LOFTIS GROUP LLC
CERTIFIED PUBLIC ACCOUNTANTS ▪ BUSINESS ADVISORS

Friends of the Cumbres & Toltec Scenic Railroad, Inc.

Financial Statements
and
Independent Auditors' Report

December 31, 2017 and 2016

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, 2017 and 2016, and the related statements of activities, functional expenses and cash flows for the years then ended, and the related notes to the financial statements.

Management's Responsibility for the Financial Statements

Management is responsible for the preparation and fair presentation of these financial statements in accordance with accounting principles generally accepted in the United States of America; this includes the design, implementation, and maintenance of internal control relevant to the preparation and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error.

Auditors' Responsibility

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

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

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Opinion

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of the Friends of the Cumbres & Toltec Scenic Railroad, Inc. as of December 31, 2017 and 2016, and the changes in its net assets and its cash flows for the years then ended in accordance with accounting principles generally accepted in the United States of America.

Loftis Group LLC

Albuquerque, New Mexico
June 23, 2018

Financial Statements

Friends of the Cumbres & Toltec Scenic Railroad, Inc.

Statements of Financial Position
December 31,

	2017	2016
Assets		
Current assets		
Cash and cash equivalents	**$ 428,578**	$ 363,619
Receivables	**11,552**	10,770
Inventory	**6,336**	16,289
Prepaid expenses	**14,722**	8,570
Total current assets	**461,188**	399,248
Property, furniture and equipment, net	**534,876**	550,677
Investments - unrestricted	**21,585**	20,610
Investments - permanently restricted	**89,150**	88,650
Collections	**268,249**	218,762
Total assets	**$ 1,375,048**	$ 1,277,947
Liabilities and Net Assets		
Current liabilities		
Accounts payable and accrued expenses	**$ 32,083**	$ 18,931
Deferred revenue	**3,336**	2,548
Total current liabililties	**35,419**	21,479
Net assets		
Unrestricted	**839,405**	800,854
Temporarily restricted	**411,074**	366,964
Permanently restricted	**89,150**	88,650
Total net assets	**1,339,629**	1,256,468
Total liabilities and net assets	**$ 1,375,048**	$ 1,277,947

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, 2017

	Unrestricted	Temporarily Restricted	Permanently Restricted	Total
Support and Revenue				
Grants and contributions	$ 182,559	$ 183,058	$ 500	$ 366,117
Special charters, net of expenses of $102,598	24,425	-	-	24,425
Work sessions and merchandise	72,550	-	-	72,550
Member dues	173,306	-	-	173,306
Other income	3,229	-	-	3,229
Reimbursed Commission projects	43,587	-	-	43,587
Interest income	1,579	-	-	1,579
Net assets released from restriction	138,948	(138,948)	-	-
Total support and revenue	640,183	44,110	500	684,793
Expenses				
Program services	328,722	-	-	328,722
Supporting services				
Management and general	109,384	-	-	109,384
Fundraising	163,526	-	-	163,526
Total supporting services	272,910	-	-	272,910
Total expenses	601,632	-	-	601,632
Change in net assets	38,551	44,110	500	83,161
Net assets, beginning of year	800,854	366,964	88,650	1,256,468
Net assets, end of year	$ 839,405	$ 411,074	$ 89,150	$ 1,339,629

The accompanying notes are an integral part of these financial statements.

Friends of the Cumbres & Toltec Scenic Railroad, Inc.

Statement of Activities

For the Year Ended December 31, 2016

	Unrestricted	Temporarily Restricted	Permanently Restricted	Total
Support and Revenue				
Grants and contributions	$ 228,703	$ 191,141	$ 500	$ 420,344
Special charters, net of expenses of $265,028	29,270	-	-	29,270
Work sessions and merchandise	78,516	-	-	78,516
Member dues	165,576	-	-	165,576
Other income	4,014	-	-	4,014
Reimbursed Commission projects	10,270	-	-	10,270
Interest income	1,295	-	-	1,295
Net assets released from restriction	98,446	(98,446)	-	-
Total support and revenue	616,090	92,695	500	709,285
Expenses				
Program services	271,526	-	-	271,526
Supporting services				
Management and general	147,833	-	-	147,833
Fundraising	169,030	-	-	169,030
Total supporting services	316,863	-	-	316,863
Total expenses	588,389	-	-	588,389
Change in net assets	27,701	92,695	500	120,896
Net assets, beginning of year	773,153	274,269	88,150	1,135,572
Net assets, end of year	$ 800,854	$ 366,964	$ 88,650	$ 1,256,468

