

CUMBRES & TOLTEC SCENIC RAILROAD COMMISSION

FINANCIAL STATEMENTS

JUNE 30, 2008

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INTRODUCTORY SECTION

STATE OF NEW MEXICO
Cumbres & Toltec Scenic Railroad Commission
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June 30, 2008

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STATE OF NEW MEXICO
Cumbres & Toltec Scenic Railroad Commission
Official Roster
June 30, 2008

Commission

Randy Randall

Chairman

Pete Foster

Vice-Chairman

J. Leonard Martinez

Secretary

Lon Carpenter

Treasurer

Officer

Leo Schmitz

Executive Director

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FINANCIAL SECTION

INDEPENDENT AUDITOR'S REPORT

Hector Balderas
New Mexico State Auditor
and
The Board of Commissioners
Cumbres & Toltec Scenic Railroad Commission
Antonito, Colorado

We have audited the accompanying financial statements of the governmental activities, the major fund, and the budgetary comparison for the general fund of Cumbres & Toltec Scenic Railroad Commission (the Commission) as of and for the year ended June 30, 2008, which collectively comprise the Commission's basic financial statements as listed in the table of contents. We have also audited the budgetary comparison of the major capital projects fund for the year ended June 30, 2008 as listed in the table of contents. These financial statements are the responsibility of the Commission's management. Our responsibility is to express opinions on these financial statements based on our audit. We did not audit the financial statements of The Friends of the Cumbres & Toltec Scenic Railroad Inc., which represents 100 percent of the assets, 100 percent of the net assets, and 100 percent of the revenues of the discretely presented component unit. Those financial statements were audited by other auditors whose report thereon has been furnished to us, and our opinion, insofar as it relates to the amounts included for The Friends of the Cumbres & Toltec Scenic Railroad Inc. is based on the report of the other auditors.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. The financial statements of the discretely presented component unit, The Friends of Cumbres & Toltec Scenic Railroad, Inc., were not audited in accordance with Government Auditing Standards. An audit includes consideration of internal control over financial reporting as a basis for designing audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the agency's internal control over financial reporting. Accordingly, we express no such opinion. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinions.

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, and the major fund of Cumbres & Toltec Scenic Railroad Commission as of June 30, 2008, and the respective change in financial position thereof and the budgetary comparison of the general fund for the year then ended in conformity with accounting principles generally accepted in the United States of America. In addition, in our opinion, the financial statements referred to above present fairly in all material respects, the budgetary comparison for the capital projects fund of the Cumbres & Toltec Scenic Railroad Commission for the year ended June 30, 2008, in conformity with accounting principles generally accepted in the United States of America.

In accordance with *Government Auditing Standards*, we have also issued our report dated December 4, 2008 on our consideration of the Commission's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be considered in assessing the results of our audit.

The Management's Discussion and Analysis on pages 9 through 16 is not a required part of the basic financial statements but is supplementary information required by accounting principles generally accepted in the United States of America. We have applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of the required supplementary information. However, we did not audit the information and express no opinion on it.

Our audit was conducted for the purpose of forming opinions on the financial statements of the government activities that collectively comprise the Commission's basic financial statements and the budgetary comparisons. Supporting schedules I through III in the table of contents are presented for purposes of additional analysis and are not a required part of the basic financial statements. Such information has been subjected to the auditing procedures applied in the audit of the basic financial statements and, in our opinion, is fairly stated in all material respects in relation to the basic financial statements taken as a whole. The introductory section has not been subjected to the auditing procedures applied in the audit of the basic financial statements and accordingly, we express no opinion on it.

Accounting & Consulting Group, L.L.P.

Accounting & Consulting Group, LLP
Albuquerque, New Mexico
December 4, 2008

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STATE OF NEW MEXICO
Cumbres & Toltec Scenic Railroad Commission
Management's Discussion and Analysis
June 30, 2008
Unaudited

Cumbres & Toltec Scenic Railroad Commission management is pleased to present this discussion and analysis. It provides an analysis of the Commission's financial activities based on currently known facts, decisions, and conditions.

FINANCIAL HIGHLIGHTS

Year ended June 30, 2008:

- The Commission's financial position, as a whole, improved during the year ended June 30, 2008. Net assets increased \$895,125 from previous year. The net assets of the component unit, The Friends of the Cumbres & Toltec Railroad, Inc., increased from prior year \$192,436.
- The Commission received revenue from the State of Colorado and the State of New Mexico totaling \$1,741,117 during the fiscal year. Ticket sales were \$3,001,392. The Commission did not receive any revenue from local or federal sources for the year ended June 30, 2008.
- General Fund, fund balance decreased \$(242,021) decreasing the beginning fund balances of \$934,509 to \$692,488.
- Capital Projects fund balance decreased \$(109,681), bringing the ending fund balance in that fund to \$5,712. The fund spent substantial resources on the passenger car rehabilitation project, locomotive rehabilitation, and track enhancement projects.
- On March 14, 2006 the Commission entered into a management agreement with Cumbres & Toltec Scenic Management Corp. Ridership remained steady from 2007 to 2008 with ridership in the amount of 41,216 in year ended 2007 to 42,822 in year ended 2008; therefore increasing ticket revenue from \$2,696,275 in year ended 2007 to \$3,001,392 in year ended 2008, an increase of 11%. The increase is due to rising ticket prices and specialty trains being run in 2008.
- A major Track Upgrade Project was begun with funding from the State of Colorado for \$1,350,000, which was received in 2007. C&TSMC directed this program; hiring and training employees along with the Commission, and purchasing the materials and supplies. The project is continuing into the next fiscal year with \$600,000 in funding from the State of Colorado. Also, a major Locomotive Rebuild Project, on Engine 489, is underway and nearing completion. These projects resulted in a decrease of the Capital Fund Balance of \$109,681, as a result of expending the funds on the Track Work and Locomotive Projects.
- The Friends of the Cumbres & Toltec Scenic Railroad, Inc. is presented as a component unit in this audit report. Their two primary purposes are for the preservation and interpretation of the Cumbres & Toltec Scenic Railroad.

Year ended June 30, 2007:

- The Commission's financial position, as a whole, improved during the year ended June 30, 2007. Net assets increased \$1,647,461 from previous year. The net assets of the component unit, the Friends of the Cumbres & Toltec Railroad, Inc., increased from prior year \$283,477.
- The Commission received revenue from the State of Colorado and the State of New Mexico totaling \$2,359,400 during the fiscal year. Ticket sales were \$2,696,275. The Commission did not receive any revenue from local or federal sources for the year ended 2007.
- General Fund, fund balance increased \$444,454, increasing the beginning fund balance of \$490,055 to \$934,509.
- Capital Projects fund balance decreased \$(283,957), bringing the ending fund balance in that fund to \$115,393. The fund spent substantial resources on the passenger car rehabilitation project, locomotive rehabilitation, and track enhancement projects.

STATE OF NEW MEXICO
Cumbres & Toltec Scenic Railroad Commission
Management's Discussion and Analysis
June 30, 2008
Unaudited

Overview of the Financial Statements

This report consists of four basic financial statements. The Government-Wide Financial Statements include the Statement of Net Assets and the Statement of Activities. These first statements provide both short-term and long term information about the Commission's overall financial status. The Fund Financial Statements include the Balance Sheet--Governmental Funds, and the Statements of Revenues, Expenditures and Changes in Fund Balance—Governmental Funds. These statements report on individual funds, and show the Commission's operations in more detail than the Government-Wide Financial Statements.

Government-wide financial statements The *government-wide financial statements* are designed to provide readers with a broad overview of the Commission's finances, in a manner similar to a private-sector business.

The *statement of net assets* presents information on all of Cumbres & Toltec Scenic Railroad Commission's assets and liabilities, with the difference between the two reported as *net assets*. Over time, increases or decreases in net assets may serve as a useful indicator of whether the financial position of the Commission is improving or deteriorating.

The *statement of activities* presents information showing how the government's net assets changed during the most recent fiscal year. All changes in net assets are reported as soon as the underlying event giving rise to the change occurs, *regardless of the timing of related cash flows*. Thus, revenues and expenses are reported in this statement for some items that will only result in cash flows in future fiscal periods (e.g., earned but unused vacation leave).

The financial statements and notes are presented for the reporting entity of the Commission, which includes the Cumbres & Toltec Scenic Railroad Commission and one discretely presented component unit: the Friends of the Cumbres & Toltec Scenic Railroad, Inc. (See Note I for additional information on the reporting entity.) Separately issued audited financial statements for the Friends of the Cumbres & Toltec Scenic Railroad are available from the Commission.

The government-wide financial statements can be found at Exhibits A-1 and A-2 of this report.

