



Friends of the Cumbres & Toltec Scenic Railroad, Inc.

Financial Statements
and
Independent Auditors' Report

December 31, 2016 and 2015

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, 2016 and 2015, 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 organization'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 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, 2016 and 2015, 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 ^{uc}

Albuquerque, New Mexico
June 24, 2017

Financial Statements

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

	2016	2015
Assets		
Current assets		
Cash and cash equivalents	\$ 343,233	\$ 244,396
Receivables	10,770	3,045
Inventory	16,289	37,726
Prepaid expenses	8,570	14,547
Total current assets	378,862	299,714
Property, furniture and equipment, net	550,677	565,668
Investments - unrestricted	40,996	40,196
Investments - permanently restricted	88,650	88,150
Collections	218,762	206,483
Total assets	\$ 1,277,947	\$ 1,200,211
Liabilities and Net Assets		
Current liabilities		
Accounts payable and accrued expenses	\$ 18,931	\$ 16,524
Deferred revenue	2,548	48,115
Total current liabilities	21,479	64,639
Net assets		
Unrestricted	800,854	773,153
Temporarily restricted	366,964	274,269
Permanently restricted	88,650	88,150
Total net assets	1,256,468	1,135,572
Total liabilities and net assets	\$ 1,277,947	\$ 1,200,211

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, 2016

	Unrestricted	Temporarily Restricted	Permanently Restricted	Total
Support and Revenue				
Grants and contributions	\$ 228,703	\$ 191,141	\$ 500	\$ 420,344
Special charters, net of expenses of \$265,028	29,270	-	-	29,270
Work sessions and merchandise	78,516	-	-	78,516
Member dues	165,576	-	-	165,576
Other income	4,014	-	-	4,014
Reimbursed Commission projects	10,270	-	-	10,270
Interest income	1,295	-	-	1,295
Net assets released from restriction	98,446	(98,446)	-	-
Total support and revenue	<u>616,090</u>	<u>92,695</u>	<u>500</u>	<u>709,285</u>
Expenses				
Program services	271,526	-	-	271,526
Supporting services				
Management and general	147,833	-	-	147,833
Fundraising	169,030	-	-	169,030
Total supporting services	<u>316,863</u>	<u>-</u>	<u>-</u>	<u>316,863</u>
Total expenses	<u>588,389</u>	<u>-</u>	<u>-</u>	<u>588,389</u>
Change in net assets	27,701	92,695	500	120,896
Net assets, beginning of year	<u>773,153</u>	<u>274,269</u>	<u>88,150</u>	<u>1,135,572</u>
Net assets, end of year	<u>\$ 800,854</u>	<u>\$ 366,964</u>	<u>\$ 88,650</u>	<u>\$ 1,256,468</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, 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 charters, net of expenses of \$72,827	13,174	-	-	13,174
Work sessions and merchandise	70,555	-	-	70,555
Member dues	154,412	-	-	154,412
Other income	8,012	-	-	8,012
Reimbursed Commission projects	2,320	-	-	2,320
Interest income	428	-	-	428
Net assets released from restriction	65,308	(64,108)	(1,200)	-
Total support and revenue	<u>481,567</u>	<u>99,789</u>	<u>(1,200)</u>	<u>580,156</u>
Expenses				
Program services	239,298	-	-	239,298
Supporting services				
Management and general	184,285	-	-	184,285
Fundraising	136,745	-	-	136,745
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 Functional Expenses
For the Year Ended December 31, 2016

