



SJT GROUP LLC
CERTIFIED PUBLIC ACCOUNTANTS



Friends of the Cumbres & Toltec Scenic Railroad, Inc.

Financial Statements
and
Independent Auditors' Report

December 31, 2020 and 2019

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, 2020 and 2019, 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.

Auditor's Responsibility

Our responsibility is to express an opinion on these financial statements based on our audits. We conducted our audits in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audits to obtain reasonable assurance about whether the financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

We believe 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, 2020 and 2019, 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.

SJT Group LLC

Albuquerque, New Mexico
June 19, 2021

Financial Statements

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

| | 2020 | 2019 |
|---|--------------|--------------|
| Assets | | |
| Current assets | | |
| Cash and cash equivalents | \$ 239,300 | \$ 627,172 |
| Inventory | 13,888 | 16,341 |
| Prepaid expenses | 14,689 | 27,457 |
| Total current assets | 267,877 | 670,970 |
| Property, furniture and equipment, net | 612,976 | 584,537 |
| Investments - unrestricted | 648,442 | 388,911 |
| Endowment investments | 90,150 | 90,150 |
| Collections | 340,212 | 340,212 |
| Total assets | \$ 1,959,657 | \$ 2,074,780 |
| Liabilities and Net Assets | | |
| Current liabilities | | |
| Accounts payable and accrued expenses | \$ 24,266 | \$ 40,940 |
| Deferred revenue | 230 | 105 |
| Total liabilities | 24,496 | 41,045 |
| Net assets | | |
| Net assets without donor restrictions: | | |
| Reserve for future operations | 250,000 | 250,000 |
| Total designated | 250,000 | 250,000 |
| Undesignated | 1,258,089 | 1,267,415 |
| Total net assets without donor restrictions | 1,508,089 | 1,517,415 |
| Net assets with donor restrictions | 427,072 | 516,320 |
| Total net assets | 1,935,161 | 2,033,735 |
| Total liabilities and net assets | \$ 1,959,657 | \$ 2,074,780 |

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, 2020

| | <u>Without Donor Restrictions</u> | <u>With Donor Restrictions</u> | <u>Total</u> |
|--------------------------------------|---------------------------------------|------------------------------------|----------------------------|
| Support and Revenue | | | |
| Grants and contributions | \$ 304,028 | \$ 40,671 | \$ 344,699 |
| Member dues | 171,412 | - | 171,412 |
| Work sessions and merchandise | 42,884 | - | 42,884 |
| Investment and interest income | 5,159 | - | 5,159 |
| Other income | 491 | - | 491 |
| Net assets released from restriction | 129,919 | (129,919) | - |
| Total support and revenue | <u>653,893</u> | <u>(89,248)</u> | <u>564,645</u> |
| Expenses | | | |
| Program services | <u>434,537</u> | <u>-</u> | <u>434,537</u> |
| Supporting services | | | |
| Management and general | 104,155 | - | 104,155 |
| Fundraising | 124,527 | - | 124,527 |
| Total supporting services | <u>228,682</u> | <u>-</u> | <u>228,682</u> |
| Total expenses | <u>663,219</u> | <u>-</u> | <u>663,219</u> |
| Change in net assets | (9,326) | (89,248) | (98,574) |
| Net assets, beginning of year | <u>1,517,415</u> | <u>516,320</u> | <u>2,033,735</u> |
| Net assets, end of year | <u><u>\$ 1,508,089</u></u> | <u><u>\$ 427,072</u></u> | <u><u>\$ 1,935,161</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, 2019

| | <u>Without Donor Restrictions</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 | 165,114 | - | 165,114 |
| 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 Functional Expenses
For the Year Ended December 31, 2020