Fund financial statements A *fund* is a grouping of related accounts that is used to maintain control over resources that have been segregated for specific activities or objectives. Cumbres & Toltec Scenic Railroad Commission, like other state and local governments, uses fund accounting to ensure and demonstrate compliance with finance-related legal requirements. All of the funds of Cumbres & Toltec Scenic Railroad Commission can be divided into one category: governmental funds.

Governmental Funds. *Governmental funds* are used to account for essentially the same functions reported as *governmental activities* in the government-wide financial statements. However, unlike the government-wide financial statements, governmental fund financial statements focus on *near-term inflows and outflows of spendable resources*, as well as on *balances of spendable resources* available at the end of the fiscal year. Such information may be useful in determining what financial resources are available in the near future to finance the Commission's programs.

Because the focus of governmental funds is narrower than that of the government-wide financial statements, it is useful to compare the information presented for *governmental funds* with similar information presented for *governmental activities* in the government-wide financial statements. By doing so, readers may better understand the long-term impact of the government's near term financing decisions. Both the governmental fund balance sheet and the governmental fund statement of revenues, expenditures, and changes in fund balances provide a reconciliation to facilitate this comparison between *governmental funds* and *governmental activities*.

The basic governmental fund financial statements can be found at exhibits B-1 through B-2 of this report.

Notes to the financial statements The notes provide additional information that is essential to a full understanding of the data provided in the government-wide and fund financial statements. The notes to the financial statements can be found on pages 27-39 of this report.

STATE OF NEW MEXICO
Cumbres & Toltec Scenic Railroad Commission
Management's Discussion and Analysis
June 30, 2008
Unaudited

Statement of Net Assets

Below is a condensed Statement of Net Assets for the primary government (Commission) for the years ended June 30, 2008 and 2007, and the component unit, the Friends of Cumbres & Toltec Scenic Railroad, Inc. (Friends) for the years ended December 31, 2007 and 2006.

	<u>Primary Government Governmental Activities June 30, 2008</u>	<u>Component Unit Friends December 31, 2007</u>
Assets		
Current and other assets	\$ 1,498,068	\$ 1,055,499
Capital assets, net of accumulated depreciation	<u>10,410,031</u>	<u>184,000</u>
Total Assets	<u>\$ 11,908,099</u>	<u>\$ 1,239,499</u>
Liabilities		
Current liabilities	\$ 799,868	\$ 76,407
Noncurrent Liabilities	<u>4,356</u>	<u>—</u>
Total Liabilities	<u>804,224</u>	<u>76,407</u>
Net Assets		
Invested in capital assets, net of related debt	10,410,031	123,346
Restricted	125,222	335,776
Unrestricted	<u>568,622</u>	<u>703,970</u>
Total Net Assets	<u>11,103,875</u>	<u>1,163,092</u>
Total Liabilities and Net Assets	<u>\$ 11,908,099</u>	<u>\$ 1,239,499</u>

	<u>Primary Government Governmental Activities June 30, 2007</u>	<u>Component Unit Friends December 31, 2006</u>
Assets		
Current and other assets	\$ 1,866,682	\$ 960,120
Capital assets, net of accumulated depreciation	<u>9,160,919</u>	<u>160,846</u>
Total Assets	<u>\$ 11,027,601</u>	<u>\$ 1,120,966</u>
Liabilities		
Current liabilities	\$ 816,780	\$ 150,310
Noncurrent Liabilities	<u>2,071</u>	<u>—</u>
Total Liabilities	<u>818,851</u>	<u>150,310</u>
Net Assets		
Invested in capital assets, net of related debt	9,160,919	160,846
Restricted	115,393	210,413
Unrestricted	<u>932,438</u>	<u>599,397</u>
Total Net Assets	<u>10,208,750</u>	<u>970,656</u>
Total Liabilities and Net Assets	<u>\$ 11,027,601</u>	<u>\$ 1,120,966</u>

Governmental Activities- Governmental activities increased the Commissions net assets by \$895,095. The key elements of this increase were an increase in ticket prices and a decrease in general government expenditures.

STATE OF NEW MEXICO
Cumbres & Toltec Scenic Railroad Commission
Management's Discussion and Analysis
June 30, 2008
Unaudited

Analysis of Changes in Net Assets

Following is a condensed Statement of Activities for the primary government (Commission) for the years ended June 30, 2008 and 2007, and the component unit the Friends of Cumbres & Toltec Scenic Railroad, Inc. (Friends) for the years ended December 31, 2007 and 2006.

	<u>Primary Government Governmental Activities June 30, 2008</u>	<u>Component Unit Friends December 31, 2007</u>
Revenues		
Program revenues:		
Charges for service	\$ 3,001,392	\$ 212,087
Operating grants and contributions	96,352	312,192
Capital grants	1,644,765	—
General revenues:		
Miscellaneous revenue	34,852	—
Unrestricted investment earnings	46,917	14,963
Total revenues	4,824,278	539,242
Expenses		
General government	3,929,153	346,806
Total expenses	3,929,153	346,806
Increase in assets before transfers	895,125	192,436
Transfers	—	—
Increase in net assets	895,125	192,436
Net assets, beginning of year	10,208,750	970,656
Ending net assets	\$ 11,103,875	\$ 1,163,092

Financial Analysis of Commission's Funds

The Commission uses fund accounting to ensure and demonstrate compliance with finance-related legal requirements.

Governmental Funds- The Focus of the Commission's *governmental funds* is to provide information on near-term inflows, outflows, and balances of *spendable* resources. Types of Governmental funds reported by the Commission include the General Fund and Capital Projects Fund

The General Fund is the chief operating fund of the Commission. At the end of the fiscal year, *unreserved* fund balance of the general fund was \$650,912, while total fund balance was \$692,488.

The fund balance of the Commission's general fund, decreased by \$242,021 during the current fiscal year. This is due to a decrease state funding and an increase in expenditures related to train operations.

Capital Projects Fund- The Capital Projects Fund has a fund balance of \$5,712. The net decrease in fund balance for the current year was \$109,681. The net decrease in fund balance is due primary to a decrease of state funding for locomotive rehabilitation and track enhancements projects.

STATE OF NEW MEXICO
Cumbres & Toltec Scenic Railroad Commission
Management's Discussion and Analysis
June 30, 2008
Unaudited

Analysis of Changes in Net Assets (continued)

	Primary Government Governmental Activities June 30, 2007	Component Unit Friends December 31, 2006
Revenues		
Program revenues:		
Charges for service	\$ 2,696,275	\$ 241,974
Operating grants and contributions	516,482	364,704
Capital grants	1,843,553	—
General revenues:		
Miscellaneous revenue	43,883	—
Unrestricted investment earnings	85,251	12,072
Total revenues	<u>5,185,444</u>	<u>618,750</u>
Expenses		
General government	<u>3,537,982</u>	<u>335,273</u>
Total expenses	<u>3,537,982</u>	<u>335,273</u>
Increase in assets before transfers	<u>1,647,462</u>	<u>283,477</u>
Transfers	<u>—</u>	<u>—</u>
Increase in net assets	1,647,462	283,477
Net assets, beginning of year	<u>8,561,289</u>	<u>687,179</u>
Ending net assets	<u>\$ 10,208,751</u>	<u>\$ 970,656</u>

STATE OF NEW MEXICO
Cumbres & Toltec Scenic Railroad Commission
Management's Discussion and Analysis
June 30, 2008
Unaudited

Major Funds Budgetary Highlights

Commission budgets reflect the same pattern as seen in the revenues and expenditures of the Commission. The State of New Mexico budget process is defined under state law and regulation. To enhance the process of developing a budget at the Commission level, The Commission utilizes goals and objectives defined by the Commission, long term plans and input from various staff groups to develop the Commission budget. Commission priorities are well defined through this process.

GASB Statement No. 34 does not require a statement presenting the overall result of the budget for each year; however, all major budgetary funds are required to be reported as a separate statement.

The Commission's final budgeted expenditures differ from the original budget due to budget increases and decreases that were made during the fiscal year. The budget differences were as follows:

	<u>Original Budget</u>	<u>Final Budget</u>
General Fund	\$ 3,509,806	\$ 3,482,306
Capital Projects Fund	1,665,508	2,440,918

The General Fund had actual revenues that fell short of the budgeted revenues by \$49,984.

The Capital Project Fund had actual revenues that fell short of the budgeted revenue by \$648,819.

Capital Asset Administration

At June 30, 2008 and 2007, the Commission had approximately \$10 million and \$9.2 million, respectively, invested in capital assets, net of accumulated depreciation of \$8.8 million and \$8.3 million, respectively. Depreciation charges for 2008 and 2007 were \$562,910 and \$449,020. Details of these assets are listed below.

