



SJT GROUP LLC
CERTIFIED PUBLIC ACCOUNTANTS



Friends of the Cumbres & Toltec Scenic Railroad, Inc.

Financial Statements
and
Independent Auditors' Report

December 31, 2019 and 2018

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, 2019 and 2018, 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 entity's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the 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, 2019 and 2018, 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.

Emphasis of Matter – Uncertainty Related to the COVID-19 Outbreak

As discussed in Note 12 to the financial statements, the State of New Mexico has issued a stay-at-home order affecting the Friends as a result of the COVID-19 outbreak. The extent to which the COVID-19 outbreak impacts the Friends will depend on future developments, which are highly uncertain and cannot be predicted. Our opinion is not modified with respect to this matter.

SJT Group LLC

Albuquerque, New Mexico
July 15, 2020

Financial Statements

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

	2019	2018
Assets		
Current assets		
Cash and cash equivalents	\$ 627,172	\$ 568,912
Receivables	-	29,306
Inventory	16,341	19,310
Prepaid expenses	27,457	16,098
Total current assets	670,970	633,626
Property, furniture and equipment, net	584,537	573,811
Investments - unrestricted	388,911	21,085
Endowment investments	90,150	89,650
Collections	340,212	272,646
Total assets	\$ 2,074,780	\$ 1,590,818
Liabilities and Net Assets		
Current liabilities		
Accounts payable and accrued expenses	\$ 40,940	\$ 38,377
Deferred revenue	105	2,000
Total current liabilities	41,045	40,377
Net assets		
Net assets without donor restrictions:		
Reserve for future operations	250,000	-
Total designated	250,000	-
Undesignated	1,267,415	997,278
Total net assets without donor restrictions	1,517,415	997,278
Net assets with donor restrictions	516,320	553,163
Total net assets	2,033,735	1,550,441
Total liabilities and net assets	\$ 2,074,780	\$ 1,590,818

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, 2019

	<u>Without Donor Restictions</u>	<u>With Donor Restrictions</u>	<u>Total</u>
Support and Revenue			
Grants and contributions	\$ 703,788	\$ 156,243	\$ 860,031
Member dues	164,536	-	164,536
Work sessions and merchandise	76,719	-	76,719
Investment and interest income	6,622	-	6,622
Other income	1,125	-	1,125
Special charters, net of expenses of \$22,616	1,050	-	1,050
Reimbursed Commission projects	287	-	287
Net assets released from restriction	193,086	(193,086)	-
Total support and revenue	<u>1,147,213</u>	<u>(36,843)</u>	<u>1,110,370</u>
Expenses			
Program services	<u>351,949</u>	<u>-</u>	<u>351,949</u>
Supporting services			
Management and general	110,013	-	110,013
Fundraising	<u>165,114</u>	<u>-</u>	<u>165,114</u>
Total supporting services	<u>275,127</u>	<u>-</u>	<u>275,127</u>
Total expenses	<u>627,076</u>	<u>-</u>	<u>627,076</u>
Change in net assets	520,137	(36,843)	483,294
Net assets, beginning of year	<u>997,278</u>	<u>553,163</u>	<u>1,550,441</u>
Net assets, end of year	<u><u>\$ 1,517,415</u></u>	<u><u>\$ 516,320</u></u>	<u><u>\$ 2,033,735</u></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, 2018

	<u>Without Donor Restrictions</u>	<u>With Donor Restrictions</u>	<u>Total</u>
Support and Revenue			
Grants and contributions	\$ 287,671	\$ 192,032	\$ 479,703
Member dues	155,398	-	155,398
Work sessions and merchandise	89,450	-	89,450
Investment and interest income	283	-	283
Other income	2,077	-	2,077
Special charters, net of expenses of \$73,521	15,794	-	15,794
Reimbursed Commission projects	65,251	-	65,251
Net assets released from restriction	139,093	(139,093)	-
Total support and revenue	<u>755,017</u>	<u>52,939</u>	<u>807,956</u>
Expenses			
Program services	<u>316,433</u>	<u>-</u>	<u>316,433</u>
Supporting services			
Management and general	105,256	-	105,256
Fundraising	<u>175,455</u>	<u>-</u>	<u>175,455</u>
Total supporting services	<u>280,711</u>	<u>-</u>	<u>280,711</u>
Total expenses	<u>597,144</u>	<u>-</u>	<u>597,144</u>
Change in net assets	157,873	52,939	210,812
Net assets, beginning of year	<u>839,405</u>	<u>500,224</u>	<u>1,339,629</u>
Net assets, end of year	<u><u>\$ 997,278</u></u>	<u><u>\$ 553,163</u></u>	<u><u>\$ 1,550,441</u></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, 2019

