

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

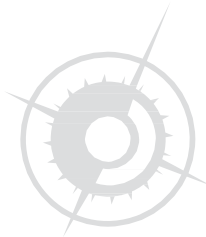
Financial Statements  
and  
Independent Auditors' Report

December 31, 2022 and 2021

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

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**SCHLENKER & CANTWELL, P.A.**  
Certified Public Accountants

## Independent Auditors' Report

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

### **Opinion**

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, 2022, and 2021, and the related statements of activities, functional expenses and cash flows for the years then ended, and the related notes to the financial statements.

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of the Friends as of December 31, 2022, and 2021, 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.

### **Basis for Opinion**

We conducted our audits in accordance with auditing standards generally accepted in the United States of America. Our responsibilities under those standards are further described in the Auditor's Responsibilities for the Audit of the Financial Statements section of our report. We are required to be independent of the Friends and to meet our other ethical responsibilities in accordance with the relevant ethical requirements related to our audits. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

### **Responsibilities of Management 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 and for 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.

In preparing the financial statements, management is required to evaluate whether there are conditions or events, considered in the aggregate, that raise substantial doubt about the Friends' ability to continue as a going concern within one year after the date that the financial statements are available to be issued.

## **Auditor's Responsibilities for the Audit of the Financial Statements**

Our objectives are to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion. Reasonable assurance is a high level of assurance but is not absolute assurance and therefore is not a guarantee that an audit conducted in accordance with generally accepted auditing standards will always detect a material misstatement when it exists. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control. Misstatements, including omissions, are considered material if there is a substantial likelihood that, individually or in the aggregate, they would influence the judgment made by a reasonable user based on the financial statements.

In performing an audit in accordance with generally accepted auditing standards, we:

- Exercise professional judgment and maintain professional skepticism throughout the audit.
- Identify and assess the risks of material misstatement of the financial statements, whether due to fraud or error, and design and perform audit procedures responsive to those risks. Such procedures include examining, on a test basis, evidence regarding the amounts and disclosures in the financial statements.
- Evaluate the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluate the overall presentation of the financial statements.
- Conclude whether, in our judgment, there are conditions or events, considered in the aggregate, that raise substantial doubt about the Friend's ability to continue as a going concern for a reasonable period of time.

We are required to communicate with those charged with governance regarding, among other matters, the planned scope and timing of the audit, significant audit findings, and certain internal control related matters that we identified during the audit.

*Schlenker & Cantrell, P.A.*

Albuquerque, New Mexico  
June 24, 2023

## Financial Statements

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

	<u>2022</u>	<u>2021</u>
<b>Assets</b>		
Current assets		
Cash and cash equivalents	\$ 565,144	\$ 391,830
Accounts receivable	214	-
Inventory, net	6,000	12,291
Prepaid expenses	<u>11,473</u>	<u>15,144</u>
Total current assets	582,831	419,265
Property, furniture and equipment, net	645,087	551,506
Investments - unrestricted	546,076	545,182
Endowment investments	90,150	90,150
Collections	<u>241,343</u>	<u>241,343</u>
Total assets	<u>\$ 2,105,487</u>	<u>\$ 1,847,446</u>
<b>Liabilities and Net Assets</b>		
Current liabilities		
Accounts payable and accrued expenses	\$ 49,808	\$ 41,227
Deferred revenue	<u>-</u>	<u>154</u>
Total liabilities	<u>49,808</u>	<u>41,381</u>
Net assets		
Net assets without donor restrictions:		
Reserve for future operations	<u>250,000</u>	<u>250,000</u>
Total designated	250,000	250,000
Undesignated	<u>1,283,246</u>	<u>1,097,828</u>
Total net assets without donor restrictions	1,533,246	1,347,828
Net assets with donor restrictions	<u>522,433</u>	<u>458,237</u>
Total net assets	<u>2,055,679</u>	<u>1,806,065</u>
Total liabilities and net assets	<u>\$ 2,105,487</u>	<u>\$ 1,847,446</u>

