



LOFTIS GROUP LLC
CERTIFIED PUBLIC ACCOUNTANTS ▪ BUSINESS ADVISORS

Friends of the Cumbres & Toltec Scenic Railroad, Inc.

Financial Statements
and
Independent Auditors' Report

December 31, 2015 and 2014

Friends of the Cumbres & Toltec Scenic Railroad, Inc.

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Independent Auditors' Report

To the Board of Directors of the
Friends of the Cumbres & Toltec Scenic Railroad, Inc.

We have audited the accompanying financial statements of the Friends of the Cumbres & Toltec Scenic Railroad, Inc. (the "Friends") (a nonprofit organization), which comprise the statements of financial position as of December 31, 2015 and 2014, and the related statements of activities, functional expenses and cash flows for the years then ended, and the related notes to the financial statements.

Management's Responsibility for the Financial Statements

Management is responsible for the preparation and fair presentation of these financial statements in accordance with accounting principles generally accepted in the United States of America; this includes the design, implementation, and maintenance of internal control 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 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 Friends 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 Friends internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Opinion

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of the Friends of the Cumbres & Toltec Scenic Railroad, Inc. as of December 31, 2015 and 2014, and the changes in its net assets and its cash flows for the years then ended in accordance with accounting principles generally accepted in the United States of America.

Loftis Group ^{LLC}

Albuquerque, New Mexico
June 25, 2016

Financial Statements

**Friends of the Cumbres &
Toltec Scenic Railroad, Inc.**
Statements of Financial Position
December 31,

	2015	2014
Assets		
Current assets		
Cash and cash equivalents	\$ 244,396	\$ 156,256
Receivables	3,045	2,610
Inventory	37,726	32,487
Prepaid expenses	14,547	5,900
Total current assets	299,714	197,253
Property, furniture and equipment, net	533,468	566,490
Investments - unrestricted	40,196	38,598
Investments - permanently restricted	88,150	89,350
Collections	238,683	238,683
Total assets	\$ 1,200,211	\$ 1,130,374
Liabilities and Net Assets		
Current liabilities		
Accounts payable and accrued expenses	\$ 16,524	\$ 9,750
Deferred revenue	48,115	4,880
Total current liabilities	64,639	14,630
Net assets		
Unrestricted	773,153	851,914
Temporarily restricted	274,269	174,480
Permanently restricted	88,150	89,350
Total net assets	1,135,572	1,115,744
Total liabilities and net assets	\$ 1,200,211	\$ 1,130,374

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

**Friends of the Cumbres &
Toltec Scenic Railroad, Inc.**
Statement of Activities
For the Year Ended December 31, 2015

	<u>Unrestricted</u>	<u>Temporarily Restricted</u>	<u>Permanently Restricted</u>	<u>Total</u>
Support and Revenue				
Grants and contributions	\$ 167,358	\$ 163,897	\$ -	\$ 331,255
Special events, net of expenses of \$72,827	13,174	-	-	13,174
Work sessions and merchandise	70,555	-	-	70,555
Member dues	154,412	-	-	154,412
In-kind and other income	8,012	-	-	8,012
Reimbursed Commission projects	2,320	-	-	2,320
Interest income	428	-	-	428
Net assets released from restriction	<u>65,308</u>	<u>(64,108)</u>	<u>(1,200)</u>	<u>-</u>
Total support and revenue	<u>481,567</u>	<u>99,789</u>	<u>(1,200)</u>	<u>580,156</u>
Expenses				
Program services	<u>239,298</u>	<u>-</u>	<u>-</u>	<u>239,298</u>
Supporting services				
Management and general	184,285	-	-	184,285
Fundraising	<u>136,745</u>	<u>-</u>	<u>-</u>	<u>136,745</u>
Total supporting services	<u>321,030</u>	<u>-</u>	<u>-</u>	<u>321,030</u>
Total expenses	<u>560,328</u>	<u>-</u>	<u>-</u>	<u>560,328</u>
Change in net assets	(78,761)	99,789	(1,200)	19,828
Net assets, beginning of year	<u>851,914</u>	<u>174,480</u>	<u>89,350</u>	<u>1,115,744</u>
Net assets, end of year	<u>\$ 773,153</u>	<u>\$ 274,269</u>	<u>\$ 88,150</u>	<u>\$ 1,135,572</u>