	Program	Management and General	Fundraising	Total
Salaries and benefits	\$ 65,391	\$ 59,447	\$ 73,317	\$ 198,155
Materials, tools and supplies	165,892	-	-	165,892
Contractual services	7,874	16,541	24,506	48,921
Office supplies and copying	11,192	3,083	16,045	30,320
Rent	9,907	8,787	4,394	23,088
Merchandise	248	-	20,758	21,006
Freight and postage	3,326	884	13,327	17,537
Insurance	13,529	3,777	-	17,306
Payroll taxes	5,085	4,623	5,702	15,410
Conferences and meetings	2,281	3,803	9,319	15,403
Food and catering	14,550	-	-	14,550
Newsletter	13,686	-	-	13,686
Computer and software	7,786	1,833	2,260	11,879
Travel, meals and lodging	4,562	2,037	3,907	10,506
Bank and credit card fees	245	163	8,711	9,119
Depreciation	8,540	-	-	8,540
Telephone and internet	3,861	2,455	1,802	8,118
Utilities	3,860	1,622	811	6,293
Advertising and public relations	2,022	689	2,540	5,251
Printing and publishing	3,806	-	-	3,806
Property taxes	2,382	-	-	2,382
Dues and subscriptions	1,253	269	331	1,853
Member premiums and gifts	671	-	-	671
Total expenses	<u>\$ 351,949</u>	<u>\$ 110,013</u>	<u>\$ 187,730</u>	<u>\$ 649,692</u>
Less special charters expense netted with revenues	<u>-</u>	<u>-</u>	<u>(22,616)</u>	<u>(22,616)</u>
Total expenses on the Statement of Activities	<u><u>\$ 351,949</u></u>	<u><u>\$ 110,013</u></u>	<u><u>\$ 165,114</u></u>	<u><u>\$ 627,076</u></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, 2018

