



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

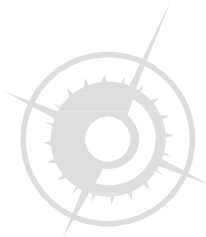
Financial Statements  
and  
Independent Auditors' Report

December 31, 2023 and 2022

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

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

## Independent Auditors' Report

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

### **Opinion**

We have audited the accompanying financial statements of the Friends of the Cumbres & Toltec Scenic Railroad, Inc. (the "Friends") (a nonprofit organization), which comprise the statements of financial position as of December 31, 2023, and 2022, and the related statements of activities, functional expenses and cash flows for the years then ended, and the related notes to the financial statements.

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of the Friends as of December 31, 2023, and 2022, and the changes in its net assets and its cash flows for the years then ended in accordance with accounting principles generally accepted in the United States of America.

### **Basis for Opinion**

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

### **Responsibilities of Management for the Financial Statements**

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

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

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

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

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

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

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

*Schlenker & Cantrell, P.A.*

Albuquerque, New Mexico  
June 22, 2024

## Financial Statements

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

	<u>2023</u>	<u>2022</u>
<b>Assets</b>		
Current assets		
Cash and cash equivalents	\$ 238,195	\$ 565,144
Accounts receivable	-	214
Inventory, net	5,485	6,000
Prepaid expenses	7,372	11,473
Total current assets	<u>251,052</u>	582,831
Property, furniture and equipment, net	705,192	645,087
Operating lease right-of-use asset, net	48,744	-
Investments - unrestricted	815,276	546,076
Endowment investments	90,150	90,150
Collections	241,343	241,343
Total assets	<u><u>\$ 2,151,757</u></u>	<u><u>\$ 2,105,487</u></u>
<b>Liabilities and Net Assets</b>		
Current liabilities		
Accounts payable and accrued expenses	\$ 32,340	\$ 49,808
Operating lease liability, current portion	20,766	-
Total current liabilities	<u>53,106</u>	49,808
Operating lease liability, net of current portion	28,146	-
Total liabilities	<u><u>81,252</u></u>	49,808
Net assets		
Net assets without donor restrictions:		
Reserve for future operations	250,000	250,000
Total designated	250,000	250,000
Undesignated	1,226,469	1,283,246
Total net assets without donor restrictions	<u>1,476,469</u>	1,533,246
Net assets with donor restrictions	594,036	522,433
Total net assets	<u><u>2,070,505</u></u>	2,055,679
Total liabilities and net assets	<u><u>\$ 2,151,757</u></u>	<u><u>\$ 2,105,487</u></u>

**Friends of the Cumbres &  
Toltec Scenic Railroad, Inc.**  
Statement of Activities  
For the Year Ended December 31, 2023

	Without Donor Restrictions	With Donor Restrictions	Total
Support and Revenue			
Grants and contributions	\$ 292,842	\$ 226,573	\$ 519,415
Reimbursed Commission projects	54,440	-	54,440
Member dues	118,099	-	118,099
Merchandise	25,628	-	25,628
Program revenue	68,030	-	68,030
Special charter, net of expenses of \$13,194	2,466	-	2,466
Investment and interest income	20,229	-	20,229
Other income	50	-	50
Net assets released from restrictions	154,970	(154,970)	-
Total support and revenue	<u>736,754</u>	<u>71,603</u>	<u>808,357</u>
Expenses			
Program services	<u>463,055</u>	<u>-</u>	<u>463,055</u>
Supporting services			
Management and general	163,745	-	163,745
Fundraising	<u>166,731</u>	<u>-</u>	<u>166,731</u>
Total supporting services	<u>330,476</u>	<u>-</u>	<u>330,476</u>
Total expenses	<u>793,531</u>	<u>-</u>	<u>793,531</u>
Change in net assets	(56,777)	71,603	14,826
Net assets, beginning of year	<u>1,533,246</u>	<u>522,433</u>	<u>2,055,679</u>
Net assets, end of year	<u>\$ 1,476,469</u>	<u>\$ 594,036</u>	<u>\$ 2,070,505</u>