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

**Friends of the Cumbres &
Toltec Scenic Railroad, Inc.**
Statement of Activities
For the Year Ended December 31, 2014

	<u>Unrestricted</u>	<u>Temporarily Restricted</u>	<u>Permanently Restricted</u>	<u>Total</u>
Support and Revenue				
Grants and contributions	\$ 187,851	\$ 91,036	\$ -	\$ 278,887
Special events, net of expenses of \$9,038	2,171	-	-	2,171
Work sessions and merchandise	88,273	-	-	88,273
Member dues	133,337	-	-	133,337
In-kind and other income	41,338	-	-	41,338
Reimbursed Commission projects	19,240	-	-	19,240
Gain on disposal of asset	4,500	-	-	4,500
Interest income	225	-	-	225
Net assets released from restriction	<u>152,687</u>	<u>(105,049)</u>	<u>(47,638)</u>	<u>-</u>
Total support and revenue	<u>629,622</u>	<u>(14,013)</u>	<u>(47,638)</u>	<u>567,971</u>
Expenses				
Program services	<u>243,715</u>	<u>-</u>	<u>-</u>	<u>243,715</u>
Supporting services				
Management and general	240,937	-	-	240,937
Fundraising	<u>90,810</u>	<u>-</u>	<u>-</u>	<u>90,810</u>
Total supporting services	<u>331,747</u>	<u>-</u>	<u>-</u>	<u>331,747</u>
Total expenses	<u>575,462</u>	<u>-</u>	<u>-</u>	<u>575,462</u>
Change in net assets	54,160	(14,013)	(47,638)	(7,491)
Net assets, beginning of year	<u>797,754</u>	<u>188,493</u>	<u>136,988</u>	<u>1,123,235</u>
Net assets, end of year	<u>\$ 851,914</u>	<u>\$ 174,480</u>	<u>\$ 89,350</u>	<u>\$ 1,115,744</u>

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

**Friends of the Cumbres &
Toltec Scenic Railroad, Inc.**
Statement of Functional Expenses
For the Year Ended December 31, 2015

	Program	Management and General	Fundraising	Total
Salaries and benefits	\$ 32,383	\$ 106,674	\$ 51,432	\$ 190,489
Materials, tools and supplies	95,533	100	-	95,633
Depreciation	25,748	7,274	-	33,022
Contractual services	2,779	18,748	1,576	23,103
Rent	9,702	8,212	4,106	22,020
Office supplies and copying	2,482	4,663	13,922	21,067
Printing and publishing	4,800	95	13,418	18,313
Freight and postage	1,085	1,939	13,003	16,027
Food and catering	15,087	518	227	15,832
Payroll taxes	2,670	8,795	4,240	15,705
Insurance	6,628	8,812	-	15,440
Merchandise	115	-	15,042	15,157
Newsletter	14,922	-	-	14,922
Conferences and meetings	9,550	737	854	11,141
Bank and credit card fees	-	-	8,391	8,391
Advertising and public relations	2,527	446	4,285	7,258
Telephone and internet	762	5,751	398	6,911
Property taxes	6,302	22	-	6,324
Computer and software	1,897	4,314	-	6,211
Travel, meals and lodging	1,980	3,477	366	5,823
Member gifts	219	118	5,100	5,437
Utilities	1,576	2,840	-	4,416
Dues and subscriptions	551	750	385	1,686
Total expenses	<u>\$ 239,298</u>	<u>\$ 184,285</u>	<u>\$ 136,745</u>	<u>\$ 560,328</u>

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

**Friends of the Cumbres &
Toltec Scenic Railroad, Inc.**
Statement of Functional Expenses
For the Year Ended December 31, 2014

