 2008 T Project, installation of the turntable and related track and drainage work, and as part of the 2008 Project complete a master plan for the property and future structures
- Bring the Kentucky Club and the Cape Tormentine to KRM from Florida Railroad Museum, do some repair and rehab to the cars as finances allow in order to put them in service
- Repair or replace as needed per available funds HVAC components and controls in coach 884
- Continue successful events, improve on them and add where appropriate and indicated new events
- Schedule Shamrock Express train in 2012
- Continue railcar storage and its revenue stream
- Spray herbicide and brush control along mainline and cut back growth where it interferes with equipment
- Begin looking for funding possibilities for the 152 rebuild and 15 year inspection and certification
- Increase visitors numbers over 2011 levels
- Tweak KRM Budget and seek savings
- Explore additional fundraising sources/possibilities
- Publicize for, advertise for, and seek new volunteers
- Re-structure KRM Board in order to become competitive and successful and capable in accessing and acquiring funds, and revise By-Laws to facilitate and enable the Board re-structuring
- Comply with the loan repayment and fiscal management plan submitted to the Bank and reduce the debt
- Repair roof of 40 & 8 car if funds or donor can be found

ISSUES AND CONCERNS

KRM had Board training with issues targeting and planning in 2010 and it became obvious that in order for KRM to survive, and meet its mission and to compete with other non-profits of all types, not just railroad museums, that it would have to change its structure, methods of operation, and approach in order to survive and move forward. With this knowledge and commitment the Board will continue to move forward with recommended structure changes to By-Laws and the Board during 2012.

The national economy, national debt and financial situations in the banking and investment industries mean there will be less funding possibilities available from Governmental sources, which has been a primary source of needed funds for the past 10 years at KRM. This decrease or decline in potential funding sources and amounts will mean that there will have to be a more determined and planned fundraising strategy as we move forward and careful planning to optimize the use of whatever government funds can be obtained.

The Projects currently funded with TEA funds and Shortline Assistance Grant dollars, as well as some possible new project dollars in early 2012, should provide for completion or correction of most of the critical rail, bridge and crossing issues for the near future and decrease the amount needed in the operations budget.

The large expenditures of the past two years on both locomotives and coach maintenance and repair have gone a long way toward getting KRM's excursion equipment in good operational condition. But, without having an adequate and larger shop facility we will continue to just keep pace with repair and maintenance needs at best, and restoration of key historic pieces will unfortunately be a low priority without sufficient and adequate shop space, and sufficient funds. The priority will have to be on keeping revenue producing equipment running and acceptable to the paying public.

Though we gained some valuable and committed new volunteers during 2011 we still, as most non-profits and civic organizations, are suffering from an aging membership and lack of sufficient number of volunteers, especially at key special events and activities which bring in the bulk of the annual income. Efforts must continue to bring in new members and volunteers and make additional opportunities available where possible for current volunteers to be able to assist the museum in growing and improving per its Mission.

It is imperative that KRM restructure its By-Laws and operating practices so that it can successfully transition from a purely membership based organization to a hybrid where there are still some membership elected Board positions but where the majority of the Board seats are filled by a self replicating Board process that will enable the organization and the Board to bring in new Board members with needed skill sets, talent, abilities and contacts outside KRM which will be beneficial to its future growth and success.

EQUIPMENT INVENTORY AND LOCATIONS

The roster is currently under review and information is subject to change.