**Friends of the Cumbres &  
Toltec Scenic Railroad, Inc.**  
Statement of Activities  
For the Year Ended December 31, 2022

	Without Donor Restrictions	With Donor Restrictions	Total
<b>Support and Revenue</b>			
Grants and contributions	\$ 417,235	\$ 203,712	\$ 620,947
Reimbursed Commission projects	140,235	-	140,235
Member dues	131,985	-	131,985
Work sessions and merchandise	58,595	-	58,595
Special charter, net of expenses of \$34,333	(365)		(365)
Investment and interest income	1,057	-	1,057
Other income	1,245	-	1,245
Net assets released from restrictions	139,516	(139,516)	-
Total support and revenue	<u>889,503</u>	<u>64,196</u>	<u>953,699</u>
<b>Expenses</b>			
Program services	360,260	-	360,260
Supporting services			
Management and general	149,061	-	149,061
Fundraising	194,764	-	194,764
Total supporting services	343,825	-	343,825
Total expenses	<u>704,085</u>	<u>-</u>	<u>704,085</u>
Change in net assets	185,418	64,196	249,614
Net assets, beginning of year	1,347,828	458,237	1,806,065
<b>Net assets, end of year</b>	<u><u>\$ 1,533,246</u></u>	<u><u>\$ 522,433</u></u>	<u><u>\$ 2,055,679</u></u>

**Friends of the Cumbres &  
Toltec Scenic Railroad, Inc.**  
Statement of Activities  
For the Year Ended December 31, 2021

	Without Donor Restrictions	With Donor Restrictions	Total
<b>Support and Revenue</b>			
Grants and contributions	\$ 354,927	\$ 91,299	\$ 446,226
Member dues	160,993	-	160,993
Work sessions and merchandise	61,249	-	61,249
Special charter, net of expenses of \$21,802	8,944		8,944
Investment and interest income	1,412	-	1,412
Other income	1,253	-	1,253
Net assets released from restrictions	60,134	(60,134)	-
Total support and revenue	<u>648,912</u>	<u>31,165</u>	<u>680,077</u>
<b>Expenses</b>			
Program services	511,116	-	511,116
Supporting services			
Management and general	127,465	-	127,465
Fundraising	170,592	-	170,592
Total supporting services	<u>298,057</u>	<u>-</u>	<u>298,057</u>
Total expenses	<u>809,173</u>	<u>-</u>	<u>809,173</u>
Change in net assets	(160,261)	31,165	(129,096)
Net assets, beginning of year	<u>1,508,089</u>	<u>427,072</u>	<u>1,935,161</u>
<b>Net assets, end of year</b>	<u><u>\$ 1,347,828</u></u>	<u><u>\$ 458,237</u></u>	<u><u>\$ 1,806,065</u></u>

**Friends of the Cumbres &  
Toltec Scenic Railroad, Inc.**  
**Statement of Functional Expenses**  
**For the Year Ended December 31, 2022**

	Program	Management and General	Fundraising	Total
Contractual services	\$ 59,179	\$ 76,178	\$ 85,439	\$ 220,796
Salaries and benefits	55,925	39,946	63,914	159,785
Materials, tools, and supplies	130,288	-	-	130,288
Rent	8,864	5,520	8,832	23,216
Newsletter	20,201	-	-	20,201
Insurance	16,850	2,849	-	19,699
Conferences and meetings	1,552	5,287	11,181	18,020
Office supplies and copying	4,126	3,342	9,675	17,143
Freight and postage	970	555	14,353	15,878
Merchandise	2,097	-	12,224	14,321
Payroll taxes	4,463	3,188	5,101	12,752
Computer and software	6,544	2,149	3,788	12,481
Food and catering	11,919	-	-	11,919
Depreciation	12,434	-	-	12,434
Telephone and internet	4,118	1,383	2,968	8,469
Bank and credit card fees	98	139	7,486	7,723
Printing and publishing	6,032	-	-	6,032
Inventory valuation adjustment	-	6,028	-	6,028
Utilities	3,813	1,267	633	5,713
Travel, meals, and lodging	2,394	1,042	1,941	5,377
Property taxes	4,026	10	-	4,036
Advertising and public relations	1,174	-	1,278	2,452
Charitable donations	2,000	-	-	2,000
Dues and subscriptions	1,193	178	284	1,655
Total expenses	<u>360,260</u>	<u>149,061</u>	<u>229,097</u>	<u>738,418</u>
Less special charters expenses netted with revenues	<u>-</u>	<u>-</u>	<u>(34,333)</u>	<u>(34,333)</u>
Total expenses on the Statement of Activities	<u>\$ 360,260</u>	<u>\$ 149,061</u>	<u>\$ 194,764</u>	<u>\$ 704,085</u>