Friends of the Cumbres & Toltec Scenic Railroad, Inc.
Statement of Functional Expenses
For the Year Ended December 31, 2017

	Program	Management and General	Fundraising	Total
Salaries and benefits	$ 77,014	$ 57,760	$ 57,760	$ 192,534
Materials, tools and supplies	128,762	-	5,365	134,127
Merchandise	123	-	29,311	29,434
Office supplies and copying	6,632	1,370	19,327	27,329
Contractual services	6,637	16,750	2,282	25,669
Rent	9,635	8,510	4,255	22,400
Insurance	8,788	11,124	-	19,912
Freight and postage	5,336	380	12,579	18,295
Depreciation	15,967	429	-	16,396
Food and catering	16,057	-	-	16,057
Newsletter	14,976	-	-	14,976
Payroll taxes	5,985	4,488	4,488	14,961
Computer and software	5,507	2,318	2,401	10,226
Conferences and meetings	1,134	1,205	7,736	10,075
Travel, meals and lodging	6,903	506	2,341	9,750
Bank and credit card fees	147	-	8,863	9,010
Telephone and internet	3,394	3,054	1,527	7,975
Printing and publishing	5,913	-	606	6,519
Advertising and public relations	1,999	-	3,116	5,115
Utilities	3,067	1,177	588	4,832
Property taxes	3,442	20	176	3,638
Dues and subscriptions	1,146	293	556	1,995
Member premiums and gifts	-	-	249	249
Contributions	158	-	-	158
Total expenses	$ 328,722	$ 109,384	$ 163,526	$ 601,632

Friends of the Cumbres & Toltec Scenic Railroad, Inc.

Statement of Functional Expenses
For the Year Ended December 31, 2016

	Program	Management and General	Fundraising	Total
Salaries and benefits	$ 59,403	$ 59,403	$ 79,204	$ 198,010
Materials, tools and supplies	97,528	-	-	97,528
Merchandise	-	22,848	11,524	34,372
Office supplies and copying	4,269	2,386	27,846	34,501
Contractual services	11,113	16,894	3,346	31,353
Rent	8,932	8,430	4,215	21,577
Insurance	3,605	12,108	-	15,713
Freight and postage	543	1,779	9,094	11,416
Depreciation	14,746	10,282	-	25,028
Food and catering	15,313	-	-	15,313
Newsletter	17,399	-	-	17,399
Payroll taxes	4,389	4,389	5,852	14,630
Computer and software	3,614	1,719	2,292	7,625
Conferences and meetings	4,091	1,596	6,895	12,582
Travel, meals and lodging	3,544	1,722	381	5,647
Bank and credit card fees	4,172	-	7,416	11,588
Telephone and internet	3,269	1,804	2,761	7,834
Printing and publishing	3,706	-	-	3,706
Advertising and public relations	2,200	-	3,709	5,909
Utilities	2,660	1,048	524	4,232
Property taxes	3,779	10	-	3,789
Dues and subscriptions	751	1,415	65	2,231
Member premiums and gifts	-	-	3,906	3,906
Contributions	2,500	-	-	2,500
Total expenses	$ 271,526	$ 147,833	$ 169,030	$ 588,389

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,

	2017	2016
Cash flows from operating activities		
Cash received from grants and contributions	**$ 351,586**	$ 412,619
Cash received from members	**173,306**	165,576
Cash received from work sessions and merchandise	**72,550**	78,516
Cash received from special charters	**127,023**	294,298
Interest and other income	**48,395**	15,579
Cash paid to employees and suppliers	**(670,093)**	(844,135)
Net cash provided by operating activities	**102,767**	122,453
Cash flows from investing activities		
Purchases of investments	**(1,475)**	(1,300)
Purchases of capital assets and collection item	**(36,333)**	(22,316)
Net cash used by investing activities	**(37,808)**	(23,616)
Net increase in cash and cash equivalents	**64,959**	98,837
Cash and cash equivalents, beginning of year	**363,619**	264,782
Cash and cash equivalents, end of year	**$ 428,578**	$ 363,619
Reconciliation of change in net assets to net cash provided by operating activities		
Change in net assets	**$ 83,161**	$ 120,896
Adjustments to reconcile change in net assets to net cash provided by operating activities		
Depreciation	**16,396**	25,028
Inventory adjustment	**-**	22,723
Historical collection contributions	**(13,749)**	-
Changes in assets and liabilities		
Receivables	**(782)**	(7,725)
Inventory	**9,953**	(1,286)
Prepaid expenses	**(6,152)**	5,977
Accounts payable and accrued expenses	**13,152**	2,407
Deferred revenue	**788**	(45,567)
Total adjustments	**19,606**	1,557
Net cash provided by operating activities	**$ 102,767**	$ 122,453

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, 2017 and 2016

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.