	Program	Management and General	Fundraising	Total
Salaries and benefits	\$ 16,295	\$ 141,856	\$ 29,242	\$ 187,393
Materials, tools and supplies	106,140	-	-	106,140
Depreciation	15,673	8,268	-	23,941
Contractual services	9,395	37,031	980	47,406
Rent	9,369	7,957	3,978	21,304
Office supplies and copying	10,206	6,177	4,732	21,115
Printing and publishing	7,133	-	13,870	21,003
Freight and postage	9,305	169	2,130	11,604
Food and catering	12,931	1,760	-	14,691
Payroll taxes	1,618	11,144	1,959	14,721
Insurance	5,157	8,539	-	13,696
Merchandise	-	872	20,628	21,500
Newsletter	16,860	-	-	16,860
Conferences and meetings	7,657	784	469	8,910
Bank and credit card fees	271	1,763	4,745	6,779
Advertising and public relations	1,067	224	999	2,290
Telephone and internet	1,543	4,354	766	6,663
Property taxes	1,255	-	-	1,255
Computer and software	3,009	3,597	90	6,696
Travel, meals and lodging	5,822	3,622	90	9,534
Member gifts	-	629	5,413	6,042
Utilities	2,883	1,238	619	4,740
Dues and subscriptions	126	953	100	1,179
Total expenses	<u>\$ 243,715</u>	<u>\$ 240,937</u>	<u>\$ 90,810</u>	<u>\$ 575,462</u>

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

**Friends of the Cumbres &
Toltec Scenic Railroad, Inc.**
Statements of Cash Flows
For the Years Ended December 31,

	<u>2015</u>	<u>2014</u>
Cash flows from operating activities		
Cash received from grants and contributions	\$ 330,820	\$ 277,957
Cash received from members	154,412	133,337
Cash received from programs	116,110	112,393
Cash received from special charters	86,001	11,208
Interest and other income	8,440	18,063
Cash paid to employees and suppliers	<u>(607,245)</u>	<u>(590,658)</u>
Net cash provided (used) by operating activities	<u>88,538</u>	<u>(37,700)</u>
Cash flows from investing activities		
Purchases of investments	(398)	(8,673)
Sales of investments	-	17,713
Purchases of capital assets and collection item	-	(32,373)
Sales of collection asset	<u>-</u>	<u>8,000</u>
Net cash used by investing activities	<u>(398)</u>	<u>(15,333)</u>
Net increase (decrease) in cash and cash equivalents	88,140	(53,033)
Cash and cash equivalents, beginning of year	<u>156,256</u>	<u>209,289</u>
Cash and cash equivalents, end of year	<u>\$ 244,396</u>	<u>\$ 156,256</u>
Reconciliation of change in net assets to net cash provided (used) by operating activities		
Change in net assets	<u>\$ 19,828</u>	<u>\$ (7,491)</u>
Adjustments to reconcile change in net assets to net cash used by operating activities		
Depreciation	33,022	23,941
Contributed capital assets	-	(31,500)
Gain on sale of collection asset	-	(4,500)
Changes in assets and liabilities		
Receivables	(435)	2,570
Inventory	(5,239)	(3,398)
Prepaid expenses	(8,647)	(2,968)
Accounts payable and accrued expenses	6,774	(19,234)
Deferred revenue	<u>43,235</u>	<u>4,880</u>
Total adjustments	<u>68,710</u>	<u>(30,209)</u>
Net cash provided (used) by operating activities	<u>\$ 88,538</u>	<u>\$ (37,700)</u>

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

Friends of the Cumbres & Toltec Scenic Railroad, Inc.

Notes to Financial Statements

December 31, 2015 and 2014

1) Organization

The Cumbres & Toltec Scenic Railroad (the "Railroad") is a 64-mile, fully operational, steam-powered narrow gauge railroad running between Antonito, Colorado and Chama, New Mexico. A registered state and national historic site, it is one of America's premier historic steam era railroads and is an invaluable living museum of railroad heritage and steam technology. The Railroad is also a tourist railway of international repute, and has been named one of the twenty best railway experiences in the world.

