

Friends of the Cumbres & Toltec Scenic Railroad, Inc.

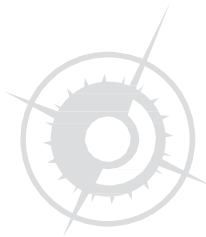
Financial Statements
and
Independent Auditors' Report

December 31, 2021 and 2020

Friends of the Cumbres & Toltec Scenic Railroad, Inc.

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SCHLENKER & CANTWELL, P.A.
Certified Public Accountants

Independent Auditors' Report

To the Board of Directors of the
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 statement of financial position as of December 31, 2021, and the related statements of activities, functional expenses and cash flows for the year 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, 2021, and the changes in its net assets and its cash flows for the year then ended in accordance with accounting principles generally accepted in the United States of America.

Basis for Opinion

We conducted our audit in accordance with auditing standards generally accepted in the United States of America. Our responsibilities under those standards are further described in the Auditors' 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 audit. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Other Matters – Prior Period Financial Statements

The financial statements of the Friends as of and for the year ended December 31, 2020, were audited by a predecessor auditor, whose report dated June 19, 2021, expressed an unmodified opinion. Our opinion is not modified with respect to this matter.

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.

Auditors' 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 & Cantwell, P.A.

SCHLENKER & CANTWELL, P.A.
Certified Public Accountants

Albuquerque, New Mexico
June 18, 2022

Financial Statements

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

	2021	2020
Assets		
Current assets		
Cash and cash equivalents	\$ 391,830	\$ 239,300
Inventory	12,291	13,888
Prepaid expenses	15,144	14,689
Total current assets	419,265	267,877
Property, furniture and equipment, net	551,506	612,976
Investments - unrestricted	545,182	648,442
Endowment investments	90,150	90,150
Collections	241,343	340,212
Total assets	\$ 1,847,446	\$ 1,959,657
Liabilities and Net Assets		
Current liabilities		
Accounts payable and accrued expenses	\$ 41,227	\$ 24,266
Deferred revenue	154	230
Total liabilities	41,381	24,496
Net assets		
Net assets without donor restrictions:		
Reserve for future operations	250,000	250,000
Total designated	250,000	250,000
Undesignated	1,097,828	1,258,089
Total net assets without donor restrictions	1,347,828	1,508,089
Net assets with donor restrictions	458,237	427,072
Total net assets	1,806,065	1,935,161
Total liabilities and net assets	\$ 1,847,446	\$ 1,959,657

**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
Support and Revenue			
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	648,912	31,165	680,077
Expenses			
Program services	511,116	-	511,116
Supporting services			
Management and general	127,465	-	127,465
Fundraising	170,592	-	170,592
Total supporting services	298,057	-	298,057
Total expenses	809,173	-	809,173
Change in net assets	(160,261)	31,165	(129,096)
Net assets, beginning of year	1,508,089	427,072	1,935,161
Net assets, end of year	\$ 1,347,828	\$ 458,237	\$ 1,806,065

**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 restrictions	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>