2) Summary of Significant Accounting Policies

Basis of Accounting

Financial statement presentation follows the requirements of Financial Accounting Standards Board (FASB) Accounting Standards Codification (ASC) Section 955-205, *Not-for-Profit Entities—Presentation of Financial Statements.*

The Friends is required to report information regarding their financial position and activities according to the following three classes of net assets:

- *Unrestricted net assets* represent the portion of the Friends net assets that are neither permanently restricted nor temporarily restricted by donor-imposed stipulations.

- *Temporarily restricted net assets* represent the Friend's net assets whose use is limited by donor-imposed stipulations that either expire by the passage of time or can be fulfilled by actions of the Friends. When the stipulated time restriction ends or action is accomplished, temporarily restricted net assets are reclassified to unrestricted net assets and are reported in the statement of activities as net assets released from restrictions.

- *Permanently restricted net assets* represent the part of net assets whose use by the Friends is limited to donor-imposed stipulations that neither expire by passage of time nor can be fulfilled or otherwise removed by actions of the Friends.

Grants and Contributions Receivable

Accounts receivable are stated at the amount management expects to collect from outstanding balances. Management provides for probable uncollectible amounts through a provision for bad debt expense and an adjustment to a valuation allowance based on its assessment of the current status of individual accounts. Balances that are still outstanding after management has used reasonable collection efforts are written off through a charge to the valuation allowance and a credit to accounts receivable. As of December 31, 2017, and 2016, management determined that there was no need for an allowance for uncollectible receivables.

2) Summary of Significant Accounting Policies — continued

Property, Furniture and Equipment

Purchased property, furniture and equipment is stated at cost. Property, furniture and equipment received by donation is recorded at the estimated fair value on the date of donation. Such donations are reported as unrestricted support unless the donor has restricted the donated asset to a specific purpose. Absent donor stipulations regarding how long those donated assets must be maintained, the Friends reports the expiration of donor restrictions when the donated or acquired assets are placed in service as instructed by the donor. The Friends reclassifies restricted net assets to unrestricted net assets at that time. Purchased or donated property and equipment in excess of $5,000 is capitalized. Depreciation is calculated on a straight-line basis in amounts sufficient to relate the cost of depreciable assets to operations over their estimated useful lives, which range from five to forty years.

Investments

Investments in equity securities with readily determinable fair values and all investments in debt securities are measured at fair value in the statement of financial position. Investments with no readily determinable fair value are measured at purchase price which approximates fair value. Investment income or loss (including gains and losses on investments, interest, and dividends) is included in the statement of activities as increases or decreases in unrestricted net assets unless the income or loss is restricted by donor or law. Investment income and gains restricted by donors are reported as increases in unrestricted net assets if the restrictions are met (either a stipulated time period ends or a purpose restriction is accomplished) in the reporting period in which the income and gains are recognized.

Fair Value of Financial Instruments

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, 2017 and 2016, 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.

2) Summary of Significant Accounting Policies — continued

Contributions

Contributions received are recognized as revenues when the unconditional pledge is made and as assets or decreases of liabilities, depending on the form of the benefits received. Contributions that are restricted by the donor are reported as increases in unrestricted net assets if the restrictions expire in the reporting period in which revenue is recognized. All other donor-restricted contributions are reported as increases in temporarily or permanently restricted net assets, depending on the nature of the restrictions. When a restriction expires, temporarily restricted net assets are reclassified to unrestricted net assets and reported in the statement of activities as net assets released from restrictions. Contributions of significant long-lived assets and significant gifts to acquire long-lived assets with donor-imposed restrictions are reported as temporarily restricted support until the asset is placed in service and donor-imposed restrictions are satisfied.

The support received from the Friends fundraising campaign, Preserving the Narrow-Gauge Past for the Future (PNGPF), are restricted for short-term and long-term Friends operations, historic preservation, and interpretation relating to the Cumbres & Toltec Scenic Railroad.