	Program	Management and General	Fundraising	Total
Salaries and benefits	\$ 60,565	\$ 58,612	\$ 76,195	\$ 195,372
Materials, tools and supplies	140,371	62	701	141,134
Contractual services	4,204	19,072	67,014	90,290
Office supplies and copying	8,806	2,100	12,433	23,339
Rent	9,698	8,622	4,311	22,631
Merchandise	506	-	28,191	28,697
Freight and postage	265	264	15,326	15,855
Insurance	12,598	1,881	-	14,479
Payroll taxes	4,711	4,559	5,926	15,196
Conferences and meetings	826	1,989	12,082	14,897
Food and catering	14,510	-	4,456	18,966
Newsletter	14,658	-	-	14,658
Computer and software	5,261	2,441	3,173	10,875
Travel, meals and lodging	9,995	1,145	3,926	15,066
Bank and credit card fees	210	195	9,506	9,911
Depreciation	7,602	-	-	7,602
Telephone and internet	3,678	2,272	1,559	7,509
Utilities	3,404	1,024	512	4,940
Advertising and public relations	4,150	704	2,714	7,568
Printing and publishing	5,709	-	468	6,177
Property taxes	3,457	10	53	3,520
Dues and subscriptions	1,249	304	430	1,983
Total expenses	<u>\$ 316,433</u>	<u>\$ 105,256</u>	<u>\$ 248,976</u>	<u>\$ 670,665</u>
Less special charters expense netted with revenues	<u>-</u>	<u>-</u>	<u>(73,521)</u>	<u>(73,521)</u>
Total expenses on the Statement of Activities	<u><u>\$ 316,433</u></u>	<u><u>\$ 105,256</u></u>	<u><u>\$ 175,455</u></u>	<u><u>\$ 597,144</u></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>2019</u>	<u>2018</u>
Cash flows from operating activities		
Cash received from grants and contributions	\$ 889,337	\$ 461,949
Cash received from members	162,641	155,398
Cash received from work sessions and merchandise	77,006	89,450
Cash received from special charters	23,666	87,979
Interest and other income	6,155	67,611
Cash paid to employees and suppliers	<u>(646,979)</u>	<u>(671,119)</u>
Net cash provided by operating activities	<u>511,826</u>	<u>191,268</u>
Cash flows from investing activities		
Purchases of investments	(366,734)	-
Purchases of capital assets and collection items	<u>(86,832)</u>	<u>(50,934)</u>
Net cash used by investing activities	<u>(453,566)</u>	<u>(50,934)</u>
Net increase in cash and cash equivalents	58,260	140,334
Cash and cash equivalents, beginning of year	<u>568,912</u>	<u>428,578</u>
Cash and cash equivalents, end of year	<u>\$ 627,172</u>	<u>\$ 568,912</u>
Reconciliation of change in net assets to net cash provided by operating activities		
Change in net assets	<u>\$ 483,294</u>	<u>\$ 210,812</u>
Adjustments to reconcile change in net assets to net cash provided by operating activities		
Depreciation	8,540	7,602
Unrealized gain on investments	(1,592)	-
Changes in assets and liabilities		
Receivables	29,306	(17,754)
Inventory	2,969	(12,974)
Prepaid expenses	(11,359)	(1,376)
Accounts payable and accrued expenses	2,563	6,294
Deferred revenue	<u>(1,895)</u>	<u>(1,336)</u>
Total adjustments	<u>28,532</u>	<u>(19,544)</u>
Net cash provided by operating activities	<u>\$ 511,826</u>	<u>\$ 191,268</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, 2019 and 2018**

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, 2019 and 2018**

2) Summary of Significant Accounting Policies

Basis of Accounting and Presentation

The financial statements of the Friends have been prepared in accordance with U.S. generally accepted accounting principles (“U.S. GAAP”), which require the Friends to report information regarding its financial position and activities according to the following net asset classifications:

- *Net Asset Without Donor Restrictions:* Net assets that are not subject to donor-imposed restrictions and may be expended for any purpose in performing the primary objectives of the organization. These net assets may be used at the discretion of the organization’s management and the board of directors.
- *Net Assets With Donor Restrictions:* Net assets subject to stipulations imposed by donors and grantors. Some donor restrictions are temporary in nature; those restrictions will be met by actions of the organization or by passage of time. Other donor restrictions are perpetual in nature, whereby the donor has stipulated the funds be maintained in perpetuity.

Donor-restricted contributions are reported as increases in net assets with donor restrictions. When a restriction expires, net assets are reclassified from net assets with donor restrictions to net assets without donor restrictions in the statements of activities.

Accounts 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, 2019, and 2018, management determined that there was no need for an allowance for uncollectible receivables.

Friends of the Cumbres & Toltec Scenic Railroad, Inc.

**Notes to Financial Statements
December 31, 2019 and 2018**

2) Summary of Significant Accounting Policies — continued

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 net assets without restrictions 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 net assets with restrictions to net assets without restrictions 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.

Investments

Investments are reported at cost, if purchased, or at fair value, if donated. Thereafter, investments are reported at their fair values in the statements of financial position, and changes in fair value are reported as investment return in the statements of activities.

Purchases and sales of securities are reflected on a trade-date basis. Gains and losses on sales of securities are recorded in the statements of activities in the period in which the securities are sold. Interest is recorded when earned. Dividends are accrued as of the ex-dividend date.

Fair Value of Financial Instruments

For financial statement purposes, cash and cash equivalents, receivables (net of allowances, if any), prepaid expenses, accounts payable, accrued expenses, and deferred revenue are considered financial instruments. The Friends estimated that the fair value of all financial instruments at December 31, 2019 and 2018, did not differ materially from the aggregate carrying values of its financial instruments recorded in the accompanying statements of financial position because of their short-term nature.

Friends of the Cumbres & Toltec Scenic Railroad, Inc.