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

	Without Donor Restrictions	With Donor Restrictions	Total
<b>Support and Revenue</b>			
Grants and contributions	\$ 417,235	\$ 203,712	\$ 620,947
Reimbursed Commission projects	140,235	-	140,235
Member dues	131,985	-	131,985
Merchandise	23,417	-	23,417
Program revenue	50,218	-	50,218
Special charter, net of expenses of \$15,179	3,749	-	3,749
Investment and interest income	1,057	-	1,057
Other income	1,245	-	1,245
Net assets released from restrictions	139,516	(139,516)	-
Total support and revenue	<u>908,657</u>	<u>64,196</u>	<u>972,853</u>
<b>Expenses</b>			
Program services	<u>390,595</u>	<u>-</u>	<u>390,595</u>
Supporting services			
Management and general	149,061	-	149,061
Fundraising	183,583	-	183,583
Total supporting services	<u>332,644</u>	<u>-</u>	<u>332,644</u>
Total expenses	<u>723,239</u>	<u>-</u>	<u>723,239</u>
Change in net assets	185,418	64,196	249,614
Net assets, beginning of year	<u>1,347,828</u>	<u>458,237</u>	<u>1,806,065</u>
<b>Net assets, end of year</b>	<u><u>\$ 1,533,246</u></u>	<u><u>\$ 522,433</u></u>	<u><u>\$ 2,055,679</u></u>



**Friends of the Cumbres &  
Toltec Scenic Railroad, Inc.**  
**Statement of Functional Expenses**  
**For the Year Ended December 31, 2023**

	Program	Management and General	Fundraising	Total
Salaries and benefits	\$ 96,001	\$ 33,231	\$ 55,385	\$ 184,617
Contractual services	15,382	94,169	59,110	168,661
Materials, tools, and supplies	162,124	-	-	162,124
Charter fees	35,612	-	-	35,612
Office supplies and copying	4,568	9,692	12,689	26,949
Newsletter	25,146	-	-	25,146
Computer and software	17,228	2,152	5,207	24,587
Rent	10,257	9,097	4,549	23,903
Insurance	18,734	4,132	-	22,866
Freight and postage	4,725	1,016	12,316	18,057
Conferences and meetings	15,146	2,193	-	17,339
Depreciation	15,015	-	-	15,015
Payroll taxes	7,378	2,554	4,257	14,189
Merchandise	2,823	-	10,825	13,648
Travel, meals, and lodging	4,943	1,268	2,476	8,687
Bank and credit card fees	147	151	8,263	8,561
Telephone and internet	4,328	2,376	1,705	8,409
Food and catering	8,295	-	-	8,295
Printing and publishing	7,437	-	711	8,148
Utilities	4,704	1,577	788	7,069
Advertising and public relations	1,171	-	1,415	2,586
Dues and subscriptions	1,082	137	229	1,448
Property taxes	809	-	-	809
Total expenses	<u>463,055</u>	<u>163,745</u>	<u>179,925</u>	<u>806,725</u>
Less special charters expenses netted with revenues	<u>-</u>	<u>-</u>	<u>(13,194)</u>	<u>(13,194)</u>
Total expenses on the Statement of Activities	<u><u>\$ 463,055</u></u>	<u><u>\$ 163,745</u></u>	<u><u>\$ 166,731</u></u>	<u><u>\$ 793,531</u></u>

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

	Program	Management and General	Fundraising	Total
Salaries and benefits	\$ 55,925	\$ 39,946	\$ 63,914	\$ 159,785
Contractual services	59,179	76,178	66,285	201,642
Materials, tools, and supplies	130,288	-	-	130,288
Charter fees	19,154	-	-	19,154
Office supplies and copying	4,126	3,342	9,675	17,143
Newsletter	20,201	-	-	20,201
Computer and software	6,544	2,149	3,788	12,481
Rent	8,864	5,520	8,832	23,216
Insurance	16,850	2,849	-	19,699
Freight and postage	970	555	14,353	15,878
Conferences and meetings	12,733	5,287	-	18,020
Depreciation	12,434	-	-	12,434
Payroll taxes	4,463	3,188	5,101	12,752
Merchandise	2,097	-	12,224	14,321
Travel, meals, and lodging	2,394	1,042	1,941	5,377
Bank and credit card fees	98	139	7,486	7,723
Telephone and internet	4,118	1,383	2,968	8,469
Food and catering	11,919	-	-	11,919
Printing and publishing	6,032	-	-	6,032
Utilities	3,813	1,267	633	5,713
Advertising and public relations	1,174	-	1,278	2,452
Dues and subscriptions	1,193	178	284	1,655
Property taxes	4,026	10	-	4,036
Inventory valuation adjustment	-	6,028	-	6,028
Charitable donations	2,000	-	-	2,000
Total expenses	<u>390,595</u>	<u>149,061</u>	<u>198,762</u>	<u>738,418</u>
Less special charters expenses netted with revenues	<u>-</u>	<u>-</u>	<u>(15,179)</u>	<u>(15,179)</u>
Total expenses on the Statement of Activities	<u>\$ 390,595</u>	<u>\$ 149,061</u>	<u>\$ 183,583</u>	<u>\$ 723,239</u>