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

Income Taxes

The Friends is exempt from income taxes under Section 501(c)(3) of the Internal Revenue Code and has been classified by the Internal Revenue Service as an organization that is not a private foundation. The Financial Accounting Standards Board (FASB) issued FASB ASC 740-10, *Accounting for Uncertainty in Income Taxes,* which provides guidance on how to measure and account for various tax positions. The Friends determined no material unrecognized tax benefits or liabilities existed at December 31, 2017 and 2016. If applicable, the Friends will recognize interest and penalties related to underpayment of income taxes as income tax expense. As of December 31, 2017, and 2016, the Friends had no amounts related to unrecognized income tax benefits and no amounts related to accrued interest and penalties. The Friends does not anticipate any significant changes to unrecognized tax benefits over the next year.

Management of the Friends believes its activities allow it to continue to be classified as an organization exempt from income tax under Section 501(c)(3) of the Internal Revenue Code and has not identified any activities subject to unrelated business income tax.

2) Summary of Significant Accounting Policies — continued

Income taxes – continued

The Friends files Federal Form 990, *Return of Organization Exempt from Income Tax,* with the Internal Revenue Service and copies of Form 990 with states in which the Friends is registered. The statute of limitations for examination of the Friend's returns expires three years from the due date of the return or the date filed, whichever is later. The Friends returns for the years ended December 31, 2014 through 2016, are still open for examination and management anticipates the statute of limitations for the return for the year ended December 31, 2017, will expire by November 2021.

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, 2017 and 2016, the cash bank balances totaled $382,918 and $324,755, of which $115,805 and $74,755, 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.

Functional Allocation of Expenses

Expenses are charged directly to program and supporting services based on specific identification, when possible. Costs benefiting more than one service are allocated based on measures such as management's estimates of time spent, square footage, etc.

Collections

Collection items consist of historical equipment and pictures that are held for educational and curatorial purposes. Each of the items 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 $13,749 and $12,279 during the years ended December 31, 2017 and 2016, respectively.

2) Summary of Significant Accounting Policies — continued

Inventories
Inventories are stated at the lower of cost or market determined by the first-in, first-out method. Inventories primarily consist of books, clothing, calendars, magazines and commemorative medallions.

Advertising Costs
Advertising costs are expensed as incurred.

Subsequent Events
Subsequent events were evaluated through June 23, 2018, which is the date the financial statements were available to be issued. Management believes that there are no material subsequent events that have arisen that would require accrual or disclosure.

Reclassifications
Certain accounts in the prior-year financial statements have been reclassified for comparative purposes to conform with the presentation in the current-year financial statements. There was no effect on net position as a result of these reclassifications.

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:

	2017	2016
Buildings and improvements	**$ 241,242**	$ 241,242
Vehicles	**32,750**	32,750
Furniture and equipment	**133,692**	133,692
Subtotal	**407,684**	407,684
Less accumulated depreciation	**(229,406)**	(213,010)
Total capital assets being depreciated, net	**178,278**	194,674
Pre-development costs	**114,765**	150,503
Construction-in-process	**36,333**	-
Land	**205,500**	205,500
Total property, furniture and equipment, net	**$ 534,876**	$ 550,677

5) Investments

Investments consist of a certificate of deposit with a fair value of approximately $111,000 and $109,000, at December 31, 2017 and 2016, respectively.

6) Temporarily Restricted Net Assets

Temporarily restricted net assets cannot be used for any purpose other than those described below and consist of the following as of December 31:

	2017	2016
Another Century of Narrow Gauge Steam (ACNGS II)	**$ 9,116**	$ 15,767
Preserving Narrow Gauge Past for the Future (PNGPF)	**264,979**	244,635
Car restoration facility fund	**100,924**	70,923
Long-term preservation of photo collections	**36,055**	33,407
Other	**-**	2,232
Total	**$ 411,074**	$ 366,964

7) Temporarily Restricted Net Assets Released from Restriction

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

	2017	2016
Preserving Narrow Gauge Past for the Future (PNGPF)	**$ 77,265**	$ 77,782
Car restoration facility fund	**24,902**	9,097
Other	**23,949**	9,087
Another Century of Narrow Gauge Steam (ACNGS II)	**6,651**	1,939
Long-term preservation of photo collections	**6,181**	541
Total	**$ 138,948**	$ 98,446

8) Permanently Restricted Net Assets

The "Another Century of Narrow Gauge Steam" campaigns provided that 10% of the contributions were to be placed indefinitely in a restricted fund with the intent that these and future campaigns would create a fund large enough for earnings on the fund to provide significant support to the Friends. Permanently restricted net assets consist of funds of $89,150 and $88,650 at December 31, 2017 and 2016, respectively.