**Notes to Financial Statements
December 31, 2019 and 2018**

2) Summary of Significant Accounting Policies — continued

Contributions

Contributions received are recorded as net assets without donor restrictions or net assets with donor restrictions, depending on the existence and/or nature of any donor-imposed restrictions. Contributions that are restricted by the donor are reported as an increase in net assets without donor restrictions if the restriction expires in the reporting period in which the contribution is recognized. All other donor restricted contributions are reported as an increase in net assets with donor restrictions, depending on the nature of restriction. When a restriction expires (that is, when a stipulated time restriction ends or purpose restriction is accomplished), net assets with donor restrictions are reclassified to net assets without donor restrictions and reported in the statements of activities as net assets released from restrictions.

Contributed property and equipment are recorded at fair value at the date of donation. Contributions with donor-imposed stipulations regarding how long the contributed assets must be used are recorded as net assets with donor restrictions; otherwise, the contributions are recorded as net assets without donor restrictions.

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.

Contributed Services—Contributed services are recognized as contributions if the services (a) create or enhance nonfinancial assets or (b) require specialized skills, are performed by people with those skills, and would otherwise be purchased by the Friends. The Friends has a substantial number of volunteers that have donated their services to the Friends. Those donated services, which do not meet the above criteria for revenue recognition, have not been recognized as support in the financial statements.

Income Taxes

The Friends is a non-profit organization and is exempt from federal 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 Friends has adopted FASB ASC 740-10, *Income Taxes*, relating to accounting for uncertain tax positions. The Friends has not recognized any changes to its financial statements for uncertain tax positions resulting from this adoption. The Friends income tax filings for the year's ended December 31, 2016 and thereafter are subject to audit by various taxing authorities.

Friends of the Cumbres & Toltec Scenic Railroad, Inc.

**Notes to Financial Statements
December 31, 2019 and 2018**

2) Summary of Significant Accounting Policies — continued

Cash and Cash Equivalents

For purposes of reporting cash flows, the Friends considers all highly liquid investments with original maturities of three months or less to be cash equivalents, which at times may exceed federally insured limits. At December 31, 2019 and 2018, the cash bank balances totaled \$623,571 and \$572,782, of which \$102,400 and \$128,964, exceeded federally insured limits.

Estimates

Financial statement preparation in conformity with accounting principles generally accepted in the United States of America (U.S. GAAP) requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the financial statement date and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates.

Collections

Collection items consist of historical equipment and pictures that are held for educational and curatorial purposes. Each of the items are 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 contributed to or acquired by the Friends in the amount of \$67,566 and \$4,397 during the years ended December 31, 2019 and 2018, respectively.

Functional Allocation of Expenses

The cost of providing program and other activities have been summarized on a functional basis in the statements of activities. Accordingly, certain costs have been allocated among program and supporting services benefited. Such allocations are determined by management on an equitable basis.

Friends of the Cumbres & Toltec Scenic Railroad, Inc.

Notes to Financial Statements
December 31, 2019 and 2018

2) Summary of Significant Accounting Policies — continued

Significant expenses, either entirely or a portion thereof, that are allocated include the following:

<u>Expense</u>	<u>Allocation Method</u>
Salaries, benefits and payroll taxes	Time and effort
Office space	Square footage
Contractual services	Time and effort
Office supplies and copying	Time and effort
Rent	Square footage
Computer and software	Time and effort
Travel, meals and lodging	Time and effort
Utilities	Square footage
Telephone and internet	Square footage

Inventories

Inventories are stated at the lower of cost or market determined by the first-in, first-out method. Inventories consist of books published by the Friends.

Advertising Costs

Advertising costs are expensed as incurred.

Subsequent Events

Subsequent events are events or transactions that occur after the statement of financial position date, but before financial statements are issued. The Friends recognizes in the financial statements the effects of all subsequent events that provide additional evidence about conditions that existed at the date of the statements of financial position, including the estimates inherent in the process of preparing the financial statements.

Subsequent events through July 15, 2020, the date which the financial statements were available to be issued, were evaluated for recognition and disclosure in the financial statements.

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. There was no effect on net assets as a result of these reclassifications.