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

## Statements of Cash Flows For the Years Ended December 31,

	<u>2023</u>	<u>2022</u>
<b>Cash flows from operating activities</b>		
Cash received from grants and contributions	\$ 519,629	\$ 626,762
Cash received from members	118,099	131,831
Cash received from program services	68,030	50,480
Cash received from the Commission	54,440	140,235
Cash received from merchandise sales	26,143	23,417
Cash received from special charters	15,660	18,928
Interest and other cash receipts	20,279	2,302
Cash paid to employees and suppliers	<u>(804,909)</u>	<u>(713,732)</u>
Net cash provided by operating activities	<u>17,371</u>	<u>280,223</u>
<b>Cash flows from investing activities</b>		
Purchases of investments	(269,200)	(894)
Purchases of capital assets	<u>(75,120)</u>	<u>(106,015)</u>
Net cash used by investing activities	<u>(344,320)</u>	<u>(106,909)</u>
Net (decrease) increase in cash and cash equivalents	(326,949)	173,314
Cash and cash equivalents, beginning of year	<u>565,144</u>	<u>391,830</u>
<b>Cash and cash equivalents, end of year</b>	<u><u>\$ 238,195</u></u>	<u><u>\$ 565,144</u></u>
<b>Reconciliation of change in net assets to net cash provided by operating activities</b>		
Change in net assets	<u>\$ 14,826</u>	<u>\$ 249,614</u>
Adjustments to reconcile change in net assets to net cash provided by operating activities		
Depreciation	15,015	12,434
Inventory valuation adjustment	-	6,029
Changes in assets and liabilities		
Accounts receivable	214	(214)
Inventory	515	262
Prepaid expenses	4,101	3,671
Accounts payable and accrued expenses	(17,468)	8,581
Deferred revenue	-	(154)
Lease assets and liabilities	<u>168</u>	<u>-</u>
Total adjustments	<u>2,545</u>	<u>30,609</u>
Net cash provided by operating activities	<u><u>\$ 17,371</u></u>	<u><u>\$ 280,223</u></u>

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

**Notes to Financial Statements  
December 31, 2023 and 2022**

## **1) Organization**

The Cumbres & Toltec Scenic Railroad (the “Railroad”) is a 64-mile, fully operational, steam-powered narrow-gauge railroad running between Antonito, Colorado and Chama, New Mexico. A registered state and national historic site, it is one of America’s premier historic steam era railroads and is an invaluable living museum of railroad heritage and steam technology. The Railroad is also a tourist railway of international repute and has been named one of the twenty best railway experiences in the world.

The Railroad is owned jointly by the states of Colorado and New Mexico through the C&T Scenic Railroad Commission (the “Commission”). The Commission operates the railroad, which serves a vital economic development role in the region. Responsibility for the museum function of this world class historic asset is delegated to the Friends of the Cumbres & Toltec Scenic Railroad, Inc. (the “Friends”).

The Friends is a New Mexico nonprofit corporation which operates under §501(c)(3) of the Internal Revenue Code and is an organization dedicated to the historic preservation, restoration, and interpretation of the Railroad as a living museum. The Friends’ Museum responsibilities support the important economic development role of the railroad in the region.

The Friends envisions another century of narrow-gauge steam, with the Railroad being widely recognized as: 1) one of the world’s premier “living” museums for historic, steam railroad operation, preservation, interpretation, and industrial heritage; and 2) one of the world’s best and most popular tourist steam railroad experiences. Responsibility for and leadership of the historic preservation and museum functions of the Railroad rests with the Friends, to be known and respected internationally as the best non-profit, historic railway preservation/museum organization in the world.