Within Type of Equipment

Item	Type	Type 2	Bit	Heritage	Disposition	Location	Remarks
L&N 41212	Special	Pile Driver	1913			Gethsemane	
L&N 40010	Special	Wrk Crane	75T	1952 L&N	To be Restored	NH yard	
USAX C-1705	[P]	Crane	40T	1953 USArmy	In Service	NH yard	
L&N 43487	Special	Camp Car		L&N		Gethsemane	
N&W 901	Special	Power car		N&W	For rebld	NH yard	
USAX C-1712	Special	Crane	25T	USArmy		NH yard	
Hoist Car	Special	Track Maint				NH yard	
Sou 4065	Special	Shop car		Southern	Steam shop	NH yard	
Plasser Tamper	Special	MoW Tamper				NH yard	
L&N 363 (KENTUCKY)	Psgr	Office		1922 L&N	In Service	NH yard	
L&N 1603	Psgr	Combine		1923 L&N	To Be Repaired	NH yard	
KRM Mt Broderick	[P]	Sleeper/Obs		1926		NH yard	
KRM 2554	Psgr	Coach HVY		1930	In Service	NH yard	
KRM 2572	Psgr	Coach Hvy			In Service	NH yard	
L&N 665	[P]	Combine wood		1913 L&N		NH yard	
L&N 2727 Postlewaits Trm	Psgr	Diner		1926 L&N	To be Restored	NH yard	
SRR 845	Psgr	Coach LtWt		1950 SOU	In Service	NH yard	
NC&StL Seabreeze	[P]	Parlor Obs		NC&StL/ L&N		Gethsemane	
C&O 1616	Psgr	Coach/ POWER		1950 C&O	In Service	NH yard	
L&N 3401 Pearl River	Psgr	Sleeper		1948 L&N	NH yard	Board authorized sale in 1997	
L&N 3654/1474? -- ACF	Psgr	Baggage		1928 L&N		Gethsemane	
L&N 1465 -- P.S.C.	Psgr	Baggage		1926 L&N		Gethsemane	
MKT 884	Psgr	Coach Hvy		MKT	In Service	NH yard	
Monon 1942	Psgr	RPO		1950 Monon		NH yard	
KRM 1105	Psgr	Coach LtWt		Metro	In Service	NH yard	
RPCX 1350 ALTA LAKE	Psgr	Diner		1949 CN / BCR	In Service	NH yard	
L&N 1476 -- P.S.C.	Psgr	Baggage		1929 L&N		Gethsemane Atomic, retain (Atomic Energy Com)	
L&N 1488 -- P.S.C.	Psgr	Baggage		1930 L&N		Gethsemane	

0000001

000000In Process

		Within Type of Equipment			
L&N 40494	Fight	Flat / Water MoW	L&N	NH yard D2	
L&N 41103	Fight	Box	L&N	Gethsemene	
L&N ###	Fight	Flat	L&N	Gethsemene	
L&N 24379	Fight	Flat	L&N	Pocket track	
L&N 40417	Fight	Flat	L&N	Ball Park	
L&N 21381	Fight	Flat	L&N	Gethsem; Idler for pile driver	
L&N 40875	Fight	Box	L&N	Gethsemene	
GATX 71356	Fight	Tank	GATX	Gethsemene ???	
LGEX 13	Fight	Hopper		Gethsemene	
L&N 298479 ???	Fight	Flat		Unknown May not exist	
L&N 41064	Fight	Box	L&N	Gethsemene	
ACL ###	Fight	Flat	???	Unknown May not exist	
DOD sn 38063 (NO rpt marks)	Fight	Flat HD	DOD	Reprt Marks painted out	
UTRX 37062	Fight	Reefer	Milw	NH yard	
REX 6312	Fight	Reefer Exp		Gethsemene	
SRLX 25003	Fight	Reefer	Swift	Gethsemene	
C&EI 4201	Fight	Box	C&EI	Gethsemene	
WM 26631	Fight	Box	WM	Gethsemene	
REX 6194	Fight	Reefer		NH yard	
DODX-38442-----	Fight	Flat Heavy Duty	DOD	NH yard to HUB for scrap	
SCL 163291	Fight	Hopper		Gethsemene	
UTRX 37462	Fight	Reefer	Milw	Gethsemene	
DODX-38427-----	Fight	Flat		Gethsem; to HUB for scrap	
DODX 38178	Fight	Flat		Gethsemene	
DODX 38317	Fight	Flat		Gethsemene	
DODX-38451-----	Fight	Flat		NH to HUB for scrap	
DODX 38461	Fight	Flat		Gethsemene	
DODX 38479	Fight	Flat		Gethsemene	
DODX 38506	Fight	Flat		Gethsemene	