The Railroad is owned jointly by the states of Colorado and New Mexico through the C&T Scenic Railroad Commission (the "Commission"). The Commission operates the railroad, which serves a vital economic development role in the region. Responsibility for the museum function of this world class historic asset is delegated to the Friends of the Cumbres & Toltec Scenic Railroad, Inc. (the "Friends").

The Friends is a New Mexico nonprofit corporation which operates under §501(c)(3) of the Internal Revenue Code and is an organization dedicated to the historic preservation, restoration and interpretation of the Railroad as a living museum. The Friends' museum responsibilities support the important economic development role of the railroad in the region.

The Friends envisions another century of narrow gauge steam, with the Railroad being widely recognized as: 1) one of the world's premier "living" museums for historic, steam railroad operation, preservation, interpretation and industrial heritage; and 2) one of the world's best and most popular tourist steam railroad experiences. Responsibility for and leadership of the historic preservation and museum functions of the Railroad rests with the Friends, to be known and respected internationally as the best non-profit, historic railway preservation/museum organization in the world.

The Friends' major sources of support and revenue are contributions, member dues, program fees, and grants. The governance of the organization includes a sixteen member Board of Directors, an Executive Committee and a President/Executive Director.

The Friends have approximately 400 volunteers from a membership base of over 2,500 worldwide that contribute approximately 40,000 hours annually in volunteer time. These volunteers work on the railroad's historical assets, serve as docents onboard the trains, help fundraise and work in the organization's photo collection, archives and library. The hours worked by our volunteers would translate into approximately \$800,000 annually in labor, if the Friends had to pay for these services.

Friends of the Cumbres & Toltec Scenic Railroad, Inc.

**Notes to Financial Statements
December 31, 2015 and 2014**

2) Summary of Significant Accounting Policies

Basis of Accounting

The financial statements of the Friends have been prepared on the accrual basis of accounting and accordingly reflect all significant receivables, payables, and other liabilities.

Basis of Presentation

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

Grants and Contributions Receivable

Accounts receivable are stated at the amount management expects to collect from outstanding balances. Management provides for probable uncollectible amounts through a provision for bad debt expense and an adjustment to a valuation allowance based on its assessment of the current status of individual accounts. Balances that are still outstanding after management has used reasonable collection efforts are written off through a charge to the valuation allowance and a credit to accounts receivable. As of June 30, 2015 and 2014, management determined that there was no need for an allowance for uncollectible receivables.

Property, Furniture and Equipment

Purchased property, furniture and equipment is stated at cost. Property, furniture and equipment received by donation is recorded at the estimated fair value on the date of donation. Such donations are reported as unrestricted support unless the donor has restricted the donated asset to a specific purpose. Absent donor stipulations regarding how long those donated assets must be maintained, the Friends reports the expiration of donor restrictions when the donated or acquired assets are placed in service as instructed by the donor. The Friends reclassifies restricted net assets to unrestricted net assets at that time. Purchased or donated property and equipment in excess of \$1,000 is capitalized. Depreciation is calculated on a straight-line basis in amounts sufficient to relate the cost of depreciable assets to operations over their estimated useful lives, which range from five to forty years.

**Friends of the Cumbres &
Toltec Scenic Railroad, Inc.**
Notes to Financial Statements
December 31, 2015 and 2014

2) Summary of Significant Accounting Policies — continued

Investments

Investments in equity securities with readily determinable fair values and all investments in debt securities are measured at fair value in the statement of financial position. Investments with no readily determinable fair value are measured at purchase price which approximates fair value. Investment income or loss (including gains and losses on investments, interest, and dividends) is included in the statement of activities as increases or decreases in unrestricted net assets unless the income or loss is restricted by donor or law. Investment income and gains restricted by donors are reported as increases in unrestricted net assets if the restrictions are met (either a stipulated time period ends or a purpose restriction is accomplished) in the reporting period in which the income and gains are recognized.