**Friends of the Cumbres &  
Toltec Scenic Railroad, Inc.**  
**Statement of Functional Expenses**  
**For the Year Ended December 31, 2021**

	Program	Management and General	Fundraising	Total
Contractual services	\$ 8,653	\$ 20,854	\$ 28,453	\$ 57,960
Salaries and benefits	67,744	75,714	55,789	199,247
Materials, tools, and supplies	135,387	-	13	135,400
Rent	10,021	8,832	4,416	23,269
Newsletter	16,207	-	-	16,207
Insurance	18,406	2,964	-	21,370
Conferences and meetings	373	1,565	2,518	4,456
Office supplies and copying	9,730	1,785	48,379	59,894
Freight and postage	734	388	11,196	12,318
Merchandise	1,013	2,336	15,412	18,761
Payroll taxes	5,276	5,896	4,345	15,517
Computer and software	4,738	2,485	2,557	9,780
Food and catering	13,459	-	-	13,459
Depreciation	12,255	-	-	12,255
Telephone and internet	3,532	2,078	2,099	7,709
Bank and credit card fees	196	98	7,960	8,254
Printing and publishing	8,030	-	278	8,308
Utilities	3,913	1,236	911	6,060
Travel, meals, and lodging	5,968	1,002	924	7,894
Property taxes	3,866	-	29	3,895
Advertising and public relations	2,352	-	6,944	9,296
Charitable donations	4,835	-	-	4,835
Dues and subscriptions	1,194	232	171	1,597
Equipment contributions to railroad commission	173,234	-	-	173,234
Total expenses	<u>511,116</u>	<u>127,465</u>	<u>192,394</u>	<u>830,975</u>
Less special charters expense netted with revenues	<u>-</u>	<u>-</u>	<u>(21,802)</u>	<u>(21,802)</u>
Total expenses on the Statement of Activities	<u>\$ 511,116</u>	<u>\$ 127,465</u>	<u>\$ 170,592</u>	<u>\$ 809,173</u>

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

	<u>2022</u>	<u>2021</u>
<b>Cash flows from operating activities</b>		
Cash received from grants and contributions	\$ 626,762	\$ 446,226
Cash received from members	131,831	160,917
Cash received from work sessions and merchandise	199,092	61,249
Cash received from special charters	33,968	30,746
Interest and other cash receipts	2,302	2,219
Cash paid to employees and suppliers	<u>(713,732)</u>	<u>(627,383)</u>
Net cash provided by operating activities	<u>280,223</u>	<u>73,974</u>
<b>Cash flows from investing activities</b>		
Proceeds from the sale of investments	-	104,672
Purchases of investments	(894)	(966)
Purchases of capital assets and collection items	<u>(106,015)</u>	<u>(25,150)</u>
Net cash (used) provided by investing activities	<u>(106,909)</u>	<u>78,556</u>
Net increase in cash and cash equivalents	173,314	152,530
Cash and cash equivalents, beginning of year	<u>391,830</u>	<u>239,300</u>
<b>Cash and cash equivalents, end of year</b>	<u><u>\$ 565,144</u></u>	<u><u>\$ 391,830</u></u>
<b>Reconciliation of change in net assets to net cash provided by operating activities</b>		
Change in net assets	<u>\$ 249,614</u>	<u>\$ (129,096)</u>
Adjustments to reconcile change in net assets to net cash provided by operating activities		
Depreciation	12,434	12,255
Inventory valuation adjustment	6,029	-
Unrealized gain on investments	-	(446)
Equipment contribution to the Railroad Commission	-	173,234
Changes in assets and liabilities		
Accounts receivable	(214)	-
Inventory	262	1,597
Prepaid expenses	3,671	(455)
Accounts payable and accrued expenses	8,581	16,961
Deferred revenue	<u>(154)</u>	<u>(76)</u>
Total adjustments	<u>30,609</u>	<u>203,070</u>
Net cash provided by operating activities	<u><u>\$ 280,223</u></u>	<u><u>\$ 73,974</u></u>

