LOFTIS GROUP LLC
CERTIFIED PUBLIC ACCOUNTANTS ▪ BUSINESS ADVISORS

Friends of the Cumbres & Toltec Scenic Railroad, Inc.

Financial Statements
and
Independent Auditors' Report

December 31, 2018 and 2017

Friends of the Cumbres & Toltec Scenic Railroad, Inc.

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LOFTIS GROUP LLC
CERTIFIED PUBLIC ACCOUNTANTS ▪ BUSINESS ADVISORS

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, 2018 and 2017, 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.

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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, 2018 and 2017, 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.

Effect of Adopting New Accounting Standard

As discussed in Note 2, the Friends adopted the Financial Accounting Standards Board's Accounting Standards Update ("ASU") 2016-14, *Not-for-Profit Entities (Topic 958) – Presentation of Financial Statements of Not-for-Profit Entities* as of and for the year ended December 31, 2018. The requirements of the ASU have been applied retrospectively to all periods presented. Our opinion is not modified with respect to this mater.

Loftis Group LLC

Albuquerque, New Mexico
June 22, 2019

Financial Statements

Friends of the Cumbres & Toltec Scenic Railroad, Inc.

Statements of Financial Position
December 31,

	2018	2017
Assets		
Current assets		
Cash and cash equivalents	**$ 568,912**	$ 428,578
Receivables	**29,306**	11,552
Inventory	**19,310**	6,336
Prepaid expenses	**16,098**	14,722
Total current assets	**633,626**	461,188
Property, furniture and equipment, net	**573,811**	534,876
Investments - unrestricted	**21,085**	21,585
Endowment investments	**89,650**	89,150
Collections	**272,646**	268,249
Total assets	**$ 1,590,818**	$ 1,375,048
Liabilities and Net Assets		
Current liabilities		
Accounts payable and accrued expenses	**$ 38,377**	$ 32,083
Deferred revenue	**2,000**	3,336
Total current liabililties	**40,377**	35,419
Net assets		
Without donor restrictions	**997,278**	839,405
With donor restrictions	**553,163**	500,224
Total net assets	**1,550,441**	1,339,629
Total liabilities and net assets	**$ 1,590,818**	$ 1,375,048

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

Friends of the Cumbres & Toltec Scenic Railroad, Inc.

Statement of Activities
For the Year Ended December 31, 2018

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

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

	Without Donor Restrictions	With Donor Restrictions	Total
Support and Revenue			
Grants and contributions	$ 182,559	$ 183,558	$ 366,117
Member dues	173,306	-	173,306
Work sessions and merchandise	72,550	-	72,550
Reimbursed Commission projects	43,587	-	43,587
Special charters, net of expenses of $102,598	24,425	-	24,425
Other income	3,229	-	3,229
Interest income	1,579	-	1,579
Net assets released from restriction	138,948	(138,948)	-
Total support and revenue	640,183	44,610	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	44,610	83,161
Net assets, beginning of year	800,854	455,614	1,256,468
Net assets, end of year	$ 839,405	$ 500,224	$ 1,339,629

Friends of the Cumbres & Toltec Scenic Railroad, Inc.
Statement of Functional Expenses
For the Year Ended December 31, 2018

	Program	Management and General	Fundraising	Total
Salaries and benefits	$ 60,565	$ 58,612	$ 76,195	$ 195,372
Materials, tools and supplies	140,371	62	701	141,134
Contractual services	4,204	19,072	67,014	90,290
Merchandise	506	-	28,191	28,697
Office supplies and copying	8,806	2,100	12,433	23,339
Rent	9,698	8,622	4,311	22,631
Food and catering	14,510	-	4,456	18,966
Freight and postage	265	264	15,326	15,855
Payroll taxes	4,711	4,559	5,926	15,196
Travel, meals and lodging	9,995	1,145	3,926	15,066
Conferences and meetings	826	1,989	12,082	14,897
Newsletter	14,658	-	-	14,658
Insurance	12,598	1,881	-	14,479
Computer and software	5,261	2,441	3,173	10,875
Bank and credit card fees	210	195	9,506	9,911
Depreciation	7,602	-	-	7,602
Advertising and public relations	4,150	704	2,714	7,568
Telephone and internet	3,678	2,272	1,559	7,509
Printing and publishing	5,709	-	468	6,177
Utilities	3,404	1,024	512	4,940
Property taxes	3,457	10	53	3,520
Dues and subscriptions	1,249	304	430	1,983
Total expenses	$ 316,433	$ 105,256	$ 248,976	$ 670,665
Less special charters expense netted with revenues	-	-	(73,521)	-
Total expenses on the Statement of Activities	$ 316,433	$ 105,256	$ 175,455	$ 597,144