Fair Value of Financial Instruments

The Friends believes the carrying amount of cash and cash equivalents, receivables (net of allowances, if any), prepaid expenses, accounts payable, accrued expenses, and deferred revenue approximates fair value due to their short maturity.

Support

The Friends reports contributions of cash and other assets as restricted support if they are received with donor stipulations that limit the use of the donated assets or specify the time period for which the assets may be expended. When a donor restriction expires, restricted net assets are reclassified to unrestricted net assets and reported in the statement of activities as net assets released from restriction. Restricted contributions whose restrictions are met in the same reporting period are reported as unrestricted support.

The support received from the Friends fundraising campaign, Preserving the Narrow Gauge Past for the Future (PNGPF) are restricted for short-term and long-term Friends operations, historic preservation, and interpretation relating to the Cumbres & Toltec Scenic Railroad.

**Friends of the Cumbres &
Toltec Scenic Railroad, Inc.**
Notes to Financial Statements
December 31, 2015 and 2014

2) Summary of Significant Accounting Policies — continued

Donated Materials and Services

Donated services are recognized as contributions if the services (a) create or enhance nonfinancial assets and (b) require specialized skills, are performed by people with those skills, and would otherwise be purchased by the Friends. Donated materials are recorded as in-kind contributions in the accompanying financial statements at the estimated value at date of receipt. Such donations are reported as unrestricted support unless the donor has restricted the donated asset to a specified purpose. Assets donated with explicit restrictions regarding their use and contributions of cash that must be used to acquire property and equipment are reported as restricted support. Absent donor stipulations regarding how long those donated assets must be maintained, the Friends reports expirations of donor restrictions when the donated or acquired assets are placed in service as instructed by the donor. The Friends reclassifies temporarily restricted net assets to unrestricted net assets at that time. There were no donations of materials and services in 2015. During 2014 the Friends received a donated vehicle valued at \$29,000 and equipment valued at \$2,500.

A substantial number of volunteers have donated their services to the Friends. No amounts have been recognized in the financial statements for these services as they do not meet the recognition requirements under U.S. generally accepted accounting principles.

Income Taxes

The Friends is exempt from income taxes under Section 501(c)(3) of the Internal Revenue Code and has been classified by the Internal Revenue Service as an organization that is not a private foundation. The Financial Accounting Standards Board (FASB) issued FASB ASC 740-10, *Accounting for Uncertainty in Income Taxes*, which provides guidance on how to measure and account for various tax positions. The Friends determined no material unrecognized tax benefits or liabilities existed at December 31, 2015 and 2014. If applicable, the Friends will recognize interest and penalties related to underpayment of income taxes as income tax expense. As of December 31, 2015 and 2014, the Friends had no amounts related to unrecognized income tax benefits and no amounts related to accrued interest and penalties. The Friends does not anticipate any significant changes to unrecognized tax benefits over the next year.

Management of the Friends believes its activities allow it to continue to be classified as an organization exempt from income tax under Section 501(c)(3) of the Internal Revenue Code and has not identified any activities subject to unrelated business income tax.

Friends of the Cumbres & Toltec Scenic Railroad, Inc.

Notes to Financial Statements December 31, 2015 and 2014

2) Summary of Significant Accounting Policies — continued

Income taxes – continued

The Friends files federal Form 990, *Return of Organization Exempt from Income Tax*, with the Internal Revenue Service and copies of Form 990 with states in which the Friends is registered. The statute of limitations for examination of the Friend's returns expires three years from the due date of the return or the date filed, whichever is later. The Friends returns for the years ended December 31, 2012 through 2014, are still open for examination and management anticipates the statute of limitations for the return for the year ended December 31, 2015, will expire in August 2019.

Cash and Cash Equivalents

For purposes of the Statement of Cash Flows, the Friends considers all highly liquid investments with an initial maturity of three months or less to be cash equivalents. Cash and cash equivalents are primarily composed of demand deposits and money market accounts that are readily convertible to a known amount of cash and carry an insignificant risk of change in value.