	<u>June 30, 2008</u>	<u>June 30, 2007</u>
Building and railyard	\$ 989,066	\$ 998,245
Trackline, improvements, and Subcontractors	4,129,612	3,003,666
Steam engines, rolling stock, and equipment	4,349,887	4,466,666
Construction in Progress	941,466	692,342
Total	<u>\$ 10,410,031</u>	<u>\$ 9,160,919</u>

STATE OF NEW MEXICO
 Cumbres & Toltec Scenic Railroad Commission
 Management's Discussion and Analysis
 June 30, 2008
 Unaudited

Capital Asset Administration (continued)

Major capital addition completed in FY 2006-2007 and the resources that funded their acquisition include:

Locomotive Rehabilitation, funded by the State of New Mexico	\$ 164,235
Trackline improvements, funded by the State of New Mexico and Colorado	1,356,690
Equipment purchases, funded by the State of New Mexico and Colorado	<u>41,972</u>
Total	<u><u>\$ 1,562,897</u></u>

Construction in Progress FY 2006-07 and the resources that funded their acquisition include:

Locomotive Rehabilitation, funded by the State of New Mexico	\$ 248,656
Antonito Car Shop Addition, funded by grants from Colorado Economic Commission and Colorado Department of Transportation	<u>468</u>
Total	<u><u>\$ 249,124</u></u>

Major capital addition completed in FY 2006-2007 and the resources that funded their acquisition include:

Locomotive Rehabilitation, funded by the State of New Mexico	\$ 224,593
Trackline improvements, funded by the State of New Mexico and Colorado	1,021,119
Equipment purchases, funded by the State of New Mexico and Colorado	<u>-</u>
Total	<u><u>\$ 1,245,712</u></u>

Construction in Progress FY 2006-07 and the resources that funded their acquisition include:

Locomotive Rehabilitation, funded by the State of New Mexico	\$ 659,332
Antonito Car Shop Addition, funded by grants from Colorado Economic Commission and Colorado Department of Transportation	<u>33,010</u>
Total	<u><u>\$ 692,342</u></u>

STATE OF NEW MEXICO
Cumbres & Toltec Scenic Railroad Commission
Management's Discussion and Analysis
June 30, 2008
Unaudited

Economic Outlook and Cumbres & Toltec Scenic Railroad Commission Future

Fiscal Years 2008 and 2007 ridership totaled 42,822 and 41,216 passengers, respectively. This is an 1,606 increase from the prior year. Because the number of locomotives available is the major determination of the passenger-carrying capacity of the C&TCRR, the Railroad will continue to rebuild the steam locomotive fleet.

It also is becoming increasingly important to address the capital needs of the track structure, the passenger car fleet, and the facilities. Improving customer amenities will also enhance the riding experience and increase ridership.

Although the States of New Mexico and Colorado have agreed to fund the Railroad equally, Colorado's budget constraints may continue to be challenged. In the fiscal year 2004, New Mexico waived the 50-50 funding requirement to help finance the Railroad. The Railroad will need to continue to seek further EDA grants and other governmental support. Private contributions and the Friend's "Another Century of Narrow Gauge Steam" campaign continue to be an important funding source with over \$600,000 now raised.

REQUESTS FOR INFORMATION

This financial report is designed to provide the Commission's citizens, supporters, customers, investors, and creditors with a general overview of the Commission's finances and to demonstrate the Commission's accountability for the money it receives. The separate audit report for the component unit is available from the Friends of the Cumbres & Toltec Scenic Railroad, Inc. at the address shown below. If you have any questions concerning any of the information provided in this report or need additional financial information, contact the Commission and its component unit at the following address:

Cumbres & Toltec Scenic Railroad Commission
P.O Box 561
Antonito, CO 81120
719-376-5488

Friends of the Cumbres & Toltec Scenic Railroad, Inc.
6005 Osuna Road NE
Albuquerque, NM 87109
505-880-1311

BASIC FINANCIAL STATEMENTS

STATE OF NEW MEXICO
Cumbres & Toltec Scenic Railroad Commission
Statement of Net Assets
June 30, 2008

ASSETS	Governmental Activities	Component Unit The Friends of the Cumbres & Toltec Scenic Railroad, Inc. December 31, 2007
<i>Current assets:</i>		
Cash and cash equivalents	\$ 1,146,809	\$ 531,029
Due from C&TS Railroad Commission (Note 11)	-	15,110
Accounts receivable	309,683	1,262
Prepaid expenses	41,576	4,466
Merchandise inventory	-	40,796
<i>Total current assets</i>	1,498,068	592,663
 <i>Capital assets</i>		
Buildings and railyards	3,901,231	248,897
Trackline, trackline improvements and substructures	7,406,973	-
Steam engines, rolling stock and equipment	7,488,452	-
Construction in progress	941,466	-
 Total capital assets	19,738,122	248,897
Less accumulated depreciation	(9,328,091)	(64,897)
<i>Net capital assets</i>	10,410,031	184,000
 <i>Other assets</i>		
Land- Chama	-	115,500
Land- Antonito	-	90,000
Historic equipment	-	79,415
Feasibility study for interpretation center	-	12,976
Library collection	-	161,620
Railroad station static display	-	2,025
Deposits	-	1,300
<i>Total other assets</i>	-	462,836
 <i>Total assets</i>	\$ 11,908,099	\$ 1,239,499

The accompanying notes are an integral part of these financial statements

	Governmental Activities	<u>Component Unit</u> The Friends of the Cumbres & Toltec Scenic Railroad, Inc. December 31, 2007
LIABILITIES AND NET ASSETS		
<i>Current liabilities:</i>		
Accounts payable	\$ 330,744	\$ 15,203
Payroll liabilities	1,035	-
Deferred revenue (Note 4)	468,089	-
Tenant deposit	-	550
Note payable-First Community Bank	-	60,654
Current portion of accrued compensated absences	4,356	-
<i>Total current liabilities</i>	<u>804,224</u>	<u>76,407</u>
<i>Total liabilities</i>	<u>804,224</u>	<u>76,407</u>
<i>Net assets:</i>		
Invested in capital assets	10,410,031	123,346
Restricted for:		
Capital projects	125,222	239,505
Other purposes	-	96,271
Unrestricted	568,622	703,970
<i>Total net assets</i>	<u>11,103,875</u>	<u>1,163,092</u>
<i>Total liabilities and net assets</i>	<u>\$ 11,908,099</u>	<u>\$ 1,239,499</u>

STATE OF NEW MEXICO
Cumbres & Toltec Scenic Railroad Commission
Statement of Activities
For the Year Ending June 30, 2008

Functions/Programs	Program Revenues			
Expenses	Charges for Services	Operating Grants and Contributions	Capital Grants and Contributions	
Primary Government				
Governmental Activities:				
Administration/preservation	\$ 1,135,137	\$ -	\$ 16,380	\$ 279,610
Train operations	2,794,016	3,001,392	79,972	1,365,155
Total Primary Government	\$ 3,929,153	\$ 3,001,392	\$ 96,352	\$ 1,644,765
Component Unit				
The Friends of the Cumbres & Toltec Scenic Railroad, Inc.	\$ 346,806	\$ 212,087	\$ 312,192	\$ -
General Revenues:				
Interest and investment earnings				
Miscellaneous				
Total general revenues				
Changes in net assets				
Net assets, beginning				
Net assets, ending				

The accompanying notes are an integral part of these financial statements

<u>Net (Expense) Revenue and Changes in Net Assets</u>	<u>Component Unit</u>
Government Activities	The Friends of the Cumbres & Toltec Scenic Railroad, Inc. December 31, 2007
\$ (839,147)	\$ -
<u>1,652,503</u>	<u>-</u>
<u>813,356</u>	<u>-</u>
<u>-</u>	<u>177,473</u>
46,917	14,963
<u>34,852</u>	<u>-</u>
<u>81,769</u>	<u>14,963</u>
895,125	192,436
<u>10,208,750</u>	<u>970,656</u>
<u>\$ 11,103,875</u>	<u>\$ 1,163,092</u>

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STATE OF NEW MEXICO
Cumbres & Toltec Scenic Railroad Commission
Balance Sheet
Governmental Funds
June 30, 2008