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

Friends of the Cumbres & Toltec Scenic Railroad, Inc.

Statement of Functional Expenses
For the Year Ended December 31, 2017

	Program	Management and General	Fundraising	Total
Salaries and benefits	$ 77,014	$ 57,760	$ 57,760	$ 192,534
Materials, tools and supplies	128,762	-	5,516	134,278
Contractual services	6,637	16,750	90,111	113,498
Merchandise	123	-	29,311	29,434
Office supplies and copying	6,632	1,370	19,351	27,353
Rent	9,635	8,510	4,255	22,400
Food and catering	16,057	-	12,127	28,184
Freight and postage	5,336	380	12,579	18,295
Payroll taxes	5,985	4,488	4,488	14,961
Travel, meals and lodging	6,903	506	2,752	10,161
Conferences and meetings	1,134	1,205	7,736	10,075
Newsletter	14,976	-	-	14,976
Insurance	8,788	11,124	-	19,912
Computer and software	5,507	2,318	2,401	10,226
Bank and credit card fees	147	-	8,863	9,010
Depreciation	15,967	429	-	16,396
Advertising and public relations	1,999	-	4,997	6,996
Telephone and internet	3,394	3,054	1,527	7,975
Printing and publishing	5,913	-	606	6,519
Utilities	3,067	1,177	588	4,832
Property taxes	3,442	20	176	3,638
Dues and subscriptions	1,146	293	731	2,170
Member premiums and gifts	-	-	249	249
Contributions	158	-	-	158
Total expenses	$ 328,722	$ 109,384	$ 266,124	$ 704,230
Less special charters expense netted with revenues	-	-	(102,598)	(102,598)
Total expenses on the Statement of Activities	$ 328,722	$ 109,384	$ 163,526	$ 601,632

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,

	2018	2017
Cash flows from operating activities		
Cash received from grants and contributions	$ 461,949	$ 351,586
Cash received from members	155,398	173,306
Cash received from work sessions and merchandise	89,450	72,550
Cash received from special charters	87,979	127,023
Interest and other income	67,611	48,395
Cash paid to employees and suppliers	(671,119)	(670,093)
Net cash provided by operating activities	191,268	102,767
Cash flows from investing activities		
Purchases of investments	-	(1,475)
Purchases of capital assets and collection item	(50,934)	(36,333)
Net cash used by investing activities	(50,934)	(37,808)
Net increase in cash and cash equivalents	140,334	64,959
Cash and cash equivalents, beginning of year	428,578	363,619
Cash and cash equivalents, end of year	$ 568,912	$ 428,578
Reconciliation of change in net assets to net cash provided by operating activities		
Change in net assets	$ 210,812	$ 83,161
Adjustments to reconcile change in net assets to net cash provided by operating activities		
Depreciation	7,602	16,396
Historical collection contributions	-	(13,749)
Changes in assets and liabilities		
Receivables	(17,754)	(782)
Inventory	(12,974)	9,953
Prepaid expenses	(1,376)	(6,152)
Accounts payable and accrued expenses	6,294	13,152
Deferred revenue	(1,336)	788
Total adjustments	(19,544)	19,606
Net cash provided by operating activities	$ 191,268	$ 102,767

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, 2018 and 2017

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

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 Assest Without Donor Restrictions:* Net assets that are not subject to donor-imposed restrictions and may be expended for any purpose in performing the primary objectives of the organization. These net assets may be used at the discretion of the organization's management and the board of directors.