The Friends major sources of support and revenue are grants and contributions, member dues and program fees. The governance of the organization includes a sixteen-member Board of Directors, an Executive Committee, and a President/Executive Director.

The Friends have approximately 400 volunteers from a membership base of over 2,400 worldwide that contribute approximately 40,000 hours annually in volunteer time. These volunteers work on the railroad’s historical assets, serve as docents onboard the trains, help fundraise, and work in the organization’s photo collection, archives, and library. The hours worked by our volunteers would translate into approximately \$1.2 million annually in labor if the Friends had to pay for these services.

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

**Notes to Financial Statements  
December 31, 2023 and 2022**

## **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.

### 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. These reclassifications had no effect on net assets or the change in net assets.

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

## **Notes to Financial Statements December 31, 2023 and 2022**

### **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, 2023, and 2022, did not differ materially from the aggregate carrying values of its financial instruments recorded in the accompanying statements of financial position because of their short-term nature.

#### Revenue Recognition

The Friends' financial statements are presented in accordance with Financial Accounting Standards Board (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, 2023 and 2022**

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

Conditional grants and contracts 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, 2023 and 2022**

### **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, 2020, 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, 2023, and 2022, the cash bank balances totaled \$208,449 and \$539,330, respectively, of which \$0 and \$289,330, respectively, exceeded federally insured limits.

#### Estimates

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

#### Collections

Collection items consist of historical equipment and pictures that are held for educational and curatorial purposes. Each of the items are cataloged, preserved, and cared for, and activities verifying their existence and assessing their condition are performed continuously. Collection items acquired for which detailed curatorial records were available were capitalized at cost if purchased and at fair value at the date of acquisition if donated. Collection items acquired without curatorial records were capitalized at current appraised or estimated market value.



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

**Notes to Financial Statements  
December 31, 2023 and 2022**

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

### Functional Allocation of Expenses

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

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

<u>Expense</u>	<u>Allocation Method</u>
Salaries, benefits, and payroll taxes	Time and effort
Office space	Square footage
Contractual services	Time and effort
Office supplies and copying	Time and effort
Rent	Square footage
Computer and software	Time and effort
Travel, meals, and lodging	Time and effort
Utilities	Square footage
Telephone and internet	Square footage

### Inventories

Inventories are stated at the lower of cost or market determined by the first-in, first-out method. Inventories consist of books published by the Friends. During 2022 management determined the market value of its inventory was below cost and recorded an inventory valuation adjustment of \$6,029. No market value adjustments were considered necessary during 2023.

### 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, 2023 and 2022

## 2) Summary of Significant Accounting Policies — continued

Subsequent events through June 22, 2024, 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:

	<u>2023</u>	<u>2022</u>
Buildings and improvements	\$ 469,657	\$ 260,566
Vehicles	32,750	32,750
Furniture and equipment	<u>176,887</u>	<u>167,432</u>
Subtotal	679,294	460,748
Less accumulated depreciation	<u>(294,367)</u>	<u>(279,352)</u>
Total capital assets being depreciated, net	384,927	181,396
Pre-development costs	114,765	114,765
Construction-in-process	-	143,426
Land	<u>205,500</u>	<u>205,500</u>
Total property, furniture and equipment, net	<u>\$ 705,192</u>	<u>\$ 645,087</u>

## 5) Investments

The Friends' investments are comprised of unrestricted investments and donor-restricted endowment funds to be held in perpetuity. At December 31, 2023, investments consist of certificates of deposit in the amounts of \$258,882, \$257,497, \$234,810, and \$154,237. At December 31, 2022, investments consist of certificates of deposit in the amounts of \$253,378, \$115,611, \$113,031, and \$154,206. Interest rates on the certificates of deposit range from 3.98% to 5% with original maturities of eight to eighteen months.

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

## **Notes to Financial Statements December 31, 2023 and 2022**

### **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, 2023, and 2022. The Friends have not yet adopted endowment investment and spending policies.