Exhibit B-1
Page 1 of 2

	<u>General Fund</u>	<u>Capital Projects Fund</u>	<u>Total</u>
<i>Assets</i>			
Cash and cash equivalents	\$ 987,304	\$ 159,505	\$ 1,146,809
Accounts receivable	18,337	291,346	309,683
Due from other funds	365,288	180,927	546,215
Prepaid expenses	41,576	-	41,576
	<u>1,412,505</u>	<u>631,778</u>	<u>2,044,283</u>
<i>Total assets</i>			
	<u>\$ 1,412,505</u>	<u>\$ 631,778</u>	<u>\$ 2,044,283</u>
<i>Liabilities and fund balances</i>			
<i>Liabilities</i>			
Accounts payable	\$ 250,893	\$ 79,851	\$ 330,744
Payroll liabilities	1,035	-	1,035
Due to other funds	180,927	365,288	546,215
Deferred revenue	468,089	-	468,089
	<u>900,944</u>	<u>445,139</u>	<u>1,346,083</u>
<i>Total liabilities</i>			
	<u>900,944</u>	<u>445,139</u>	<u>1,346,083</u>
<i>Fund balances</i>			
Reserved for prepaid expenses	41,576	-	41,576
Unreserved	650,912	5,712	656,624
	<u>692,488</u>	<u>5,712</u>	<u>698,200</u>
<i>Total fund balances</i>			
	<u>\$ 692,488</u>	<u>\$ 5,712</u>	<u>\$ 698,200</u>
<i>Total liabilities and fund balances</i>			
	<u>\$ 1,593,432</u>	<u>\$ 450,851</u>	<u>\$ 2,044,283</u>

The accompanying notes are an integral part of these financial statements

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STATE OF NEW MEXICO
Cumbres & Toltec Scenic Railroad Commission
Governmental Funds
Reconciliation of the Balance Sheet to the Statement of Net Assets
June 30, 2008

Exhibit B-1
Page 2 of 2

Amounts reported for governmental activities in the statement of net assets are different because:

Fund balances - total governmental funds	\$ 698,200
Capital assets used in governmental activities are not financial resources and, therefore, are not reported in the funds	10,410,031
Long-term liabilities are not due and payable in the current period and, therefore, are not reported in the funds:	
Compensated absences	<u>(4,356)</u>
Net assets-governmental activities	<u>\$ 11,103,875</u>

The accompanying notes are an integral part of these financial statements

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STATE OF NEW MEXICO
Cumbres & Toltec Scenic Railroad Commission
Statement of Revenues, Expenditures and Changes in Fund Balances
Governmental Funds
For the Year Ending June 30, 2008

Exhibit B-2
Page 1 of 2

	General Fund	Capital Projects Fund	Total
<i>Revenues:</i>			
Intergovernmental:			
State of Colorado	\$ 100,000	\$ 880,343	\$ 980,343
State of New Mexico	100,000	660,774	760,774
Ticket sales	3,001,392	-	3,001,392
Donations	790	-	790
Interest and other income	72,574	8,405	80,979
	<u>3,274,756</u>	<u>1,549,522</u>	<u>4,824,278</u>
Total revenues			
<i>Expenditures:</i>			
Current:			
Administration/preservation	530,974	36,897	567,871
Train operations	2,796,087	-	2,796,087
Capital outlay	189,716	1,622,306	1,812,022
	<u>3,516,777</u>	<u>1,659,203</u>	<u>5,175,980</u>
Total expenditures			
<i>Net change in fund balances</i>	(242,021)	(109,681)	(351,702)
<i>Fund balance - beginning of year</i>	<u>934,509</u>	<u>115,393</u>	<u>1,049,902</u>
<i>Fund balance - end of year</i>	<u>\$ 692,488</u>	<u>\$ 5,712</u>	<u>\$ 698,200</u>

The accompanying notes are an integral part of these financial statements

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STATE OF NEW MEXICO
 Cumbres & Toltec Scenic Railroad Commission
 Reconciliation of the Statement of Revenues, Expenditures and Changes
 in Fund Balances of Governmental Funds to the Statement of Activities
 For the Year Ended June 30, 2008

Amounts reported for governmental activities in the statement of activities are different because:

Net change in fund balances - total governmental funds	\$	(351,702)
--	----	-----------

Governmental funds report capital outlays as expenditures. However in the statement of activities, the cost of those assets is allocated over their estimated useful lives and reported as depreciation expense:

Capital expenditures		1,812,022
Depreciation expense		(562,910)

Long-term liabilities are not due and payable in the current period and, therefore, are not reported in the funds:

Increase in the reserve for compensated absences		<u>(2,285)</u>
Change in net assets of governmental activities	\$	<u><u>895,125</u></u>

The accompanying notes are an integral part of these financial statements

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STATE OF NEW MEXICO

Exhibit C-1

Cumbres & Toltec Scenic Railroad Commission

General Fund

Statement of Revenues, Expenditures and Changes in Fund Balance

Budget (GAAP Budgetary Basis) and Actual

For the Year Ending June 30, 2008

	Budgeted Amounts		Actual (GAAP Basis)	Variations
	Original	Final		Favorable (Unfavorable) Final to Actual
<i>Revenues:</i>				
State of Colorado	\$ 100,000	\$ 100,000	\$ 100,000	\$ -
State of New Mexico	100,000	100,000	100,000	-
Ticket sales	3,053,240	3,053,240	3,001,392	(51,848)
Donations	2,000	2,000	790	(1,210)
Interest and other income	69,500	69,500	72,574	3,074
<i>Total revenues</i>	<u>3,324,740</u>	<u>3,324,740</u>	<u>3,274,756</u>	<u>(49,984)</u>
<i>Expenditures:</i>				
<i>Current:</i>				
Administration/preservation	620,518	563,518	530,974	32,544
Train operations	2,709,788	2,739,288	2,796,087	(56,799)
Capital outlay	179,500	179,500	189,716	(10,216)
<i>Total expenditures</i>	<u>3,509,806</u>	<u>3,482,306</u>	<u>3,516,777</u>	<u>(34,471)</u>
<i>Excess (deficiency) of revenues over expenditures</i>	<u>(185,066)</u>	<u>(157,566)</u>	<u>(242,021)</u>	<u>(84,455)</u>
<i>Other financing sources (uses)</i>				
Designated fund balance	185,066	157,566	-	(157,566)
Transfers in	-	-	-	-
Transfers out	-	-	-	-
<i>Total other financing sources (uses)</i>	<u>185,066</u>	<u>157,566</u>	<u>-</u>	<u>(157,566)</u>
<i>Net change in fund balance</i>	-	-	(242,021)	73,111
<i>Fund balance - beginning of year</i>	-	-	934,509	934,509
<i>Fund Balance - end of year</i>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 692,488</u>	<u>\$ 1,007,620</u>

The accompanying notes are an integral part of these financial statements

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NOTES TO FINANCIAL STATEMENTS

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STATE OF NEW MEXICO
Cumbres & Toltec Scenic Railroad Commission
Notes To Financial Statements
June 30, 2008

NOTE 1. Summary of Significant Accounting Policies

In an effort to preserve a part of the history of the area, the states of Colorado and New Mexico created separate Railroad Authorities in 1969. On July 16, 1970 the states, as tenants in common, purchased the 64-mile, narrow-gauge equipment from the Denver and Rio Grande Western Railroad Company.

On July 1, 1970, the Cumbres & Toltec Scenic Railroad Compact between the states of Colorado and New Mexico was approved, thereby establishing the present day Cumbres & Toltec Scenic Railroad. The compact was later ratified by the United States Congress on December 26, 1974. In 1977, the states of Colorado and New Mexico created a bi-state agency known as the Cumbres & Toltec Scenic Railroad Commission (the Commission) which is responsible for administering the compact and the Cumbres & Toltec Scenic Railroad property. Two members from Colorado and New Mexico are appointed by their respective state governors to serve indefinite terms representing the four-member commission. Each state generally appropriates matching amounts to be used for part of the annual operating costs of the Commission and each state has also provided amounts for renovation and improvement of the railroad property.

Since fiscal year 1976, the Commission has obtained federal funding in the form of public works and economic facilities assistance grants, state appropriations and contributions. Historical preservation grants for a historical preservation study of the property and renovation of the narrow-gauge steam locomotives have been awarded by historical programs of both states.

A 20-year lease was signed with Scenic Railways, Inc. on May 9, 1971. Effective March 1, 1982 the lease with Scenic Railways, Inc. was terminated and as part of the termination agreement, the Commission purchased certain assets from Scenic Railways, Inc. which was considered necessary to continue operation without undue disruption or hardship. A one-year lease with Kyle Railways, Inc. for the operation of the railroad effective February 1, 1982 was approved. After the expiration of the one-year lease, a 20-year lease with Kyle Railways, Inc. was approved with a termination date of January 31, 2003. On November 30, 1996 Kyle Railways voluntarily terminated this lease and as part of the termination agreement, the Commission purchased certain assets from Kyle Railways, Inc. which was considered necessary to continue operation of the railroad.

A lease with the Cumbres & Toltec Scenic Railroad Corporation, for the operation of the railroad became effective January 18, 1997. This lease was terminated October 19, 1999 and a new lease with the Rio Grande Railway Preservation Corporation, a sponsored, non-profit corporation of The Friends of the Cumbres & Toltec Scenic Railroad Commission, for the operation of the railroad became effective March 30, 2000 and terminated October 31, 2004, with two options to renew for periods of five years each. Rio Grande Railway Preservation Corporation terminated the lease October 31, 2002.