**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
Salaries and benefits	\$ 67,744	\$ 75,714	\$ 55,789	\$ 199,247
Equipment contributions to railroad commission	173,234			173,234
Materials, tools, and supplies	135,387	-	13	135,400
Office supplies and copying	9,730	1,785	48,379	59,894
Contractual services	8,653	20,854	28,453	57,960
Rent	10,021	8,832	4,416	23,269
Insurance	18,406	2,964	-	21,370
Merchandise	1,013	2,336	15,412	18,761
Newsletter	16,207	-	-	16,207
Payroll taxes	5,276	5,896	4,345	15,517
Food and catering	13,459	-	-	13,459
Freight and postage	734	388	11,196	12,318
Depreciation	12,255	-	-	12,255
Computer and software	4,738	2,485	2,557	9,780
Advertising and public relations	2,352	-	6,944	9,296
Printing and publishing	8,030	-	278	8,308
Bank and credit card fees	196	98	7,960	8,254
Travel, meals, and lodging	5,968	1,002	924	7,894
Telephone and internet	3,532	2,078	2,099	7,709
Utilities	3,913	1,236	911	6,060
Charitable donations	4,835	-	-	4,835
Conferences and meetings	373	1,565	2,518	4,456
Property taxes	3,866	-	29	3,895
Dues and subscriptions	1,194	232	171	1,597
Total expenses	<u>511,116</u>	<u>127,465</u>	<u>192,394</u>	<u>830,975</u>
Less special charters expenses 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.**
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
Materials, tools, and supplies	90,136	-	1,006	91,142
Office supplies and copying	16,627	2,431	5,826	24,884
Contractual services	87,568	22,258	14,021	123,847
Rent	9,967	8,832	4,416	23,215
Insurance	17,574	3,630	-	21,204
Merchandise	1,430	-	17,669	19,099
Newsletter	15,049	-	-	15,049
Payroll taxes	7,031	4,127	4,127	15,285
Food and catering	3,156	-	-	3,156
Freight and postage	30,419	833	5,772	37,024
Depreciation	9,295	-	-	9,295
Computer and software	6,220	1,966	1,966	10,152
Advertising and public relations	3,146	-	2,669	5,815
Printing and publishing	2,378	-	681	3,059
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
Charitable donations	25,500	-	-	25,500
Conferences and meetings	448	681	2,320	3,449
Property taxes	4,729	10	-	4,739
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>

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

	<u>2021</u>	<u>2020</u>
Cash flows from operating activities		
Cash received from grants and contributions	\$ 446,226	\$ 344,699
Cash received from members	160,917	171,537
Cash received from work sessions and merchandise	61,249	42,884
Cash received from special charters	30,746	-
Interest and other cash receipts	2,219	2,406
Cash paid to employees and suppliers	<u>(627,383)</u>	<u>(655,377)</u>
Net cash provided (used) by operating activities	<u>73,974</u>	<u>(93,851)</u>
Cash flows from investing activities		
Proceeds from the sale of investments	104,672	9,780
Purchases of investments	(966)	(266,067)
Purchases of capital assets and collection items	<u>(25,150)</u>	<u>(37,734)</u>
Net cash provided (used) by investing activities	<u>78,556</u>	<u>(294,021)</u>
Net increase (decrease) in cash and cash equivalents	152,530	(387,872)
Cash and cash equivalents, beginning of year	<u>239,300</u>	<u>627,172</u>
Cash and cash equivalents, end of year	<u>\$ 391,830</u>	<u>\$ 239,300</u>
Reconciliation of change in net assets to net cash provided (used) by operating activities		
Change in net assets	<u>\$ (129,096)</u>	<u>\$ (98,574)</u>
Adjustments to reconcile change in net assets to net cash provided (used) by operating activities		
Depreciation	12,255	9,295
Unrealized gain on investments	(446)	(3,244)
Equipment contribution to the Railroad Commission	173,234	-
Changes in assets and liabilities		
Inventory	1,597	2,453
Prepaid expenses	(455)	12,768
Accounts payable and accrued expenses	16,961	(16,674)
Deferred revenue	<u>(76)</u>	<u>125</u>
Total adjustments	<u>203,070</u>	<u>4,723</u>
Net cash provided (used) by operating activities	<u>\$ 73,974</u>	<u>\$ (93,851)</u>

Friends of the Cumbres & Toltec Scenic Railroad, Inc.

**Notes to Financial Statements
December 31, 2021 and 2020**

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, 2021 and 2020

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, 2021 and 2020

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, 2021 and 2020, 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 Friend's 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, 2021 and 2020**

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, 2021 and 2020

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, 2018, 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, 2021 and 2020, the cash bank balances totaled \$373,422 and \$210,238, of which \$62,760 and \$10,216, 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, 2021 and 2020

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.

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.

Friends of the Cumbres & Toltec Scenic Railroad, Inc.

**Notes to Financial Statements
December 31, 2021 and 2020**

2) Summary of Significant Accounting Policies — continued

Subsequent events through June 18, 2022, 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.