- *Net Assets With Donor Restrictions:* Net assets subject to stipulations imposed by donors and grantors. Some donor restrictions are temporary in nature; those restrictions will be met by actions of the organization or by passage of time. Other donor restrictions are perpetual in nature, whereby the donor has stipulated the funds be maintained in perpetuity.

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

Accounts Receivable

Accounts receivable are stated at the amount management expects to collect from outstanding balances. Management provides for probable uncollectible amounts through a provision for bad debt expense and an adjustment to a valuation allowance based on its assessment of the current status of individual accounts. Balances that are still outstanding after management has used reasonable collection efforts are written off through a charge to the valuation allowance and a credit to accounts receivable. As of December 31, 2018, and 2017, 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 net assets without restrictions unless the donor has restricted the donated asset to a specific purpose. Absent donor stipulations regarding how long those donated assets must be maintained, the Friends reports the expiration of donor restrictions when the donated or acquired assets are placed in service as instructed by the donor. The Friends reclassifies net assets with restrictions to net assets without restrictions at that time. Purchased or donated property and equipment in excess of $5,000 is capitalized. Depreciation is calculated on a straight-line basis in amounts sufficient to relate the cost of depreciable assets to operations over their estimated useful lives, which range from five to forty years.

Investments

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

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

Fair Value of Financial Instruments

For financial statement purposes, cash and cash equivalents, receivables (net of allowances, if any), prepaid expenses, accounts payable, accrued expenses, and deferred revenue are considered financial instruments. The Friends estimated that the fair value of all financial instruments at December 31, 2018 and 2017, 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 recorded as net assets without donor restrictions or net assets with donor restrictions, depending on the existence and/or nature of any donor-imposed restrictions. Contributions that are restricted by the donor are reported as an increase in net assets without donor restrictions if the restriction expires in the reporting period in which the contribution is recognized. All other donor restricted contributions are reported as an increase in net assets with donor restrictions, depending on the nature of restriction. When a restriction expires (that is, when a stipulated time restriction ends or purpose restriction is accomplished), net assets with donor restrictions are reclassified to net assets without donor restrictions and reported in the statements of activities as net assets released from restrictions.

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

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

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

Income Taxes

The Friends is 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, 2018 and 2017. If applicable, the Friends will recognize interest and penalties related to underpayment of income taxes as income tax expense. As of December 31, 2018, and 2017, 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.

2) Summary of Significant Accounting Policies — continued

Income taxes – continued

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.

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, 2015 through 2017, are still open for examination and management anticipates the statute of limitations for the return for the year ended December 31, 2018, will expire by November 2022.

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, 2018 and 2017, the cash bank balances totaled $572,782 and $382,918, of which $128,964 and $115,805, exceeded federally insured limits.

Estimates

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

Collections

Collection items consist of historical equipment and pictures that are held for educational and curatorial purposes. Each of the items are cataloged, preserved, and cared for, and activities verifying their existence and assessing their condition are performed continuously. Collection items acquired for which detailed curatorial records were available were capitalized at cost if purchased and at fair value at the date of acquisition if donated. Collection items acquired without curatorial records were capitalized at current appraised or estimated market value. Historical equipment was contributed to or acquired by the Friends in the amount of $4,397 and $13,749 during the years ended December 31, 2018 and 2017, respectively.

2) Summary of Significant Accounting Policies — continued

Functional Allocation of Expenses

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

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

Expense	Allocation Method
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 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 22, 2019, 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.

2) Summary of Significant Accounting Policies — continued

Adoption of New Accounting Pronouncement
For the year ended December 31, 2018, the Friends adopted the Financial Accounting Standards Board's (FASB) Accounting Standards Update (ASU) No. 2016-14 – *Not-for-Profit Entities (Topic 958): Presentation of Financial Statements of Not-for-Profit Entities*. This update addresses the complexity and understandability of net asset classification, deficiencies in information about liquidity and availability of resources, and the lack of consistency in the type of information provided about expenses and investment return between not-for-profit entities. The changes required by the update have been applied retrospectively to all periods presented. A key change required by ASU 2016-14 are the net asset classes used in these financial statements. Amounts previously reported as unrestricted net assets are now reported as net assets without donor restrictions and amounts previously reported as temporarily restricted and permanently restricted net assets are now reported as net assets with donor restrictions.