9) Operating Lease

The Friends leases office space under a lease agreement that expires on April 30, 2020. Rent expense related to this operating lease was approximately $21,696 in each of the years ending December 31, 2017 and 2016. The Friends has also entered into an operating lease agreement for a postage machine that expires on April 30, 2021. Future minimum lease payments under these leases are as follows:

Year Ending December 31,		
2018	$	24,124
2019		24,520
2020		8,430
Total minimum lease payments	$	57,074

10) Fair Value Measurements

The fair value framework provides a hierarchy that prioritizes the inputs to valuation techniques used to measure fair value. The hierarchy gives the highest priority to unadjusted quoted prices in active markets for identical assets or liabilities (Level 1 measurements) and the lowest priority to unobservable inputs (Level 3 measurements). The three levels of the fair value hierarchy are as follows:

Level 1 inputs – unadjusted quoted prices for identical assets or liabilities in active markets that the organization has the ability to access.

Level 2 inputs – include:

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

10) Fair Value Measurements - continued

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

The Friends has an investment in a certificate of deposit of approximately $111,000 and $109,000 at December 31, 2017 and 2016, respectively. Fair value of this investment was determined by Level 1 inputs.

11) Special Charters

The Friends offers an annual Moonlight & Wine Tasting train excursion and other charter train excursions that are classified as special events. These revenues are presented net of the corresponding direct expenses in the financial statements. Below are summaries of the significant special events:

For the year ended December 31, 2017:

	Revenues	Direct Costs	Net
Moonlight & Wine Tasting Train	$ 15,999	$ 9,885	$ 6,114
Charter Trains	111,024	92,713	18,311
	$ 127,023	$ 102,598	$ 24,425

For the year ended December 31, 2016:

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

12) Recently Issued Accounting Pronouncements

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

New Not-for-Profit Reporting Framework

In August 2016, the FASB issued Accounting Standards Update (ASU) 2016-14 – *Not-for-Profit Entities (Topic 958): Presentation of Financial Statements for Not-for-Profit Entities*. ASU 2016-14 is intended to improve the current net asset classification requirements and the information presented in financial statements and notes about a not-for-profit entity's liquidity, financial performance and cash flows. The main provisions of the ASU require a not-for-profit entity to:

12) Recently Issued Accounting Pronouncements – continued

- Present on the face of the statement of financial position amounts for two classes of net assets at the end of the period, rather than for the currently required three classes. That is, a not-for-profit entity will report amounts for *net assets with donor restrictions* and *net assets without donor restrictions*, as well as the currently required amount for total net assets.
- Present on the face of the statement of activities the amount of the change in each of the two classes of net assets (noted above) rather than the currently required three classes. Not-for-profit entities would continue to report the currently required amount of the change in total net assets for the period.
- Continue to present on the face of the statement of cash flows the net amount for operating cash flows using either the direct or indirect method of reporting, but no longer require the presentation or disclosure of the indirect method (reconciliation) if using the direct method.

The ASU also provides for enhanced disclosures regarding the following:

- Amounts and purposes of governing board designations, appropriations, and similar actions that result in self-imposed limits in the use of resources without donor-imposed restrictions as of the end of the period.
- Composition of *net assets with donor restrictions* at the end of the period and how the restrictions affect the use of resources.
- Qualitative information that communicates how the not-for-profit entity manages its liquid resources available to meet cash needs for general expenditures within one year of the balance sheet date.
- Quantitative information, either on the face of the statement of financial position or in the notes, and additional qualitative information in the notes as necessary, that communicates the availability of a not-for-profit entity's financial assets at the balance sheet date to meet cash needs for general expenditures within one year of the balance sheet date. Availability of a financial asset may be affected by (1) its nature, (2) external limits imposed by donors, grantors, laws, and contracts with others, and (3) internal limits imposed by governing board decisions.
- Amounts of expenses by both their natural classification and their functional classification. That analysis of expenses is to be provided in one location, which could be on the face of the statement of activities, as a separate statement, or in notes to the financial statements.
- Method(s) used to allocate costs among program and support functions.

12) Recently Issued Accounting Pronouncements – continued

- Underwater endowment funds, which include required disclosures of (1) an NFP's policy, and any actions taken during the period, concerning appropriation from underwater endowment funds, (2) the aggregate fair value of such funds, (3) the aggregate of the original gift amounts (or level required by donor or law) to be maintained, and (4) the aggregate amount by which funds are underwater (deficiencies), which are to be classified as part of net assets with donor restrictions.

The ASU is effective for fiscal years beginning after December 15, 2017 (Friend's fiscal year ending December 31, 2018).

<u>Leases</u>
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, 2019 (Friend's fiscal year ending December 31, 2020).

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