4) Property, Furniture and Equipment

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

	2021	2020
Buildings and improvements	\$ 260,566	\$ 260,566
Vehicles	32,750	32,750
Furniture and equipment	162,432	154,647
Subtotal	455,748	447,963
Less accumulated depreciation	(267,098)	(254,843)
Total capital assets being depreciated, net	188,650	193,120
Pre-development costs	114,765	114,765
Construction-in-process	42,591	99,591
Land	205,500	205,500
Total property, furniture and equipment, net	\$ 551,506	\$ 612,976

5) Investments

The Friends investments are comprised of unrestricted investments and donor-restricted endowment funds to be held in perpetuity. At December 31, 2021, investments consist of certificates of deposit in the amounts of \$252,960, \$115,526, \$112,948, and \$153,898. 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.

Friends of the Cumbres & Toltec Scenic Railroad, Inc.

Notes to Financial Statements
December 31, 2021 and 2020

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, 2021 and 2020, 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>2021</u>	<u>2020</u>
Subject to expenditure for specified purpose		
Preserving Narrow Gauge Past for the Future (PNGPF)	\$ 157,491	\$ 139,829
Car restoration facility fund	173,630	158,630
Long-term preservation of photo collections	22,089	16,262
Other	14,877	22,201
Endowment funds to be held in perpetuity	<u>90,150</u>	<u>90,150</u>
Total	<u>\$ 458,237</u>	<u>\$ 427,072</u>

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

	<u>2021</u>	<u>2020</u>
Preserving Narrow Gauge Past for the Future (PNGPF)	\$ 47,326	\$ 115,303
Other	7,786	5,886
Long-term preservation of photo collections	5,022	6,742
Another Century of Narrow Gauge Steam (ACNGS II)	-	1,963
Car restoration facility fund	<u>-</u>	<u>25</u>
Total	<u>\$ 60,134</u>	<u>\$ 129,919</u>

Board-Designated Reserve

As of December 31, 2021, and 2020, 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.

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7) Availability and Liquidity

The Friends has \$937,012 and \$887,742 of financial assets, as of December 31, 2021 and 2020, 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.

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, 2021, consisted solely of certificates of deposit whose fair values were determined by Level 1 inputs. The fair value of the Friends equity investments at December 31, 2020, consisted of equities and certificates of deposit whose fair values were determined by Level 1 and Level 2 inputs, respectively.

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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. Due to the COVID-19 pandemic, these special events were unable to be held during 2020 but resumed during 2021. Below are summaries of the special events 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
	\$ 30,746	\$ 21,802	\$ 8,944

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, 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, 2021 (the Friends' fiscal year ending December 31, 2022).

Contributed Nonfinancial Assets

In September 2020, FASB issued amended guidance for contributed nonfinancial assets. The guidance requires the presentation of contributed nonfinancial assets as a separate line item in the statement of activities, disclosure of the disaggregated amount by type and disclosure of qualitative information about whether the contributed nonfinancial assets were monetized or utilized during the reporting period, as well as a description of the programs or other activities in which the assets were used.

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10) Recently Issued Accounting Pronouncements – continued

The guidance also requires disclosure of any donor-imposed restrictions and a description of valuation techniques. The amendments in the guidance will be effective for fiscal years beginning after June 15, 2021 (the Friend’s fiscal year ending December 31, 2022).

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 Commitment’s

The Friends has several non-cancelable operating leases for office space, storage space, printing and postage equipment and services, that expire at various dates. Rent expense related to these leases was approximately \$25,000 for each of the years ending December 31, 2021 and 2020. Future minimum payments under these leases are as follows:

<u>Year Ending December 31,</u>	
2022	\$ 23,771
2023	1,589
2024	1,470
2025	1,470
2026	<u>613</u>
Total minimum lease payments	<u>\$ 28,913</u>

12) Uncertainty Related to the COVID-19 Outbreak

During the year ended December 31, 2020, the World Health Organization declared the spread of Coronavirus Disease (COVID-19) a worldwide pandemic. The COVID-19 pandemic is having significant effects on global markets, supply chains, businesses, and communities. Specific to the Friends, COVID-19 may continue to impact parts of its 2022 operations and financial results. In addition, investment markets may continue to experience significant fluctuations. Management believes the Friends has and continues to take appropriate actions to mitigate the negative impact by protecting the Friends volunteers and its assets. However, the full impact of COVID-19 is remains unknown and cannot be reasonably estimated as these events are still developing.