	Program	Management and General	Fundraising	Total
Salaries and benefits	\$ 59,403	\$ 59,403	\$ 79,204	\$ 198,010
Materials, tools and supplies	97,528	-	-	97,528
Office supplies and copying	4,269	2,386	27,846	34,501
Merchandise	-	22,848	11,524	34,372
Contractual services	11,113	16,894	3,346	31,353
Depreciation	14,746	10,282	-	25,028
Rent	8,932	8,430	4,215	21,578
Newsletter	17,399	-	-	17,399
Insurance	3,605	12,108	-	15,713
Food and catering	15,313	-	-	15,313
Payroll taxes	4,389	4,389	5,852	14,630
Conferences and meetings	4,091	1,596	6,895	12,582
Bank and credit card fees	4,172	-	7,416	11,588
Freight and postage	543	1,779	9,094	11,416
Telephone and internet	3,269	1,804	2,761	7,833
Computer and software	3,614	1,719	2,292	7,626
Advertising and public relations	2,200	-	3,709	5,909
Travel, meals and lodging	3,544	1,722	381	5,647
Utilities	2,660	1,048	524	4,231
Member premiums and gifts	-	-	3,906	3,906
Property taxes	3,779	10	-	3,789
Printing and publishing	3,706	-	-	3,706
Contributions	2,500	-	-	2,500
Dues and subscriptions	751	1,415	65	2,231
Total expenses	<u>\$ 271,526</u>	<u>\$ 147,833</u>	<u>\$ 169,030</u>	<u>\$ 588,389</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
Office supplies and copying	2,482	4,663	13,922	21,067
Merchandise	115	-	15,042	15,157
Contractual services	2,779	18,748	1,576	23,103
Depreciation	25,748	7,274	-	33,022
Rent	9,702	8,212	4,106	22,020
Newsletter	14,922	-	-	14,922
Insurance	6,628	8,812	-	15,440
Food and catering	15,087	518	227	15,832
Payroll taxes	2,670	8,795	4,240	15,705
Conferences and meetings	9,550	737	854	11,141
Bank and credit card fees	-	-	8,391	8,391
Freight and postage	1,085	1,939	13,003	16,027
Telephone and internet	762	5,751	398	6,911
Computer and software	1,897	4,314	-	6,211
Advertising and public relations	2,527	446	4,285	7,258
Travel, meals and lodging	1,980	3,477	366	5,823
Utilities	1,576	2,840	-	4,416
Member premiums and gifts	219	118	5,100	5,437
Property taxes	6,302	22	-	6,324
Printing and publishing	4,800	95	13,418	18,313
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.**
Statements of Cash Flows
For the Years Ended December 31,

	<u>2016</u>	<u>2015</u>
Cash flows from operating activities		
Cash received from grants and contributions	\$ 412,619	\$ 330,820
Cash received from members	165,576	154,412
Cash received from work sessions and merchandise	78,516	116,110
Cash received from special charters	294,298	86,001
Interest and other income	15,579	8,440
Cash paid to employees and suppliers	<u>(844,135)</u>	<u>(607,245)</u>
Net cash provided by operating activities	<u>122,453</u>	<u>88,538</u>
Cash flows from investing activities		
Purchases of investments	(1,300)	(398)
Purchases of capital assets and collection item	<u>(22,316)</u>	<u>-</u>
Net cash used by investing activities	<u>(23,616)</u>	<u>(398)</u>
Net increase in cash and cash equivalents	98,837	88,140
Cash and cash equivalents, beginning of year	<u>244,396</u>	<u>156,256</u>
Cash and cash equivalents, end of year	<u>\$ 343,233</u>	<u>\$ 244,396</u>
Reconciliation of change in net assets to net cash provided by operating activities		
Change in net assets	<u>\$ 120,896</u>	<u>\$ 19,828</u>
Adjustments to reconcile change in net assets to net cash provided by operating activities		
Depreciation	25,028	33,022
Inventory adjustment	22,723	-
Changes in assets and liabilities		
Receivables	(7,725)	(435)
Inventory	(1,286)	(5,239)
Prepaid expenses	5,977	(8,647)
Accounts payable and accrued expenses	2,407	6,774
Deferred revenue	<u>(45,567)</u>	<u>43,235</u>
Total adjustments	<u>1,557</u>	<u>68,710</u>
Net cash provided by operating activities	<u>\$ 122,453</u>	<u>\$ 88,538</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, 2016 and 2015**

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 grants and contributions, member dues and program fees. 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 2,400 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, 2016 and 2015**

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 December 31, 2016 and 2015, 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 \$5,000 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, 2016 and 2015**

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, 2016 and 2015**

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 2016 or 2015.