| | Program | Management and General | Fundraising | Total |
|---|-------------------|------------------------------|-------------------|-------------------|
| Salaries and benefits | \$ 90,495 | \$ 53,117 | \$ 53,117 | \$ 196,729 |
| Contractual services | 87,568 | 22,258 | 14,021 | 123,847 |
| Materials, tools, and supplies | 90,136 | - | 1,006 | 91,142 |
| Freight and postage | 30,419 | 833 | 5,772 | 37,024 |
| Charitable donations | 25,500 | - | - | 25,500 |
| Office supplies and copying | 16,627 | 2,431 | 5,826 | 24,884 |
| Rent | 9,967 | 8,832 | 4,416 | 23,215 |
| Insurance | 17,574 | 3,630 | - | 21,204 |
| Merchandise | 1,430 | - | 17,669 | 19,099 |
| Payroll taxes | 7,031 | 4,127 | 4,127 | 15,285 |
| Newsletter | 15,049 | - | - | 15,049 |
| Computer and software | 6,220 | 1,966 | 1,966 | 10,152 |
| Depreciation | 9,295 | - | - | 9,295 |
| Bank and credit card fees | 625 | 477 | 7,817 | 8,919 |
| Travel, meals, and lodging | 5,514 | 2,062 | 534 | 8,110 |
| Telephone and internet | 2,815 | 2,052 | 1,556 | 6,423 |
| Utilities | 3,795 | 1,445 | 723 | 5,963 |
| Advertising and public relations | 3,146 | - | 2,669 | 5,815 |
| Property taxes | 4,729 | 10 | - | 4,739 |
| Conferences and meetings | 448 | 681 | 2,320 | 3,449 |
| Food and catering | 3,156 | - | - | 3,156 |
| Printing and publishing | 2,378 | - | 681 | 3,059 |
| Dues and subscriptions | 620 | 234 | 307 | 1,161 |
| Total expenses | <u>434,537</u> | <u>104,155</u> | <u>124,527</u> | <u>663,219</u> |
| Less special charters expense netted with revenues | <u>-</u> | <u>-</u> | <u>-</u> | <u>-</u> |
| Total expenses on the Statement of Activities | <u>\$ 434,537</u> | <u>\$ 104,155</u> | <u>\$ 124,527</u> | <u>\$ 663,219</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 |
| Contractual services | 7,874 | 16,541 | 24,506 | 48,921 |
| Materials, tools, and supplies | 165,892 | - | - | 165,892 |
| Freight and postage | 3,326 | 884 | 13,327 | 17,537 |
| Office supplies and copying | 11,192 | 3,083 | 16,045 | 30,320 |
| Rent | 9,907 | 8,787 | 4,394 | 23,088 |
| Insurance | 13,529 | 3,777 | - | 17,306 |
| Merchandise | 248 | - | 20,758 | 21,006 |
| Payroll taxes | 5,085 | 4,623 | 5,702 | 15,410 |
| Newsletter | 13,686 | - | - | 13,686 |
| Computer and software | 7,786 | 1,833 | 2,260 | 11,879 |
| Depreciation | 8,540 | - | - | 8,540 |
| Bank and credit card fees | 245 | 163 | 8,711 | 9,119 |
| Travel, meals, and lodging | 4,562 | 2,037 | 3,907 | 10,506 |
| 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 |
| Property taxes | 2,382 | - | - | 2,382 |
| Conferences and meetings | 2,281 | 3,803 | 9,319 | 15,403 |
| Food and catering | 14,550 | - | - | 14,550 |
| Printing and publishing | 3,806 | - | - | 3,806 |
| 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>\$ 351,949</u> | <u>\$ 110,013</u> | <u>\$ 165,114</u> | <u>\$ 627,076</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,

| | 2020 | 2019 |
|---|--------------------|-------------------|
| Cash flows from operating activities | | |
| Cash received from grants and contributions | \$ 344,699 | \$ 889,337 |
| Cash received from members | 171,537 | 162,641 |
| Cash received from work sessions and merchandise | 42,884 | 77,006 |
| Cash received from special charters | - | 23,666 |
| Interest and other income | 2,406 | 6,155 |
| Cash paid to employees and suppliers | <u>(655,377)</u> | <u>(646,979)</u> |
| Net cash (used) provided by operating activities | <u>(93,851)</u> | <u>511,826</u> |
| Cash flows from investing activities | | |
| Proceeds from the sale of investments | 9,780 | - |
| Purchases of investments | (266,067) | (366,734) |
| Purchases of capital assets and collection items | <u>(37,734)</u> | <u>(86,832)</u> |
| Net cash used by investing activities | <u>(294,021)</u> | <u>(453,566)</u> |
| Net (decrease) increase in cash and cash equivalents | (387,872) | 58,260 |
| Cash and cash equivalents, beginning of year | <u>627,172</u> | <u>568,912</u> |
| Cash and cash equivalents, end of year | <u>\$ 239,300</u> | <u>\$ 627,172</u> |
| Reconciliation of change in net assets to net cash (used) provided by operating activities | | |
| Change in net assets | <u>\$ (98,574)</u> | <u>\$ 483,294</u> |
| Adjustments to reconcile change in net assets to net cash (used) provided by operating activities | | |
| Depreciation | 9,295 | 8,540 |
| Unrealized gain on investments | (3,244) | (1,592) |
| Changes in assets and liabilities | | |
| Receivables | - | 29,306 |
| Inventory | 2,453 | 2,969 |
| Prepaid expenses | 12,768 | (11,359) |
| Accounts payable and accrued expenses | (16,674) | 2,563 |
| Deferred revenue | <u>125</u> | <u>(1,895)</u> |
| Total adjustments | <u>4,723</u> | <u>28,532</u> |
| Net cash (used) provided by operating activities | <u>\$ (93,851)</u> | <u>\$ 511,826</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, 2020 and 2019**