Friends of the Cumbres & Toltec Scenic Railroad, Inc.

Notes to Financial Statements
December 31, 2019 and 2018

2) Summary of Significant Accounting Policies — continued

New Accounting Pronouncement

In May 2014, the FASB issued Accounting Standards Update (ASU) 2014-09, *Revenue from Contracts with Customers*. The guidance requires the Friends to recognize revenue to depict the transfer of goods or services to customers in an amount that reflects the consideration to which the Friends expects to be entitled in exchange for those goods or services. The guidance also requires expanded disclosures relating to the nature, amount, timing, and uncertainty of revenue and cash flows arising from contracts with customers. Additionally, qualitative and quantitative disclosures are required regarding customer contracts, significant judgments and changes in judgments, and assets recognized from the costs to obtain or fulfill a contract.

ASU 2014-19 requires organizations to exercise more judgment and recognize revenue using a five-step process. The Friends adopted the requirements of the new guidance retrospectively to all periods presented in this report. Adoption of the new guidance did not result in significant changes to the accounting policies for revenue recognition, receivables, and deferred revenues since most of the Friends revenue sources are not included in the scope of ASU 2014-19.

3) Concentrations of Risk

The Friends maintains cash balances with various financial institutions insured by the Federal Deposit Insurance Corporation. Balances in these accounts may at times exceed federally insured limits. The Friends has not experienced any losses on such accounts, and management believes it is not exposed to significant credit risk from these accounts.

4) Property, Furniture and Equipment

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

	<u>2019</u>	<u>2018</u>
Buildings and improvements	\$ 260,566	\$ 241,242
Vehicles	32,750	32,750
Furniture and equipment	<u>140,122</u>	<u>140,122</u>
Subtotal	433,438	414,114
Less accumulated depreciation	<u>(245,548)</u>	<u>(237,008)</u>
Total capital assets being depreciated, net	187,890	177,106
Pre-development costs	114,765	114,765
Construction-in-process	76,382	76,440
Land	<u>205,500</u>	<u>205,500</u>
Total property, furniture and equipment, net	<u>\$ 584,537</u>	<u>\$ 573,811</u>

Friends of the Cumbres & Toltec Scenic Railroad, Inc.

Notes to Financial Statements
December 31, 2019 and 2018

5) Investments

The Friends investments are comprised of unrestricted investments and donor-restricted endowment funds to be held in perpetuity. At December 31, 2019 investments consist of equities with a fair market value of \$2,084 and certificates of deposit in the amounts of \$250,000, \$114,994 and \$111,983. Interest rates on the certificates of deposit range from 1.4% to 2.37% with original maturities of eleven and twelve months. Investments at December 31, 2018 consist of a certificate of deposit in the amount of \$110,735, interest of 2.23%, with an original maturity of 11-months.

The endowment funds were derived from the “Another Century of Narrow Gauge Steam” campaigns which 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 \$90,150 and \$89,650 at December 31, 2019 and 2018, respectively. The Friends have not yet adopted endowment investment and spending policies.

6) Net Assets With Donor Restrictions

Net assets with donor restrictions are restricted for the following purposes:

	<u>2019</u>	<u>2018</u>
Subject to expenditure for specified purpose		
Preserving Narrow Gauge Past for the Future (PNGPF)	\$ 266,510	\$ 269,076
Car restoration facility fund	120,844	95,285
Long-term preservation of photo collections	13,561	42,854
Other	23,292	28,084
Restoration	-	22,802
Another Century of Narrow Gauge Steam (ACNGS II)	1,963	5,412
Endowment funds to be held in perpetuity	<u>90,150</u>	<u>89,650</u>
Total	<u>\$ 516,320</u>	<u>\$ 553,163</u>

Friends of the Cumbres & Toltec Scenic Railroad, Inc.