### **6) Operating Right-of-Use Lease Asset**

The Friends entered into a lease for the use of office space commencing April 1, 2023. The right-of-use lease asset, net of accumulated amortization, was as follows at December 31, 2023. The Friends did not have any right-of-use lease assets during the year ended December 31, 2022.

Office lease	\$ 63,820
Less: accumulated amortization	(15,076)
Right-of-use lease asset, net	<u>\$ 48,744</u>

### **7) Operating Lease Liability**

In February 2016, FASB issued ASU No. 2016-02, *Leases* (Topic 842). The standard requires lessees to recognize a right-of-use asset and related liability for all leases, with a limited exception for short-term leases. Leases are classified as either finance or operating leases, with the classification affecting the pattern of expense recognition in the statement of activities. Previously, leases were classified as either capital or operating leases, with only capital leases recognized on the statement of financial position. This new guidance was adopted by the Friends as of January 1, 2022, but did not have an impact on the Friend’s financial statements as of and for the year ended December 31, 2022, as it did not have any leases that fell within the scope of this standard.

The Friends entered into a lease for the use of office space commencing on April 1, 2023, for a term of thirty-six months. The Friends has recognized the right-of-use lease asset and related liability based on the present value of the minimum lease payments. To establish the initial lease liability, the lease was reported with a total future commitment, discounted for its present value. The Friends has determined the discount rate under this lease to be 5%, an estimate of the interest rate that could be obtained by the Friends to finance the purchase of a similar asset at the time of the inception of the lease. The right-of-use lease asset is amortized over the term of the lease.

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

Notes to Financial Statements  
December 31, 2023 and 2022

## 7) Operating Lease Liability – continued

The Friends measures the operating lease liability as of December 31, 2023, at \$48,912, by calculating the present value of the future lease payments using a discount rate of 5%.

## 8) Net Assets With Donor Restrictions

Net assets with donor restrictions are restricted for the following purposes at December 31:

	2023	2022
Subject to expenditure for specified purpose		
Preserving Narrow Gauge Past for the Future (PNGPF)	\$ 194,565	\$ 252,413
Car restoration facility fund	103,677	103,671
Long-term preservation of photo collections	30,939	27,779
Commission projects	120,320	10,320
Other	54,385	38,100
Endowment funds to be held in perpetuity	90,150	90,150
Total	<u>\$ 594,036</u>	<u>\$ 522,433</u>

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

	2023	2022
Car restoration facility fund	\$ -	\$ 69,959
Preserving Narrow Gauge Past for the Future (PNGPF)	141,100	65,463
Long-term preservation of photo collections	7,325	4,094
Other	6,545	-
Total	<u>\$ 154,970</u>	<u>\$ 139,516</u>

### Board-Designated Reserve

As of December 31, 2023, and 2022, 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.

**Friends of the Cumbres &  
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**Notes to Financial Statements**  
**December 31, 2023 and 2022**

**9) Availability and Liquidity**

The Friends had \$1,053,471 and \$1,111,434 of financial assets, as of December 31, 2023, and 2022, 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.

**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 data by correlation or other means.

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

The Friends investments at December 31, 2023, and 2022, consisted solely of certificates of deposit whose fair values were determined by Level 1 inputs.

**11) Special Charters**

The Friends offers an annual Moonlight & Wine Tasting train excursion that is classified as a special event. These revenues are presented net of the corresponding direct expenses in the financial statements. Summaries of this special event are shown on the following page:

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

Notes to Financial Statements  
December 31, 2023 and 2022

## 11) Special Charters – continued

For the year ended December 31, 2023:

	<u>Revenues</u>	<u>Direct Costs</u>	<u>Net</u>
<b>Moonlight &amp; Wine Tasting Train</b>	<b>\$ 15,660</b>	<b>\$ 13,194</b>	<b>\$ 2,466</b>
	<u><u>\$ 15,660</u></u>	<u><u>\$ 13,194</u></u>	<u><u>\$ 2,466</u></u>

For the year ended December 31, 2022:

	<u>Revenues</u>	<u>Direct Costs</u>	<u>Net</u>
Moonlight & Wine Tasting Train	\$ 18,928	\$ 15,179	\$ 3,749
	<u><u>\$ 18,928</u></u>	<u><u>\$ 15,179</u></u>	<u><u>\$ 3,749</u></u>