0000003

000000In Process

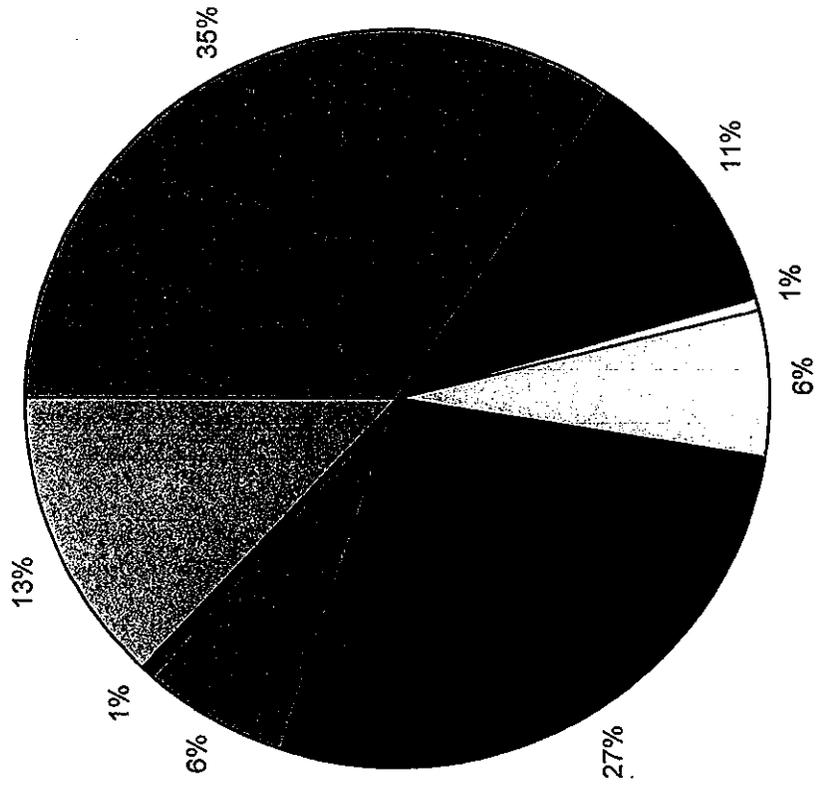
000000Ranking of Rolling Stock

		Within Type of Equipment			
L&N 1486 -- P.S.C	[P]	Psg	Baggage	1930 L&N	Gethsemene
Monon Kitchen Car		Psg	Kitchen	Monon	Gethsemi to HUB for scrap
C&O 911264		Psg	RPO	C&O	Gethsemi Do not scrap
C&O-940201		Psg	Coach MoW	C&O	Gethsemi to HUB for scrap
G&O-940251 (Ex-B&O Pullman)		Psg	Coach MoW	C&O	Gethsemi to HUB for scrap
KRM 1153		Psg	Coach LTWt	Metro	NH yard
Commissary Car ???		Psg	Kitchen	USArmy	NH yard to HUB for scrap
KRM-1942		Psg	RPO		Gethsemi Duplicate of Monon 1942 above
KRM-2112-MRS-1		Loco	Diesel	1953	Stored/ Other owner Owner removed Mar 2012
U30B(L&N 2504)		Loco	Diesel	L&N	Stored/ Other owner Ed Bower owned
L&N 152	[P]	Loco	Steam	1905 L&N	NH yard
Monon 32 BL2	[P]	Loco	Diesel	Monon	Serviceable
L&N E-6A 770	[P]	Loco	Diesel	1942 L&N	Display
C&O 2716	[P]	Loco	Steam	1943 C&O	Display
L&N 2152 (285)	[P]	Loco	Steam	L&N	Display
L&N 1984 T	[P]	Loco	Tender	1948 L&N	Display
L&N 152T	[P]	Loco	Tender	1905 L&N	Display
ATSF CF7 2546		Loco	Diesel	1949 ATSF	Gethsemene
LoCem 11 0-4-0	[P]	Loco	Steam	Lou Cement	NH yard
B&O 21 GE 44T		Loco	Diesel	Unknn	Gethsemene
KRM 4010		Loco	Diesel	USAF	NH yard
KRM 4044		Loco	Diesel	USAF	NH yard
KRM-77		Loco	Diesel	USAF	NH yard
KRM-76		Loco	Diesel	USN	NH yard sold to HUB
USAX-7374 S-1		Loco	Diesel	1941 USAF	NH yard sold to HUB
USA-1846-FM222-		Loco	Diesel	1953 USArmy	NH yard sold to HUB
Porter 0-6-0		Loco	Steam	1943 ???	NH yard sold to HUB
L&N 41102		Frght	Box	L&N	Gethsemene
L&N ####		Frght	Flat Heavy Duty	L&N	Gethsemi Owned by L.Hicks & Ed Hawkins
					NH yard ????