Estimates

Management uses estimates and assumptions in preparing financial statements. Those estimates and assumptions affect the reported amounts of assets and liabilities, the disclosure of contingent assets and liabilities, and the reported changes in net assets. Actual results could differ from those estimates.

Functional Allocation of Expenses

Expenses are charged directly to program and supporting services based on specific identification, when possible. Costs benefiting more than one service are allocated based on measures such as management's estimates of time spent, square footage, etc.

Collections

Collection items consist of historical equipment and pictures that are held for educational and curatorial purposes. Each of the items is cataloged, preserved, and cared for, and activities verifying their existence and assessing their condition are performed continuously. Collection items acquired for which detailed curatorial records were available were capitalized at cost if purchased and at fair value at the date of acquisition if donated. Collection items acquired without curatorial records were capitalized at current appraised or estimated market value. There were no additions or deletions of collection items during the year ended December 31, 2015. Historical equipment was acquired at a cost of \$10,000 during 2014 while a piece of historical equipment with a book value of \$3,500 was sold for \$8,000.

Friends of the Cumbres & Toltec Scenic Railroad, Inc.

Notes to Financial Statements December 31, 2015 and 2014

2) Summary of Significant Accounting Policies — continued

Inventories

Inventories are stated at the lower of cost or market determined by the first-in, first-out method. Inventories primarily consist of books, clothing, calendars, magazines and commemorative medallions.

Advertising Costs

Advertising costs are expensed as incurred.

Subsequent Events

Subsequent events were evaluated through June 25, 2016, which is the date the financial statements were available to be issued.

Reclassifications

Certain accounts in the prior-year financial statements have been reclassified for comparative purposes to conform with the presentation in the current-year financial statements.

3) Concentrations of Risk

The Friends maintains cash balances at several financial institutions. At December 31, 2015, and 2014, cash balances at each financial institution did not exceed Federal Deposit Insurance Corporation insured limits.

4) Property, Furniture and Equipment

Property, Furniture and equipment consist of the following as of December 31:

	2015	2014
Buildings and improvements	\$ 241,242	\$ 218,828
Vehicles	32,750	29,000
Furniture and equipment	172,765	176,515
Subtotal	446,757	424,343
Less accumulated depreciation	(227,055)	(194,033)
Total capital assets being depreciated, net	219,702	230,310
Pre-development costs	108,266	130,680
Land	205,500	205,500
Total capital assets, net	\$ 533,468	\$ 566,490

Friends of the Cumbres & Toltec Scenic Railroad, Inc.

**Notes to Financial Statements
December 31, 2015 and 2014**

5) Investments

Investments consist of the following at December 31, 2015 and 2014: A certificate of deposit with a fair value of approximately \$108,000, and an investment in a money market mutual fund with a fair value of approximately \$20,000, for both years. Income from these assets was \$398 and \$225 for the years ended December 31, 2015 and 2014, respectively.

6) Temporarily Restricted Net Assets

Temporarily restricted net assets cannot be used for any purpose other than those described below and consist of the following as of December 31:

	<u>2015</u>	<u>2014</u>
Another Century of Narrow Gauge Steam (ACNGS II)	\$ 17,456	\$ 22,433
Preserving Narrow Gauge Past for the Future (PNGPF)	182,681	93,181
Car restoration facility fund	20,000	20,134
Long-term preservation of photo collections	23,094	18,428
Other	<u>31,038</u>	<u>20,304</u>
Total	<u>\$ 274,269</u>	<u>\$ 174,480</u>

7) Temporarily Restricted Net Assets Released From Restriction

Net assets released from restriction consists of the following for the years ended December 31:

	<u>2015</u>	<u>2014</u>
Another Century of Narrow Gauge Steam (ACNGS II)	\$ 5,002	\$ 65,984
Preserving Narrow Gauge Past for the Future (PNGPF)	43,398	19,384
Car restoration facility fund	134	-
Long-term preservation of photo collections	2,394	8,879
Other	<u>13,180</u>	<u>10,802</u>
Total	<u>\$ 64,108</u>	<u>\$ 105,049</u>

**Friends of the Cumbres &
Toltec Scenic Railroad, Inc.**

**Notes to Financial Statements
December 31, 2015 and 2014**

8) Permanently Restricted Net Assets

Permanently restricted net assets consist of funds of approximately \$88,000 and \$89,000 at December 31, 2015 and 2014, respectively. The ACNGS campaigns provided that 10% of the contributions were to be placed indefinitely in a permanently restricted fund. At the time it was believed that these and future campaigns would create a fund large enough for earnings on the fund to provide significant support to the Friends. However, during fiscal year 2014 management and the board determined that these plans were not progressing as intended and began soliciting the approval of permanent fund donors to allow the use of their permanently restricted contributions for other specified purposes. As of December 31, 2015 and 2014, donors had approved approximately \$1,200 and \$48,000 to be released for other specified purposes, respectively. \$800 and \$37,000 to be released and used for general operating purposes and \$400 and \$11,000 for passenger car trucks and brakes and for tourist sleeper #470, at December 31, 2015 and 2014 respectively.

9) Operating Lease

The Friends leases office space under a lease agreement that expires on April 30, 2017. Rent expense related to this operating lease was approximately \$21,000 in each of the years ending December 31, 2015 and 2014.

Future minimum lease payments under this lease are as follows:

<u>Year Ending December 31,</u>	
2016	\$ 21,076
2017	<u>7,092</u>
Total minimum lease payments	<u>\$ 28,168</u>

10) Fair Value Measurements

The fair value framework provides a hierarchy that prioritizes the inputs to valuation techniques used to measure fair value. The hierarchy gives the highest priority to unadjusted quoted prices in active markets for identical assets or liabilities (Level 1 measurements) and the lowest priority to unobservable inputs (Level 3 measurements). The three levels of the fair value hierarchy are as follows:

Friends of the Cumbres & Toltec Scenic Railroad, Inc.

**Notes to Financial Statements
December 31, 2015 and 2014**

10) Fair Value Measurements – continued

Level 1 inputs – unadjusted quoted prices for identical assets or liabilities in active markets that the organization has the ability to access.

Level 2 inputs – include:

- Quoted prices for similar assets or liabilities in active markets;
- Quoted prices for identical or similar assets or liabilities in inactive markets;
- Inputs other than quoted prices that are observable for the asset or liability;
- Inputs that are derived principally from or corroborated by observable market data by correlation or other means.

Level 3 inputs – unobservable inputs which reflect the organizations own assumptions about the assumptions market participants would use in pricing the asset or liability.

The Friends has investments in a certificate of deposit of approximately \$108,000 and investments in mutual funds of approximately \$20,000 for each of the years ending December 31, 2015 and 2014, respectively. Fair value of the mutual funds were determined by Level 1 inputs.

11) Special Events

The Friends offers an annual Moonlight & Wine Tasting train excursion and other charter train excursions that are classified as special events. These revenues are presented net of the corresponding direct expenses in the financial statements. Below are summaries of the significant special events:

For the year ended December 31, 2015:

	Revenues	Direct Costs	Net
Moonlight & Wine Tasting Train	\$ 16,716	\$ 11,122	\$ 5,594
Charter Trains	69,285	61,705	7,580
	<u>\$ 86,001</u>	<u>\$ 72,827</u>	<u>\$ 13,174</u>

**Friends of the Cumbres &
Toltec Scenic Railroad, Inc.**
Notes to Financial Statements
December 31, 2015 and 2014

11) Special Events – continued

For the year ended December 31, 2014

	Revenues	Direct Costs	Net
Moonlight & Wine Tasting Train	<u>\$ 11,208</u>	<u>\$ 9,037</u>	<u>\$ 2,171</u>