On May 8, 2003, the Commission approved a management agreement with Rio Grande Railway Preservation Corporation to ensure that the railroad is managed, operated, maintained, improved and enhanced. The management agreement terminated on December 31, 2003, but could be extended for additional one year time periods by mutual consent. The corporation received a management fee of 9% of expenses through December 31, 2003 and on January 1, 2004 this fee was decreased to 5%. The Commission approved the termination of the contract with the Rio Grande Railway Preservation Corporation, effective November 4, 2005 and as a part of the termination agreement, the Commission purchased certain assets from Rio Grande Railway Preservation Corporation, which was considered necessary to continue the operation of the Railroad.

STATE OF NEW MEXICO
Cumbres & Toltec Scenic Railroad Commission
Notes To Financial Statements
June 30, 2008

NOTE 1. Summary of Significant Accounting Policies (continued)

On March 14, 2006, the Commission approved a management agreement with the Cumbres & Toltec Scenic Management Corporation, for a flat fee of \$4,777.78 per month from March 2006 through December 2006, and extended through March 2008. A new agreement with the Cumbres & Toltec Scenic Management Corporation, commenced on April 1, 2007 through March 31, 2008, with a base fee of \$90,000, plus incentive fees based upon specific criteria. A new management agreement commenced on April , 2008 and runs through December 31, 2010 with an option to renew for one to two years. A 3% inflation factor will be applied to the Management Fee of \$90,000 on a yearly basis, beginning April 1, 2009.

The Cumbres & Toltec Scenic Railroad Commission is a body of politic and corporate under the name and form of government selected by its qualified electors. The Commission may:

1. Sue or be sued;
2. Enter into contracts and leases;
3. Acquire and hold property, both real and personal;
4. Have common seal, which may be altered at pleasure;
5. Exercise such other privileges that are incident to corporations of like character or degree that are not inconsistent with the laws of New Mexico and Colorado.
6. Protect generally the property of its Commission and its inhabitants;
7. Preserve peace and order within the Commission; and
8. Establish rates for services provided by the Commission, and revenue-producing projects, including amounts which the governing body determines to be reasonable in the operation of similar facilities.

This summary of significant accounting policies of Cumbres & Toltec Scenic Railroad Commission is presented to assist in the understanding of the Commission's financial statements. The financial statements and notes are the representation of the Commission's management who is responsible for their integrity and objectivity. The financial statements of the Commission have been prepared in accordance with accounting principles generally accepted in the United States of America (GAAP) as applied to governmental units. The Governmental Accounting Standards Board (GASB) is the accepted standard-setting body for establishing governmental accounting standards and financial reporting principles. The financial statements have incorporated all applicable GASB pronouncements as well as Financial Accounting Standards Board (FASB) Statements and Interpretations, Accounting Principles Board Opinions and Accounting Research Bulletins of the Committee on accounting procedures issued on or before November 30, 1989 unless those pronouncements conflict with or contradict GASB pronouncements. Governments also have the option of following subsequent private-sector guidance for their government-wide financial statements, subject to the same limitation. The Commission has elected not to follow subsequent private sector guidance. The more significant accounting and reporting principles and practices used by the Commission are described below.

A. Financial Reporting Entity

In evaluating how to define the Commission, for financial reporting purposes, management has considered all potential component units. The decision to include any potential component units in the financial reporting entity was made by applying the criteria set forth in GASB No. 14 and No. 39. Blended component units, although legally separate entities, are in substance part of the government's operations. Each discretely presented component unit is reported in a separate column in the government-wide financial statements to emphasize that it is legally separate from the government.

STATE OF NEW MEXICO
Cumbres & Toltec Scenic Railroad Commission
Notes To Financial Statements
June 30, 2008

NOTE 1. Summary of Significant Accounting Policies (continued)

A. *Financial Reporting Entity (continued)*

The basic-but not the only criterion for including a potential component unit within the reporting entity is the governing body's ability to exercise oversight responsibility. The most significant manifestation of this ability is financial interdependency. Other manifestations of the ability to exercise oversight responsibility include, but are not limited to, the selection of the governing authority, the designation of management, the ability to significantly influence operations, and accountability for fiscal matters. A second criterion used in evaluating potential component units is the scope of public service. Application of this criterion involves considering whether the activity benefits the government. A third criterion used to evaluate potential component units for inclusion or exclusion from the reporting entity is the existence of special financing relationships, regardless of whether the government is able to exercise oversight responsibilities.

Discretely Presented Component Unit

The Friends of the Cumbres & Toltec Scenic Railroad, Inc. (Friends) is a nonprofit corporation devoted to the preservation and interpretation of the Cumbres & Toltec Scenic Railroad, a 64-mile narrow gauge railroad between Antonito, Colorado and Chama, New Mexico. Friends is exempt from income taxes under Section 501c(3) of the Internal Revenue Code and uses a December 31 year-end. Audited financial statements can be obtained by writing to Friends, 6005 Osuna Rd NE, Albuquerque, NM 87109.

In applying the criteria set forth in GASB 14 and GASB 39, it was determined that The Friends of the Cumbres & Toltec Scenic Railroad Commission should be a discretely presented component unit of Cumbres & Toltec Scenic Railroad Commission.

The component unit's activities are detailed on Exhibit A-1 and A-2 in the Commission's financial reports.

B. *Government-wide and fund financial statements*

The government-wide financial statements (i.e., the statement of net assets and the statement of activities and changes in net assets) report information on all of the nonfiduciary activities of the primary government. For the most part, the effect of interfund activity has been removed from these statements. *Governmental activities*, which normally are supported by intergovernmental revenue, are reported separately from *business-type activities*, which rely to a significant extent on fees and charges for support.

The Statement of Net Assets and the Statement of Activities were prepared using the economic resources measurement focus and the accrual basis of accounting. Revenues, expenses, gains, losses, assets and liabilities resulting from exchange-like transactions are recognized when the exchange takes place, regardless of the timing of the related cash flows. Revenues, expenses, gains, losses, assets and liabilities resulting from non-exchange transactions are recognized in accordance with the requirements of GASB Statement No. 33, *Accounting and Financial Reporting for Non-exchange Transactions*. Grants and similar items are recognized as revenue as soon as all eligibility requirements imposed by the provider have been met.

In the government-wide Statement of Net Assets, both the governmental and business-type activities (if applicable)(a) are presented on a consolidated basis by column, (b) and are reported on a full accrual, economic resource basis, which recognizes all long-term assets and receivables as well as long-term debt and obligations. The Commission's net assets are reported in three parts – invested in capital assets, net of related debt; restricted net assets; and unrestricted net assets.

STATE OF NEW MEXICO
Cumbres & Toltec Scenic Railroad Commission
Notes To Financial Statements
June 30, 2008

NOTE 1. Summary of Significant Accounting Policies (continued)

B. Government-wide and fund financial statements (continued)

The statement of activities demonstrates the degree to which the direct expenses of a given function or segment are offset by program revenues. *Direct expenses* are those that are clearly identifiable with a specific function or segment. *Program revenues* include 1) charges to customers or applicants who purchase, use, or directly benefit from goods, services, or privileges provided by a given function like the sale of train tickets and 2) grants and contributions that are restricted to meeting the operational or capital requirements of a particular function. Other items not properly included among program revenues are reported instead as *general revenues*.

Separate financial statements are provided for governmental funds and fiduciary funds, even though the latter are excluded from the government-wide financial statements. Major individual governmental funds are reported as separate columns in the fund financial statements.

C. Measurement focus, basis of accounting, and financial statement presentation

The government-wide financial statements are reported using the *economic resources measurement focus* and the *accrual basis of accounting*, as are the proprietary fund and fiduciary fund financial statements. Revenues are recorded when earned and expenses are recorded when a liability is incurred, regardless of the timing of related cash flows. Grants and similar items are recognized as revenue as soon as all eligibility requirements imposed by the provider have been met.

Governmental fund financial statements are reported using the *current financial resources measurement focus* and the *modified accrual basis of accounting*. Revenues are recognized as soon as they are both measurable and available. Revenues are considered to be *available* when they are collectible within the current period or soon enough thereafter to pay liabilities of the current period. For this purpose, the government considers revenues to be available if they are collected within 60 days of the end of the current fiscal period. Expenditures generally are recorded when a liability is incurred, as under accrual accounting. However, debt service expenditures, as well as expenditures related to compensated absences and claims and judgments, are recorded only when payment is due. General capital asset acquisitions are reported as expenditures in governmental funds, while proceeds of long-term debt and acquisitions under capital leases are reported as other financing sources.