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, 2020 and 2019

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 the 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.

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.

**Friends of the Cumbres &
Toltec Scenic Railroad, Inc.**
Notes to Financial Statements
December 31, 2020 and 2019

2) Summary of Significant Accounting Policies — continued

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, 2020 and 2019, 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.

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 restriction.

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 Friend's 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, 2020 and 2019

2) Summary of Significant Accounting Policies — continued

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, 2017, and thereafter are subject to audit by various taxing authorities.

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, 2020 and 2019, the cash bank balances totaled \$231,467 and \$623,571, of which \$10,216 and \$102,400, 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 during the year ended December 31, 2019.

Friends of the Cumbres & Toltec Scenic Railroad, Inc.

Notes to Financial Statements
December 31, 2020 and 2019

2) Summary of Significant Accounting Policies — continued

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.

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 June 19, 2021, the date which the financial statements were available to be issued, were evaluated for recognition and disclosure in the financial statements.

Friends of the Cumbres & Toltec Scenic Railroad, Inc.

Notes to Financial Statements
December 31, 2020 and 2019

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.

The Friends adopted FASB ASU 2018-08 – *Not-for-Profit Entities (Topic 958): Clarifying the Scope and the Accounting Guidance for Contributions Received and Contributions Made*. This update provides a more robust framework for determining whether a transaction should be accounted for as a contribution or an exchange transaction. To accomplish this, the ASU clarifies how a not-for-profit organization determines whether a resource provider is receiving value in return for the resources transferred based on the following criteria:

- A resource provider (including a private foundation, a government agency, or other) is not synonymous with the general public. Indirect benefits received by the public as a result of the assets transferred is not equivalent to commensurate value received by the resource provider.
- Execution of a resource provider's mission or the positive sentiment from acting as a donor would not constitute commensurate value received by a resource provider for purposes of determining whether a transfer of assets is a contribution or an exchange.

In addition, this ASU also requires an organization to determine whether a contribution is conditional based on whether the agreement includes a barrier that must be overcome or whether a right of return of assets transferred or a right of release of a promisor's obligation to transfer assets exists.

Friends of the Cumbres & Toltec Scenic Railroad, Inc.

Notes to Financial Statements
December 31, 2020 and 2019

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:

| | 2020 | 2019 |
|--|------------|------------|
| Buildings and improvements | \$ 260,566 | \$ 260,566 |
| Vehicles | 32,750 | 32,750 |
| Furniture and equipment | 154,647 | 140,122 |
| Subtotal | 447,963 | 433,438 |
| Less accumulated depreciation | (254,843) | (245,548) |
| Total capital assets being depreciated, net | 193,120 | 187,890 |
| Pre-development costs | 114,765 | 114,765 |
| Construction-in-process | 99,591 | 76,382 |
| Land | 205,500 | 205,500 |
| Total property, furniture and equipment, net | \$ 612,976 | \$ 584,537 |

5) Investments

The Friends investments are comprised of unrestricted investments and donor-restricted endowment funds to be held in perpetuity. At December 31, 2020, investments consist of equities with a fair market value of \$4,225 and certificates of deposit in the amounts of \$253,691, \$252,201, \$115,526, and \$112,949. Interest rates on the certificates of deposit range from 0.08% to 0.86% with original maturities of twelve to eighteen months. Investments at December 31, 2019, 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.

Friends of the Cumbres & Toltec Scenic Railroad, Inc.