0000002

CHARTS AND GRAPHS

KRM Members Location # of Members Residing
Total Members: 284
As of April 11, 2012

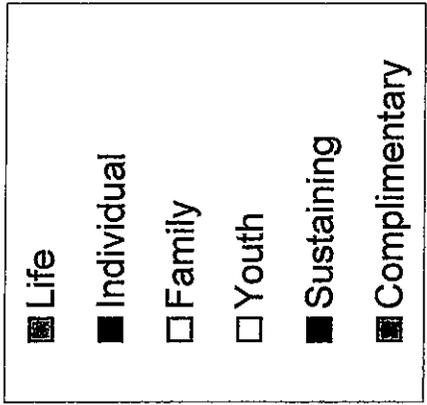
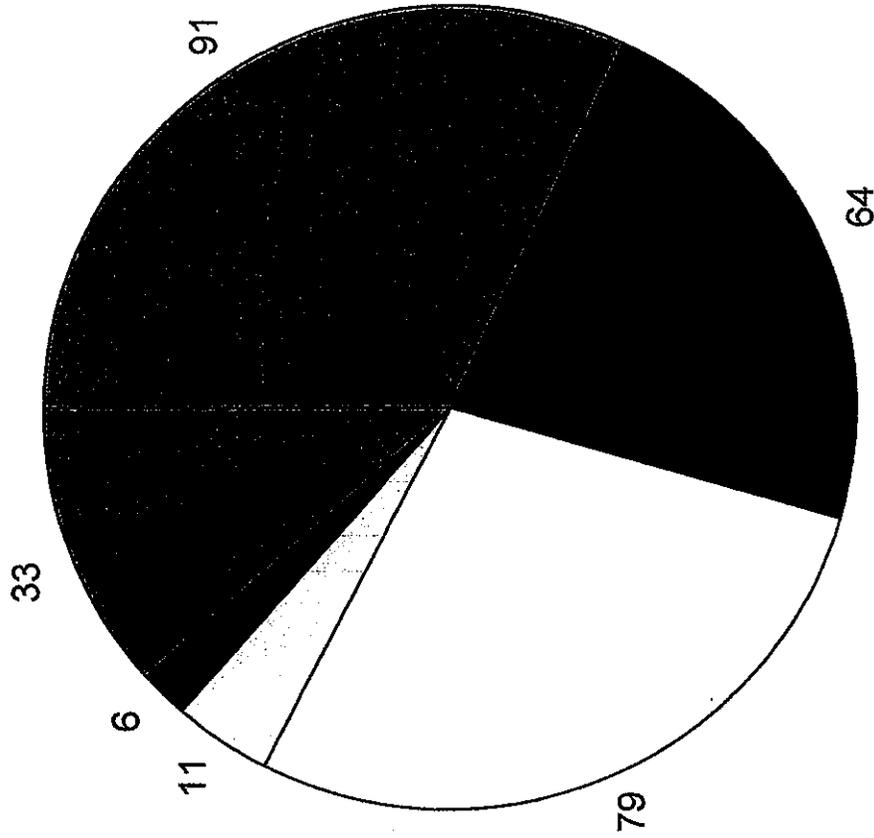


- Louisville Area
- Lexington Area
- Northern KY
- Western KY
- Central KY (New Haven)
- Southern IN
- Other Locations in KY
- Out of State (excludes south IN)