Grant and entitlement revenues, interest and charges for services are considered revenues susceptible to accrual. Other receipts are generally not susceptible to accrual because they are not generally measurable until received in cash. Entitlements and shared revenues are recorded at the time of receipt or earlier if the accrual criteria are met. Expenditure-driven grants recognize revenue when the qualifying expenditures have been incurred and other grant requirements have been met.

The Commission reports the following major governmental funds:

General Fund- The general fund is the primary operating fund of the Commission. It is used to account for resources devoted to financing the general services of the Commission and is charged with all operating expenditures. The New Mexico statutes that authorized the Commission did not require reversion of Commission funds.

Capital Projects Fund- The capital projects fund is used to account for revenue to be used for the acquisition or construction of capital equipment and facilities. Individual laws appropriating capital projects funds must be analyzed to determine whether any capital projects funds revert.

STATE OF NEW MEXICO
Cumbres & Toltec Scenic Railroad Commission
Notes To Financial Statements
June 30, 2008

NOTE 1. Summary of Significant Accounting Policies (continued)

C. *Measurement focus, basis of accounting, and financial statement presentation (continued)*

When both restricted and unrestricted sources are available for use, it is the Commission's policy to use restricted resources first then unrestricted resources as they are needed. As a general rule, the effect of interfund activity has been eliminated from the government-wide financial statements.

D. *Budgetary Principles*

The Commission generally follows these procedures in establishing budgetary data:

1. Prior to each September, the Commission decides what level of appropriation will be requested from each state's legislatures for the next fiscal year.
2. The legislatures of the states of Colorado and New Mexico generally appropriate equal amounts as their contributions to the Commission's operations. Appropriations not expended or encumbered at year-end do not revert to the states unless otherwise specified.
3. A flexible internal operating budget is approved by the Commission but formal budget revisions are not made for unexpected items. The states do not require formal budget revisions nor is the Commission legally restricted by expenditure levels.
4. Formal budgetary integration is employed as a management control device during the year for all governmental funds.
5. Budgets for all governmental funds are adopted on a basis consistent with generally accepted accounting principles.

The level of budgetary control is at the appropriation unit level for New Mexico state agencies.

E. *Deposits and Investments*

Cash and cash equivalents includes interest and non-interest bearing demand deposits.

The Commission's cash and cash equivalents are considered to be cash on hand, demand deposits and short term investments with original maturities of three months or less from the date of acquisition.

The Commission did not hold any investments at June 30, 2008.

F. *Interfund Receivables/Payables*

During the course of operations, numerous transactions occur between individual funds for goods provided or services rendered. If balances are outstanding at year-end, these receivables and payables are classified as "due from other funds" or "due to other funds" on the balance sheet of the governmental funds. The noncurrent portions are offset by fund balance reserve accounts in the applicable governmental funds.

STATE OF NEW MEXICO
 Cumbres & Toltec Scenic Railroad Commission
 Notes To Financial Statements
 June 30, 2008

NOTE 1. Summary of Significant Accounting Policies (continued)

G. Capital Assets

Capital assets, which include buildings, railyards, trackline, trackline improvements, substructures, steam engines, rolling stock, equipment and construction in progress, are reported in the applicable governmental column in the government-wide financial statements. With the exception of a few rolling stock items, capital assets are defined by the government as assets with an initial, individual cost of more than \$5,000 and an estimated useful life in excess of one year per Section 12-6-10 NMSA 1978. Such assets are recorded at historical cost or estimated historical cost if purchased or constructed. Under the guidelines of GASB 34, the Commission is a Phase III government. As a Phase III government, the Commission is not required to capitalize infrastructure existing prior to years beginning before June 15, 2003. The Commission has elected not to capitalize infrastructure prior to years beginning before June 15, 2003. Infrastructure added for years beginning after June 15, 2003 is depreciated. Information Technology Equipment including software is being capitalized and included in furniture, fixtures and equipment in accordance with NMAC 2.2.20.1.9 C (5). Donated capital assets are recorded at estimated fair market value at the date of donation. The costs of normal maintenance and repairs that do not add to the value of the asset or materially extend assets lives are not capitalized.

Major outlays for capital assets and improvements are capitalized as projects are constructed. Capital assets of the Commission, as well as the discretely presented component unit, are depreciated using the straight-line method over the following estimated useful lives in years:

<u>Assets</u>	<u>Primary Government</u>	<u>Component Unit Friends</u>
Buildings and railyards	15-30	
Trackline, trackline improvements and substructures	15-30	
Steam engines, rolling stock and equipment	7-20	5-10

H. Compensated Absences

Effective June 25, 1995, full time employees are entitled to accrue vacation based on years of service as follows:

One to ten years, two weeks; ten to fifteen years, three weeks; sixteen or more years, four weeks. Employees may accumulate vacation to a maximum of six weeks after which leave is forfeited. An employee may only be compensated for up to six weeks at separation from service. The Commission accrues this liability when earned by the employee. This liability has been calculated at year-end and adjusted to current salary levels. The non current portion (the amount estimated to be used in subsequent fiscal years) for government activities is presented separately and represents a reconciling item between fund and government-wide presentations. Full-time employees receive ten days of personal/sick leave days per year. Unused personal/sick leave shall accumulate without limit from year to year; however, accumulated days may only be used for sick leave. Full-time employees are eligible to sell back any or all of the ten days earned at the rate of \$50 per day. The sell back shall apply only to the personal/sick leave accrued during the year it was granted and the sell back shall occur in June of each year.

STATE OF NEW MEXICO
Cumbres & Toltec Scenic Railroad Commission
Notes To Financial Statements
June 30, 2008

NOTE 1. Summary of Significant Accounting Policies (continued)

I. Net Assets or Fund Equity

In the fund financial statements, designations of fund balance represent tentative plans for future use of financial resources that are subject to change. The reserved fund balance is that portion that is legally segregated for a specific use or not appropriable for expenditures because the underlying asset is not a financial resource available for current appropriation.

Net assets represent the difference between assets and liabilities. Net assets invested in capital assets, net of related debt consist of capital assets reduced by accumulated depreciation and outstanding balances of any borrowings used for the acquisition, construction or improvement of capital assets. Restricted net assets are reported when there are liabilities imposed on their use through external restrictions imposed by creditors, grantors, donors, voters or laws or regulations of other governments. All other net assets that do not meet the definition of "restricted" or "invested in capital assets, net of related debt" are classified as unrestricted.

J. Interfund Transactions

GASB 34 paragraph 34 identifies four subcategories of interfund activity: interfund loans; interfund services provided and used; interfund transfers; and interfund reimbursements.

K. Estimates

The preparation of financial statements in conformity with accounting principles generally accepted in the United States of America requires management to make estimates and assumptions that may affect certain reported amounts and disclosures. Accordingly, actual results could differ from those estimates.

L. Deferred Revenue

Deferred revenue consists of advanced ticket deposits for future rides on the train. As of June 30, 2008, 100% of the deferred revenue is considered to be redeemable.

M. Program Revenues

Charges for Services - Charges for services represent ticket sales for train rides.

Operating Grants and Contributions - Grants and Contributions provided to the Commission for the purposes of paying for operating costs.

Capital Grants and Contributions - Grants and Contributions provided to the Commission for the purposes of paying for capital assets and improvements.

NOTE 2. Stewardship, Compliance and Accountability

Budgetary Information

Annual budgets of the Commission are prepared prior to June 1 and must be approved by resolution of the Cumbres & Toltec Scenic Railroad Commission. Once the budget has been formally approved, any amendments must also be approved by the Commission. A separate budget is prepared for each fund. Line items within each budget may be over-expended; however, it is not legally permissible to over-expend any budget in total.

STATE OF NEW MEXICO
 Cumbres & Toltec Scenic Railroad Commission
 Notes To Financial Statements
 June 30, 2008

NOTE 2. Stewardship, Compliance and Accountability (continued)

These budgets are prepared on the GAAP basis, exclude encumbrances, and secure appropriation of funds for only one year. Carryover funds must be re-appropriated in the budget of the subsequent fiscal year.

The budgetary information presented in these financial statements has been amended in accordance with the above procedures. These amendments resulted in the following changes:

	Excess (deficiency) of revenues over expenditures	
	Original Budget	Final Budget
Budgeted Funds:		
General Fund	\$ (185,066)	\$ (157,566)
Capital Projects Fund	532,833	(242,577)

NOTE 3. Deposits and Investments

State statutes authorize the investment of Commission funds in a wide variety of instruments including certificates of deposit and other similar obligations, state investment pool, money market accounts, and United States Government obligations. All invested funds of the Commission properly followed State investment requirements as of June 30, 2008.