Notes to Financial Statements December 31, 2019 and 2018

6) Net Assets With Donor Restrictions – continued

Net assets released from restrictions are as follows for the years ended December 31:

	2019	2018
Preserving Narrow Gauge Past for the Future (PNGPF)	\$ 113,665	\$ 127,990
Another Century of Narrow Gauge Steam (ACNGS II)	3,449	4,704
Long-term preservation of photo collections	41,366	3,966
Other	34,606	2,397
Car restoration facility fund	-	36
Total	\$ 193,086	\$ 139,093

Board-Designated Reserve

During the year-end December 31, 2019, the Friend's board of directors designated \$250,000 of net assets without restrictions as an operating reserve. The purpose of the designation is to create an adequate reserve that is essential to establishing financial stability and to guard against the possibility of future operating deficits that may arise due to economic uncertainties and unexpected events.

7) Availability and Liquidity

The following table reflects the Friends financial assets as of December 31, 2019 and 2018, reduced by amounts that are not available to meet general expenditures within one year of the statement of financial position date because of contractual restrictions or internal board designations:

	2019	2018
Cash and cash equivalents	\$ 627,172	\$ 568,912
Receivables	-	29,306
Investments - unrestricted	388,911	21,085
Total financial assets, at year-end	1,016,083	619,303
Less amounts unavailable for general expenditures within one year, due to donor-imposed restrictions	(200,814)	(368,163)
Less amounts unavailable to management without Board approval, representing amounts designated for future operations	(250,000)	-
Financial assets available to meet cash needs for general expenditures within one year	\$ 565,269	\$ 251,140

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7) Availability and Liquidity – continued

As part of the Friend's liquidity management, it has a policy to structure its financial assets to be available as its general expenditures, liabilities, and other obligations come due. In the event of an unanticipated liquidity need, the Friends Board has access to a \$250,000 reserve that it can draw upon.

8) Operating Lease

The Friends leases office space under a lease agreement that expires on April 30, 2020. Future minimum lease payments under this lease total \$7,360. After April 30, 2020, the lease will operate on a month-to-month bases payable in equal monthly installments of \$1,840, until such time as new terms are agreed to, and a new lease entered into.

9) 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.

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 fair value of the Friends certificates of deposit and equity investments at December 31, 2019 and 2018, were determined by Level 1 inputs.

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10) 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, 2019:

	Revenues	Direct Costs	Net
Moonlight & Wine Tasting Train	\$ 9,866	\$ 9,732	\$ 134
Charter Trains	13,800	12,884	916
	\$ 23,666	\$ 22,616	\$ 1,050

For the year ended December 31, 2018:

	Revenues	Direct Costs	Net
Moonlight & Wine Tasting Train	\$ 12,945	\$ 9,315	\$ 3,630
Charter Trains	76,370	64,206	12,164
	\$ 89,315	\$ 73,521	\$ 15,794

11) Recently Issued Accounting Pronouncements

The following accounting pronouncements have been issued but have not yet been implemented by the Friends.

Leases

On February 25, 2016, the FASB issued ASU 2016-02 *Leases*, which significantly changes the accounting for leases in the financial statements of lessees and supersedes FASB ASC Topic 840. With this update, U.S. GAAP now will require lessees under operating leases to recognize a liability in the statement of financial position, a liability to make lease payments (the lease liability), and an asset representing its right to use the underlying asset for the lease term. For leases with a term of 12 months or less, a lessee is permitted to make an accounting election not to recognize lease assets and lease liabilities. If a lessee makes this election, it should recognize lease expense for such leases generally on a straight-line basis over the lease term. Cash flows related to operating leases will continue to be reported within operating activities on the statement of cash flows. The ASU is effective for fiscal years beginning after December 15, 2020 (Friend's fiscal year ending December 31, 2021).

As of the date of these financial statements, management has not determined the impact these new accounting pronouncements will have on future reporting periods.

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12) Subsequent Event – Uncertainty Related to the COVID-19 Outbreak

In December 2019, a novel strain of coronavirus was reported in Wuhan, China. The World Health Organization has declared the outbreak to constitute a “Public Health Emergency of International Concern.” The COVID-19 outbreak is disrupting supply chains and affecting production and sales across a range of industries. The extent of the impact of COVID-19 on the Friend’s operational and financial performance will depend on certain developments, including the duration and spread of the outbreak, impact on customers, donors, employees and vendors, all of which are uncertain and cannot be predicted. At this point, the extent to which COVID-19 may impact the Friend’s financial condition or results of operations is uncertain.