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

**Notes to Financial Statements  
December 31, 2022 and 2021**

## **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 \$1.2 million 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, 2022 and 2021**

## **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 Assets 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, 2022 and 2021**

### **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, 2022 and 2021, 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.

#### Revenue Recognition

The Friends' financial statements are presented in accordance with FASB Accounting Standards Update (ASU) 2014-09, *Revenue from Contracts with Customers*. Under ASU 2014-09 the Friends is required to recognize revenue for 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.

Revenue recognition for the Friends is as follows:

#### Contributions and Grants

Unconditional promises to give are recognized as revenue in the period the promise was made. Contributions, grants, and bequests are recognized as net assets with donor restrictions if they are received with donor stipulations that limit the use of the donated assets. Donor-imposed restrictions are released when a restriction expires, that is, when the stipulated time has elapsed, when the stipulated purpose for which the resource was restricted has been fulfilled, or both. The Friends reports contributions restricted by donors as increases in net assets without donor restrictions if the restrictions expire (that is, when a stipulated time restriction ends or purpose restriction is accomplished) in the reporting period in which the revenue is recognized.

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

## **Notes to Financial Statements December 31, 2022 and 2021**

### **2) Summary of Significant Accounting Policies — continued**

Conditional grants and contract funds are recorded as revenue when earned. Revenue is earned when eligible expenditures or deliverables, as defined in each contract, are met. Funds received but not yet earned are shown as Deferred Revenue. Expenditures under contracts are subject to review by the granting authority. To the extent, if any, that such a review reduces expenditures allowable under these contracts, the Friends will record such disallowance at the time the final assessment is made.

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.

#### Contributions received and contributions made

The Organization adopted FASB ASU No. 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 benefit 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.

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

**Notes to Financial Statements  
December 31, 2022 and 2021**

## **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 ended December 31, 2019, 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, 2022 and 2021, the cash bank balances totaled \$539,330 and \$373,422, respectively, of which \$289,330 and \$62,760, respectively, 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.

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

**Notes to Financial Statements  
December 31, 2022 and 2021**

## **2) Summary of Significant Accounting Policies — continued**

During 2021 the Friends contributed its Denver & Rio Grande Pullman Tourist Sleeper Number 470 (Sleeper) to the Cumbres & Toltec Scenic Railroad Commission for use on the Cumbres & Toltec Scenic Railroad. The Friends began restoration of the Sleeper in 2009, in Colorado Springs, Colorado. The book value of the Sleeper when contributed was \$173,234.

### 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. During 2022 management determined the market value of its inventory was below cost and recorded an inventory valuation adjustment of \$6,209.

### Advertising Costs

Advertising costs are expensed as incurred.