Deposits of funds may be made in interest or non-interest bearing checking accounts in one or more banks or savings and loan associations within the geographical boundaries of the Commission. Deposits may be made to the extent that they are insured by an agency of the United States or by collateral deposited as security or by bond given by the financial institution.

The rate of interest in non-demand interest-bearing accounts shall be set by the State Board of Finance, but in no case shall the rate of interest be less than one hundred percent of the asked price on United States treasury bills of the same maturity on the day of deposit.

Excess of funds may be temporarily invested in securities which are issued by the State or by the United States government, or by their departments or agencies, and which are either direct obligations of the State or the United States or are backed by the full faith and credit of those governments.

According to the Federal Deposit Insurance Corporation, public unit deposits are funds owned by the Commission. Time deposits, savings deposits and interest bearing accounts of an institution in the same state will be insured up to \$100,000 in aggregate and separate from the \$100,000 coverage for public unit demand deposits at the same institution.

Custodial Credit Risk – Deposits

Custodial credit risk is the risk that in the event of a bank failure, the Commission’s deposits may not be returned to it. The Commission does not have a deposit policy for custodial credit risk, other than following state statutes as put forth in the Public Money Act (Section 6-10-1 to 6-10-63, NMSA 1978). State law limits deposits of public monies to certain banks or credit unions. In addition, the depository must pledge eligible collateral to the extent of 50% of the balance of uninsured funds. At June 30, 2008 \$808,914 of the Commission’s deposits of \$1,019,203 was exposed to custodial credit risk. \$736,811 was uninsured and collateralized by collateral held by the pledging bank’s trust department, not in the Commission’s name and \$72,103 was uninsured and uncollateralized.

NM State Statutes require collateral pledged for deposits in excess of the federal deposit insurance to be delivered, or a joint safekeeping receipt to be issued, to the Commission for at least one half of the amount on deposit with the institution.

STATE OF NEW MEXICO
Cumbres & Toltec Scenic Railroad Commission
Notes To Financial Statements
June 30, 2008

NOTE 3. Deposits and Investments (continued)

Colorado State Statutes require any deposits over \$100,000 to be collateralized. Any deposits over \$100,000 are collateralized with U.S. Government Securities and other collateral approved by the Colorado Division of Banking.

	Community Bank TA	Community Bank of Colorado	1st Southwest Bank	Total
Amount of deposits	\$ 639,595	\$ 10,289	\$ 369,319	\$ 1,019,203
FDIC Coverage	<u>(100,000)</u>	<u>(10,289)</u>	<u>(100,000)</u>	<u>(210,289)</u>
Total uninsured public funds	<u>539,595</u>	<u>-</u>	<u>269,319</u>	<u>808,914</u>
Collateralized by securities held by pledging institutions or by its trust department or agent in other than the Commission's name	467,492	-	269,319	736,811
Uninsured and uncollateralized	<u><u>\$ (72,103)</u></u>	<u><u>\$ -</u></u>	<u><u>\$ -</u></u>	<u><u>\$ (72,103)</u></u>
Collateral requirement (50% of uninsured funds)	\$ 269,798	\$ -	\$ 134,660	\$ 404,458
Pledged Collateral	<u>467,492</u>	<u>-</u>	<u>269,319</u>	<u>736,811</u>
Over (Under) collateralized	<u><u>\$ 197,694</u></u>	<u><u>\$ -</u></u>	<u><u>\$ 134,659</u></u>	<u><u>\$ 332,353</u></u>

Discretely presented Component Unit

Cash and cash equivalents and investments for the discretely presented component unit are summarized as follows:

Demand deposits and certificates of deposit \$531,029

The audit of the component unit was not performed under Government Auditing Standards; therefore, custodial credit risk information is not available for the component unit.

STATE OF NEW MEXICO
Cumbres & Toltec Scenic Railroad Commission
Notes To Financial Statements
June 30, 2008

NOTE 4. Receivables

Receivables at June 30, 2008 consist of the following:

	<u>General Fund</u>	<u>Capital Fund</u>	<u>Total Primary Government</u>	<u>Component Unit Friends</u>
Due from Cumbres & Toltec Scenic Railroad Commission	\$ -	\$ -	\$ -	\$ 15,110
Grants Receivable	-	291,346	291,346	
Other Receivables	<u>18,337</u>	<u>-</u>	<u>18,337</u>	<u>1,262</u>
Total	<u><u>\$ 18,337</u></u>	<u><u>\$ 291,346</u></u>	<u><u>\$ 309,683</u></u>	<u><u>\$ 16,372</u></u>

Accounts receivable are considered 100% collectable at year end.

Governmental funds report deferred revenues in connection with the above receivables for revenues that are not considered available to liquidate liabilities of the current period.

Governmental funds also defer recognition of revenue for funds that are received for train trips to be taken subsequent to June 30. The components of deferred revenue at June 30, 2008 for governmental activities are as follows:

	<u>General Fund</u>
Deferred Revenue	<u><u>\$ 468,089</u></u>

NOTE 5. Interfund Receivables, Payables, and Transfers

The Commission recorded interfund balances to reflect a temporary transfer of cash due to temporary needs within funds. The composition of interfund balances as of June 30, 2008 is as follows:

<u>Interfund Receivable</u>	<u>Interfund Payable</u>	<u>Amount</u>
General Fund	Capital Projects Fund	\$ 365,288
Capital Projects Fund	General Fund	<u>180,927</u>
		<u><u>\$ 546,215</u></u>

All interfund receivables, payables and transfers are expected to be repaid within one year.

STATE OF NEW MEXICO
Cumbres & Toltec Scenic Railroad Commission
Notes To Financial Statements
June 30, 2008

NOTE 6. Capital Assets

Capital assets activity for the year ended June 30, 2008 was as follows:

	Balance <u>June 30, 2007</u>	<u>Additions</u>	<u>Deletions</u>	Balance <u>June 30, 2008</u>
Governmental activities:				
Capital assets not being depreciated:				
Construction in progress	\$ 692,342	\$ 249,124	\$ -	\$ 941,466
	<u>692,342</u>	<u>249,124</u>	<u>-</u>	<u>941,466</u>
Total capital assets not being depreciated	<u>692,342</u>	<u>249,124</u>	<u>-</u>	<u>941,466</u>
Capital assets being depreciated:				
Buildings and railyards	3,859,259	41,972	-	3,901,231
Trackline, trackline improvements and substructures	6,050,283	1,356,690	-	7,406,973
Steam engines, rolling stock and equipment	<u>7,324,216</u>	<u>164,236</u>	<u>-</u>	<u>7,488,452</u>
Total capital assets being depreciated	<u>17,233,758</u>	<u>1,562,898</u>	<u>-</u>	<u>18,796,656</u>
Less accumulated depreciation:				
Buildings and railyards	2,861,014	51,151	-	2,912,165
Trackline, trackline improvements and substructures	3,046,617	230,744	-	3,277,361
Steam engines, rolling stock and equipment	<u>2,857,550</u>	<u>281,015</u>	<u>-</u>	<u>3,138,565</u>
Total accumulated depreciation	<u>8,765,181</u>	<u>562,910</u>	<u>-</u>	<u>9,328,091</u>
Total capital assets, net of depreciation	<u>\$ 9,160,919</u>	<u>\$ 1,249,112</u>	<u>\$ -</u>	<u>\$ 10,410,031</u>

Depreciation expense for the year ended June 30, 2008 was \$562,910, and was charged to the following funds and functions:

Administration/preservation	\$ 61,920
Train operations	303,971
Capital outlay	<u>197,019</u>
Total depreciation expense	<u>\$ 562,910</u>

Construction in progress consists of an addition to the Antonito Car Shop which is funded by the Colorado Economic Commission and the Colorado Department of Transportation. This project is expected to be completed by December 31, 2009 at an additional cost of \$366,522. Also included in the construction in progress amount is a locomotive 489 rehabilitation project which is funded by the State of New Mexico. This project is expected to be completed by August 31, 2008 at an additional cost of \$40,417.

STATE OF NEW MEXICO
 Cumbres & Toltec Scenic Railroad Commission
 Notes To Financial Statements
 June 30, 2008

NOTE 7. Compensated Absences

A summary of changes in accrued compensated absences is as follows:

	Balance June 30, 2007	Additions	Retirements	Balance June 30, 2008	Due Within One Year
Compensated Absences	\$ 2,071	\$ 7,812	\$ 5,527	\$ 4,356	\$ 4,356

NOTE 8. Restricted Net Assets

In the Statement of Net Assets \$125,222 of net assets is reported as restricted, of which \$125,222 is restricted by enabling legislation.