Notes to Financial Statements
December 31, 2020 and 2019

5) Investments – continued

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 at December 31, 2020 and 2019, 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>2020</u> | <u>2019</u> |
|---|-------------------|-------------------|
| Subject to expenditure for specified purpose | | |
| Preserving Narrow Gauge Past for the Future (PNGPF) | \$ 139,829 | \$ 266,510 |
| Car restoration facility fund | 158,630 | 120,844 |
| Long-term preservation of photo collections | 16,262 | 13,561 |
| Other | 22,201 | 23,292 |
| Another Century of Narrow Gauge Steam (ACNGS II) | - | 1,963 |
| Endowment funds to be held in perpetuity | <u>90,150</u> | <u>90,150</u> |
| Total | <u>\$ 427,072</u> | <u>\$ 516,320</u> |

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

| | <u>2020</u> | <u>2019</u> |
|---|-------------------|-------------------|
| Preserving Narrow Gauge Past for the Future (PNGPF) | \$ 115,303 | \$ 113,665 |
| Another Century of Narrow Gauge Steam (ACNGS II) | 1,963 | 3,449 |
| Long-term preservation of photo collections | 6,742 | 41,366 |
| Other | 5,886 | 34,606 |
| Car restoration facility fund | <u>25</u> | <u>-</u> |
| Total | <u>\$ 129,919</u> | <u>\$ 193,086</u> |

Board-Designated Reserve

As of the December 31, 2020, and 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.

Friends of the Cumbres & Toltec Scenic Railroad, Inc.

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7) Availability and Liquidity

The following table reflects the Friends financial assets as of December 31, 2020, and 2019, 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:

| | 2020 | 2019 |
|--|------------|------------|
| Cash and cash equivalents | \$ 239,300 | \$ 627,172 |
| Investments - unrestricted | 648,442 | 388,911 |
| Total financial assets, at year-end | 887,742 | 1,016,083 |
| Less amounts unavailable for general expenditures within one year, due to donor-imposed restrictions | (234,072) | (200,814) |
| Less amounts unavailable to management without Board approval, representing amounts designated for future operations | (250,000) | (250,000) |
| Financial assets available to meet cash needs for general expenditures within one year | \$ 403,670 | \$ 565,269 |

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) 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.

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8) Fair Value Measurements – continued

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 equity investments at December 31, 2020 and 2019, were determined by Level 1 inputs. The fair value of the Friends certificates of deposit at December 31, 2020, and 2019, were determined by Level 2 inputs.

9) Special Charters

The Friends normally holds an annual Moonlight & Wine Tasting train excursion and other charter train excursions that are classified as special events. Due to the COVID-19 pandemic, these special events were unable to be held during fiscal year 2020. Revenues for the fiscal year 2019 excursions 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 |

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10) 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 (the 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.

11) Operating Lease

The Friends leases office space under a lease agreement that expires on December 31, 2021. Rent expense related to this operating lease was approximately \$22,000 in each of the years ending in December 31, 2020, and 2019. Future minimum lease payments under these leases are as follows:

| <u>Year Ending December 31,</u> | |
|---------------------------------|------------------|
| 2021 | 25,529 |
| 2022 | 21,668 |
| Total minimum lease payments | <u>\$ 47,197</u> |

12) Uncertainty Related to the COVID-19 Outbreak

The Friends operations in fiscal years 2020 and 2021 have been negatively impacted by the outbreak of the coronavirus disease 2019 (COVID-19), which was declared a pandemic by the World Health Organization. As COVID-19 took hold during 2020 the Friends board of directors and management instituted measures to reduce costs and safeguard the Friends volunteers and assets.

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12) Uncertainty Related to the COVID-19 Outbreak – continued

Due to the financial difficulties faced by so many during COVID-19, the Friends opted not to solicit funds for the annual capital campaign. Instead, the Friends raised \$106,525 (including a match of \$50,000 from the Friends) in donations to provide support to the Food Banks that serve the Chama, NM and Antonito, CO area and help the City of Chama repair a failed water system. A few critical work sessions took place in 2020 in Colorado. Work sessions in New Mexico were mostly cancelled for the season.

The Friends board of directors and management are regularly monitoring the effects of COVID-19 and will respond accordingly and appropriately to ensure the long-term existence of the Friends and its support in the preservation, interpretation, and restoration of the Cumbres & Toltec Scenic Railroad. As of June 19, 2021, the Friends have experienced a surge of volunteers returning to the work session sites all under CDC recommendations.