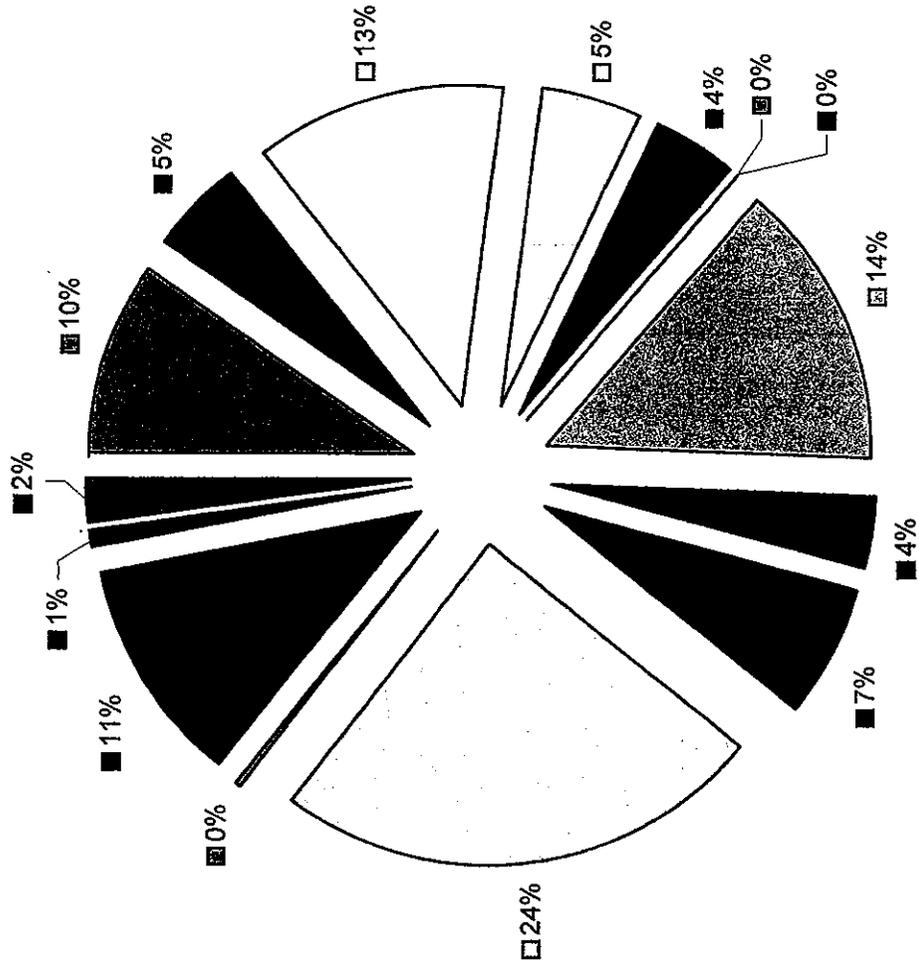
Membership Categories with Current # of Members