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

**Notes to Financial Statements  
December 31, 2022 and 2021**

## **2) Summary of Significant Accounting Policies — continued**

### Leases

Effective January 1, 2022, the Friends adopted FASB ASC 842, *Leases*. The Friends determines if an arrangement contains a lease at inception based on whether the Friends has the right to control the asset during the contract period and other facts and circumstances. The Friends' elected the package of practical expedients permitted under the transition guidance with the new standard, which among other things, allowed it to carry forward the historical lease classification. The adoption of FASB ASC 842 did not have an impact of the Friend's financial statements as of and for the years ended December 31, 2022 and 2021, as it did not have any leases that fell within the scope of this standard.

### 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 24, 2023, the date which the financial statements were available to be issued, were evaluated for recognition and disclosure in the financial statements.

## **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.

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

Notes to Financial Statements  
December 31, 2022 and 2021

## 4) Property, Furniture and Equipment

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

	<u>2022</u>	<u>2021</u>
Buildings and improvements	\$ 260,566	\$ 260,566
Vehicles	32,750	32,750
Furniture and equipment	<u>167,432</u>	<u>162,432</u>
Subtotal	460,748	455,748
Less accumulated depreciation	<u>(279,352)</u>	<u>(267,098)</u>
Total capital assets being depreciated, net	181,396	188,650
Pre-development costs	114,765	114,765
Construction-in-process	143,426	42,591
Land	<u>205,500</u>	<u>205,500</u>
Total property, furniture and equipment, net	<u>\$ 645,087</u>	<u>\$ 551,506</u>

## 5) Investments

The Friends' investments are comprised of unrestricted investments and donor-restricted endowment funds to be held in perpetuity. At December 31, 2022, investments consist of certificates of deposit in the amounts of \$253,378, \$115,611, \$113,031, and \$154,206. At December 31, 2021, investments consist of certificates of deposit in the amounts of \$252,960, \$115,526, \$112,948, and \$153,898. Interest rates on the certificates of deposit range from 0.08% to 0.86% with original maturities of twelve to eighteen 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 at December 31, 2022 and 2021, respectively. The Friends have not yet adopted endowment investment and spending policies.

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

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## 6) Net Assets With Donor Restrictions

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

	2022	2021
Subject to expenditure for specified purpose		
Preserving Narrow Gauge Past for the Future (PNGPF)	\$ 386,083	\$ 157,491
Car restoration facility fund	103,671	173,630
Long-term preservation of photo collections	27,779	22,089
Commission projects	10,320	
Other	38,100	14,877
Endowment funds to be held in perpetuity	90,150	90,150
Total	<u>\$ 656,103</u>	<u>\$ 458,237</u>

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

	2022	2021
Car restoration facility fund	\$ 69,959	\$ -
Preserving Narrow Gauge Past for the Future (PNGPF)	65,463	47,326
Long-term preservation of photo collections	4,094	5,022
Other	-	7,786
Total	<u>\$ 139,516</u>	<u>\$ 60,134</u>

### Board-Designated Reserve

As of December 31, 2022, and 2021, the Friends' 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 Friends had \$1,111,434 and \$937,012 of financial assets, as of December 31, 2022, and 2021, available to meet cash needs for general expenditures within one year of the statement of financial position date.

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

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

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## **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.

Level 2 inputs – include:

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

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

The Friends investments at December 31, 2022 and 2021, consisted solely of certificates of deposit whose fair values were determined by Level 1 inputs.

## **9) 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 these special events:

For the year ended December 31, 2022:

	Revenues	Direct Costs	Net
Moonlight & Wine Tasting Train	\$ 18,928	\$ 15,179	\$ 3,749
Charter Trains	15,040	19,154	(4,114)
	<u>\$ 33,968</u>	<u>\$ 34,333</u>	<u>\$ (365)</u>

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**9) Special Charters – continued**

For the year ended December 31, 2021:

	Revenues	Direct Costs	Net
Moonlight & Wine Tasting Train	\$ 18,096	\$ 11,959	\$ 6,137
Charter Trains	12,650	9,843	2,807
	<u>\$ 30,746</u>	<u>\$ 21,802</u>	<u>\$ 8,944</u>