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, 2016 and 2015. If applicable, the Friends will recognize interest and penalties related to underpayment of income taxes as income tax expense. As of December 31, 2016 and 2015, 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, 2016 and 2015

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, 2013 through 2016, are still open for examination and management anticipates the statute of limitations for the return for the year ended December 31, 2016, will expire in August 2020.

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. Historical equipment was acquired at a cost of \$12,279 during 2016. There were no historical equipment additions during the year ended December 31, 2015.

Friends of the Cumbres & Toltec Scenic Railroad, Inc.

Notes to Financial Statements
December 31, 2016 and 2015

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 24, 2017, 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, 2016, the Friends cash exceeded federally insured limits by \$80,035. At December 31, 2015, cash balances did not exceed federally insured limits.

4) **Property, Furniture and Equipment**

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

	2016	2015
Buildings and improvements	\$ 241,242	\$ 241,242
Vehicles	32,750	32,750
Furniture and equipment	133,692	172,765
Subtotal	407,684	446,757
Less accumulated depreciation	(213,010)	(227,055)
Total capital assets being depreciated, net	194,674	219,702
Pre-development costs	150,503	140,466
Land	205,500	205,500
Total property, furniture and equipment, net	\$ 550,677	\$ 565,668

Friends of the Cumbres & Toltec Scenic Railroad, Inc.

Notes to Financial Statements
December 31, 2016 and 2015

5) Investments

Investments consist of the following at December 31, 2016 and 2015: A certificate of deposit with a fair value of approximately \$109,000 and \$108,000, respectively, 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 \$1,295 and \$428 for the years ended December 31, 2016 and 2015, 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:

	2016	2015
Another Century of Narrow Gauge Steam (ACNGS II)	\$ 15,767	\$ 17,456
Preserving Narrow Gauge Past for the Future (PNGPF)	244,635	182,681
Car restoration facility fund	70,923	20,000
Long-term preservation of photo collections	33,407	23,094
Other	2,232	31,038
Total	\$ 366,964	\$ 274,269

7) Temporarily Restricted Net Assets Released From Restriction

Net assets released from restriction were for the following purposes for the years ended December 31:

	2016	2015
Preserving Narrow Gauge Past for the Future (PNGPF)	\$ 77,782	\$ 43,398
Car restoration facility fund	9,097	134
Other	9,087	13,180
Another Century of Narrow Gauge Steam (ACNGS II)	1,939	5,002
Long-term preservation of photo collections	541	2,394
Total	\$ 98,446	\$ 64,108

Friends of the Cumbres & Toltec Scenic Railroad, Inc.

Notes to Financial Statements
December 31, 2016 and 2015

8) Permanently Restricted Net Assets

The “Another Century of Narrow Gauge Steam” campaigns provided that 10% of the contributions were to be placed indefinitely in a restricted fund with the intent that these and future campaigns would create a fund large enough for earnings on the fund to provide significant support to the Friends. Permanently restricted net assets consist of funds of approximately \$88,650 and \$88,150 at December 31, 2016 and 2015, 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 \$21,500 in each of the years ending December 31, 2016 and 2015. In April 2017 a new lease agreement was entered into that expires April 30, 2020. Future minimum lease payments under these leases are as follows:

<u>Year Ending December 31,</u>	
2017	\$ 21,276
2018	21,556
2019	21,952
2020	<u>7,360</u>
Total minimum lease payments	<u>\$ 72,144</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:

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.

Friends of the Cumbres & Toltec Scenic Railroad, Inc.

Notes to Financial Statements December 31, 2016 and 2015

10) Fair Value Measurements - continued

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 \$109,000 and investments in mutual funds of approximately \$20,000 for each of the years ending December 31, 2016 and 2015, respectively. Fair value of these investments were determined by Level 1 inputs.

11) Special Charters

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, 2016:

	Revenues	Direct Costs	Net
Moonlight & Wine Tasting Train	\$ 15,325	\$ 11,157	\$ 4,168
Charter Trains	278,973	253,871	25,102
	<u>\$ 294,298</u>	<u>\$ 265,028</u>	<u>\$ 29,270</u>

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>