Total Members: 284

As of April 11, 2012

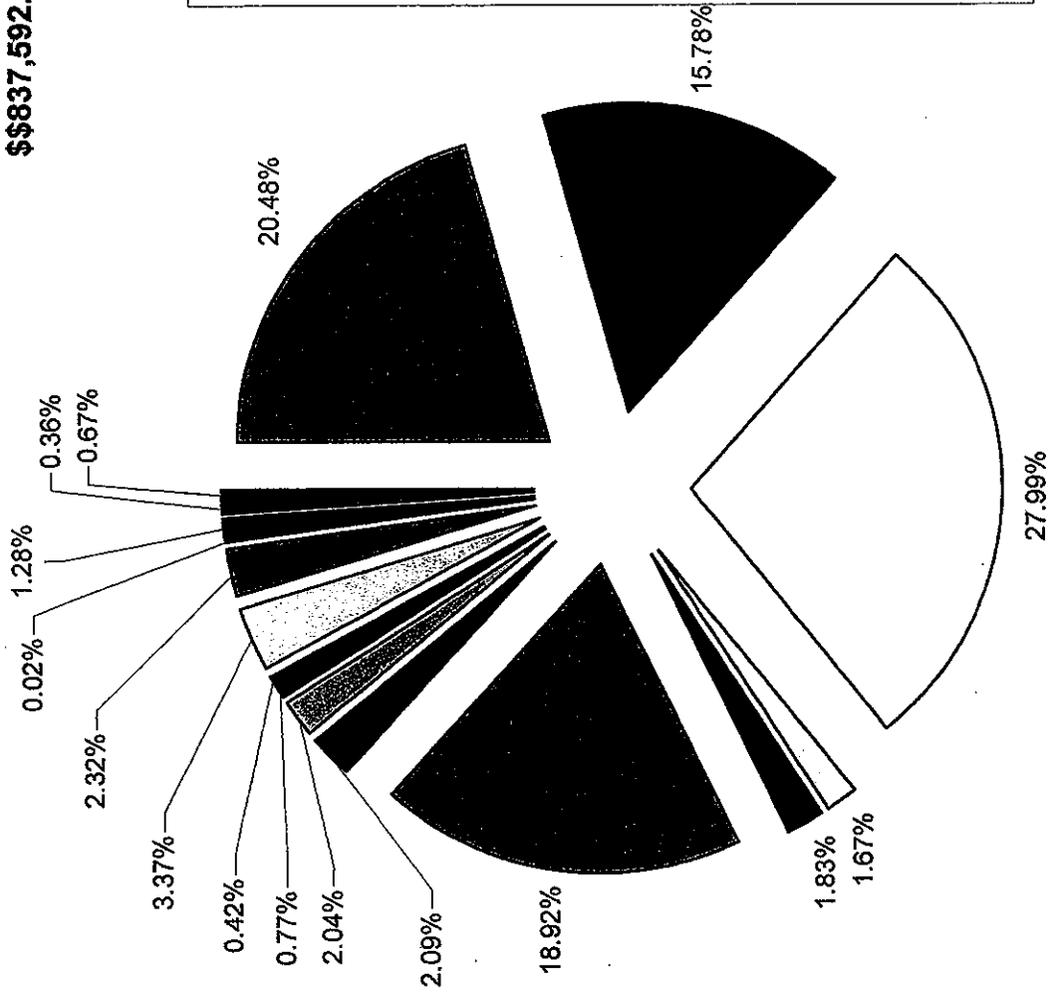


Total Expenses 2011
\$881,351.87



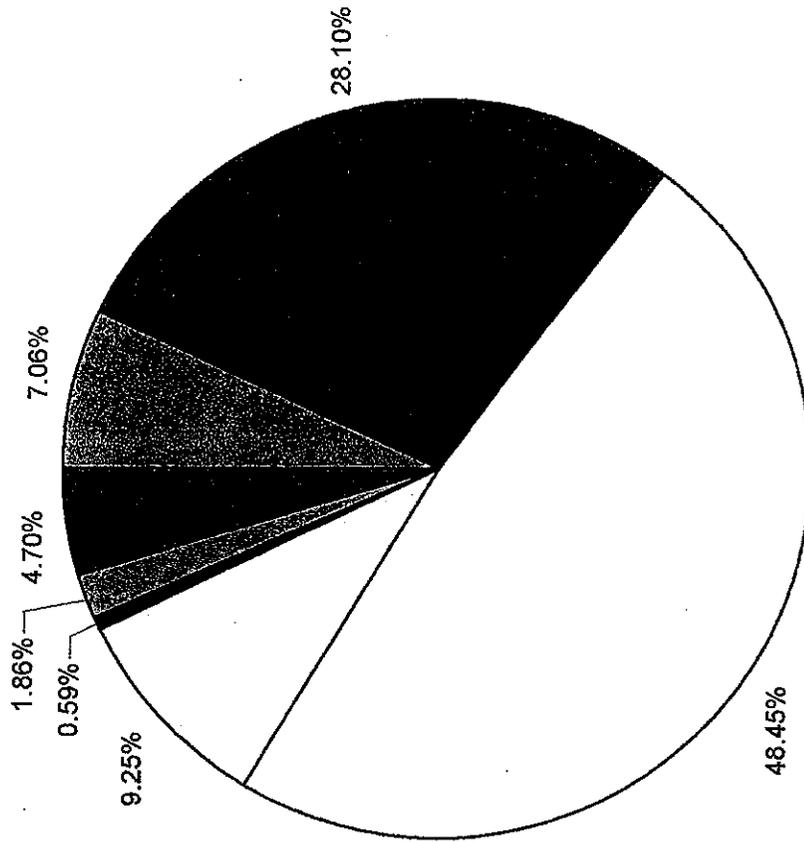
- Cost of Sales
- Other Attractions, Theatre, Sherwood, Dora Day, Special Events
- Railroad Operations, Signals (parts & Repairs)
- Advertising, Public Relations, Printing
- Utilities
- Curator & Exhibits, Membership Services
- Mini Train Expense
- Thomas
- Interest, Bank Charges
- Office Expenses, Dues, Travel, Insurance, Accountant Fees
- Payroll Expenses
- Concessions
- Extraordinary
- Plant Maintenance
- Lease of Property

Total Income 2011
\$837,592.18



- Thomas the Tank Engine Ticket Sales
- Museum Store Sales
- Ticket Sales (Less Discounts)
- Donations
- Sherwood
- Extraordinary Income
- Scrap Sales
- KET Day
- Membership Dues
- Concession Income
- Special Events & Theatre
- Sale of Property/Equipment
- Dividened & Interest Income
- Diner
- Other Attractions
- State Signal Maintenance

**KRM Railroad Operations
Total Expenses
\$111,419.26**



- ☐ Steam Operations
- Diesel Operating
- Diesel and Gas Fuel, Oil
- Rolling Stock (Coaches, Etc.)
- Parts and Repairs, Signals, Other
- ▨ Shop Supplies
- ▩ Track Work (Ties, Rail, Brush/Weeds, Etc.)