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:

	2018	2017
Buildings and improvements	**$ 241,242**	$ 241,242
Vehicles	**32,750**	32,750
Furniture and equipment	**140,122**	133,692
Subtotal	**414,114**	407,684
Less accumulated depreciation	**(237,008)**	(229,406)
Total capital assets being depreciated, net	**177,106**	178,278
Pre-development costs	**114,765**	114,765
Construction-in-process	**76,440**	36,333
Land	**205,500**	205,500
Total property, furniture and equipment, net	**$ 573,811**	$ 534,876

5) Investments

The Friends investments are comprised of unrestricted investments and donor-restricted endowment funds to be held in perpetuity. The investments consist of a certificate of deposit with a fair value of approximately $111,000 at December 31, 2018 and 2017, respectively. The certificate of deposit earns interest at 2.23% and matures in February 2020.

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 $89,650 and $89,150 at December 31, 2018 and 2017, 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:

	2018	2017
Subject to expenditure for specified purpose		
Preserving Narrow Gauge Past for the Future (PNGPF)	**$ 269,076**	$ 264,979
Car restoration facility fund	**95,285**	78,321
Long-term preservation of photo collections	**42,854**	36,055
Other	**28,084**	22,603
Restoration	**22,802**	-
Another Century of Narrow Gauge Steam (ACNGS II)	**5,412**	9,116
Endowment funds to be held in perpetuity	**89,650**	89,150
Total	**$ 553,163**	$ 500,224

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

	2018	2017
Preserving Narrow Gauge Past for the Future (PNGPF)	**$ 127,990**	$ 77,265
Another Century of Narrow Gauge Steam (ACNGS II)	**4,704**	6,651
Long-term preservation of photo collections	**3,966**	6,181
Other	**2,397**	23,949
Car restoration facility fund	**36**	24,902
Total	**$ 139,093**	$ 138,948

7) Availability and Liquidity

As part of the Friends liquidity management it ensures its financial assets are available as its general expenditures, liabilities, and other obligations come due. In addition, the Friends invests cash in excess of daily requirements in certificates of deposit and money market funds. As of December 31, 2018, and 2017, the Friends has a working capital of approximately $593,000 and $426,000 and average days cash on hand of 352 days and 267 days.

The following represents the Friend's financial assets at December 31:

	2018	2017
Cash and cash equivalents	**$ 568,912**	$ 428,578
Receivables	**29,306**	11,552
Investments - unrestricted	**21,085**	21,585
Endowment investments	**89,650**	89,150
Total financial assets	**708,953**	550,865
Less amounts not available to be used within one year:		
Net assets with donor restrictions	**(553,163)**	(500,224)
Add back net assets with purpose restrictions to be met in less than one year	**185,000**	138,948
Financial assets available to meet general expenditures over the next twelve months	**$ 340,790**	$ 189,589

8) 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 $22,000 in each of the years ending December 31, 2018 and 2017. Future minimum lease payments under these leases are as follows:

Year Ending December 31,	
2019	24,520
2020	8,430
Total minimum lease payments	$ 32,950

9) Fair Value Measurements

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

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

Level 2 inputs – include:

- Quoted prices for similar assets or liabilities in active markets;
- Quoted prices for identical or similar assets or liabilities in inactive markets;
- Inputs other than quoted prices that are observable for the asset or liability;

Inputs that are derived principally from or corroborated by observable market date 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 has an investment in a certificate of deposit of approximately $111,000 for each of the years ending December 31, 2018 and 2017, respectively. Fair value of this investment was determined by Level 1 inputs.

10) Special Charters

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

For the year ended December 31, 2018:

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

10) Special Charters – continued

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

11) Recently Issued Accounting Pronouncements

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

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