NOTE 9. Risk Management

The Commission is exposed to various risks of loss as the owner of a tourist-oriented railroad. To reduce the risk of loss, the Commission and/or management company purchases commercial insurance to cover all significant losses to property, general liability, workers compensation and employee fidelity. Insurance purchased by the Commission names the management company as an additional insured. There has been no significant reduction in insurance coverage and settled claims from these risks have not exceeded commercial insurance coverage for the current year or the three prior years.

NOTE 10. Other Required Individual Fund Disclosures

Excess of expenditures over appropriations. The following fund exceeded approved budgetary authority for the year ended June 30, 2008:

	<u>Excess</u>
General Fund	34,471

The Commission and management company will review the actual revenue and expenses in comparison to the budget at every Commission meeting.

NOTE 11. Commitments and Contingencies

Grants and Other Federal and State Assistance

The Commission participates in a number of federal and state assisted grant programs. The disbursement of funds received under these programs generally requires compliance with terms and conditions specified in the grant agreements and are subject to audit by grantor agencies. Any disallowed claims resulting from such audits could become a liability of the Commission. In the opinion of management, however, any such disallowed claims will not have a material effect on the financial statements of the Commission as of and for the year ended June 30, 2008.

Debt Limits

The amount of debt that can be incurred by the Commission is limited by resolution. In June 2003, the Commissioners authorized the Commission to borrow up to \$250,000 from other financial institutions for the purpose of funding capital projects. At June 30, 3008, the Commission did not enter into any debt agreements.

STATE OF NEW MEXICO
Cumbres & Toltec Scenic Railroad Commission
Notes To Financial Statements
June 30, 2008

NOTE 11. Commitments and Contingencies

State of Colorado

Colorado voters passed an amendment to the state constitution in November 1992 which contains several limitations, including revenue raising, spending abilities and other specific requirements affecting state and local governments. The amendment, commonly known as the Tabor Amendment, is complex and subject to judicial interpretation; however, the Commission believes it is exempt from the requirements of the amendment. The Commission has made certain interpretations of the amendment's language in order to determine its exemption.

Component Unit

The receivable of \$15,110 that the component unit shows as a due from the primary government is currently in dispute. The Commission has requested documentation from the component unit for these items showing approval from the Commission. The requested documentation has not been provided by the component unit. The Commission's position is that they do not owe the Friends of the Cumbres & Toltec Scenic Railroad, Inc., any amounts, therefore no related liability appears on the Commission's financial statements as of June 30, 2008.

NOTE 12. Transactions Between the Component Unit and Primary Government

The Component unit Friends of the Cumbres & Toltec Scenic Railroad, Inc., raise and spend funds to support the preservation and restoration of the historic railroad. Activities that support this are mainly maintenance of equipment. Other support services include tour guides that work on the trains as well as documentation for the riders that provide maps and other historical information. The total amount expended by the component unit for these purposes, for year ended June 30, 2008, was \$346,806.

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SUPPLEMENTARY INFORMATION

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STATE OF NEW MEXICO

Schedule A-1

Cumbres & Toltec Scenic Railroad Commission

Capital Projects Fund

Statement of Revenues, Expenditures and Changes in Fund Balance

Budget (GAAP Budgetary Basis) and Actual

For the Year Ending June 30, 2008

	Budgeted Amounts		Actual (GAAP Basis)	Variations Favorable (Unfavorable) Final to Actual
	Original	Final		
<i>Revenues:</i>				
State of Colorado	\$ 1,033,758	\$ 1,033,758	\$ 880,343	\$ (153,415)
State of New Mexico	1,164,583	1,164,583	660,774	(503,809)
Interest and other income	-	-	8,405	8,405
<i>Total revenues</i>	<u>2,198,341</u>	<u>2,198,341</u>	<u>1,549,522</u>	<u>(648,819)</u>
<i>Expenditures:</i>				
<i>Current:</i>				
Administration/preservation	532,833	474,833	36,897	437,936
Capital outlay	<u>1,665,508</u>	<u>1,966,085</u>	<u>1,622,306</u>	<u>343,779</u>
<i>Total expenditures</i>	<u>1,665,508</u>	<u>2,440,918</u>	<u>1,659,203</u>	<u>781,715</u>
<i>Excess (deficiency) of revenues over expenditures</i>	<u>532,833</u>	<u>(242,577)</u>	<u>(109,681)</u>	<u>132,896</u>
<i>Other financing sources (uses)</i>				
Designated fund balance	(532,833)	242,577	-	(242,577)
Transfers in	-	-	-	-
Transfers out	-	-	-	-
<i>Total other financing sources (uses)</i>	<u>(532,833)</u>	<u>242,577</u>	<u>-</u>	<u>(242,577)</u>
<i>Net change in fund balance</i>	-	-	(109,681)	(109,681)
<i>Fund Balance - Beginning of Year</i>	<u>-</u>	<u>-</u>	<u>115,393</u>	<u>115,393</u>
<i>Fund Balance - End of Year</i>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 5,712</u>	<u>\$ 5,712</u>

The accompanying notes are an integral part of these financial statements

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SUPPORTING SCHEDULES

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STATE OF NEW MEXICO
 Cumbres & Toltec Scenic Railroad Commission
 Schedule of Collateral Pledged by Depository
 for Public Funds
 June 30, 2008

Schedule I

Name of Depository	Description of Pledged Collateral	Fair Market Value June 30, 2008	Name and Location of Safekeeper
Community Bank TA	FHOR 06-10 G550 Due 7-9-2010 3.125%	\$ 200,000	Federal Reserve Bank 925 Grand Boulevard Kansas City, MO 64198-0001
Community Bank TA	FGRM 2945PN Due 9-15-2024 3.625%	267,492	Federal Reserve Bank 925 Grand Boulevard Kansas City, MO 64198-0001
1st Southwest Bank	See below	<u>269,319</u>	See below
Total all banks		<u>\$ 736,811</u>	

Community Bank of Colorado and 1st Southwest Bank are approved public depository banks as defined by the State of Colorado, Division of Banking. On a monthly basis the banks report to the State of Colorado, Division of Banking total public deposits (includes accrued interest unpaid) as well as uninsured public deposits, which must be collateralized. In addition, the high day aggregate balance for public deposits is also reported. The collateral requirement by the State of Colorado is 102% of uninsured deposits.

Collateral acceptable by Colorado Division of Banking, PDPA unit is pledged to cover uninsured public deposits. Community Bank of Colorado and 1st Southwest Bank pledge the following:

- US Treasury Bills and Notes
- Municipal Bonds
- Mortgage Backed Securities
- US Agency Instruments
- Federal Home Loan Bank Letters of Credit (Topeka)
- Kansas Bankers Surety Bond Co Bonds

The aforementioned collateral is pledged to the State of Colorado Division of Banking, PDPA to cover deposits in excess of FDIC insurance.

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STATE OF NEW MEXICO
Cumbres & Toltec Scenic Railroad Commission
Schedule of Deposit and Investment Accounts
June 30, 2008

Schedule II

<u>Bank Account Type</u>	<u>Community Bank of Colorado</u>	<u>1st Southwest Bank</u>	<u>Community Bank TA</u>	<u>Totals</u>
Checking	\$ 8,804	\$ -	\$ -	\$ 8,804
Money market	1,485		-	1,485
Checking	-	101,557	-	101,557
Savings	-	122,805	-	122,805
Certificate of Deposit	-	144,957	-	144,957
Checking	-	-	88,714	88,714
Checking	-		85,067	85,067
Checking	-		465,814	465,814
Total on deposit	10,289	369,319	639,595	1,019,203
Reconciling items	149,196	(6,940)	(17,320)	124,936
Reconciled balance, June 30, 2008	<u>\$ 159,485</u>	<u>\$ 362,379</u>	<u>\$ 622,275</u>	1,144,139
Add: Petty cash				<u>2,670</u>
Cash and cash equivalents				<u>\$ 1,146,809</u>

STATE OF NEW MEXICO
Cumbres & Toltec Scenic Railroad Commission
Schedule of Legislative Grants
June 30, 2008

<u>Project</u>	<u>Agency</u>	<u>Grant #</u>	<u>Effective Date</u>
Track & Locomotive Upgrade	New Mexico	06-0775	07/01/06
Track, Locomotive & Other	New Mexico	07-3711	07/01/07
Passenger Cars	New Mexico	07-3908	07/01/07
Track Upgrade	Colorado	P0633	07/01/06
Track Upgrade - Supplemental	Colorado	08-1303	04/01/08
Chama Shop	Colorado	M07047	07/01/07

<u>Reversion Date</u>	<u>Original Amount</u>	<u>Net Amount</u>	<u>Expenditures to Date</u>	<u>Remaining</u>
06/30/10	1,000,000	1,000,000	1,000,000	-
06/30/11	1,000,000	1,000,000	649,352	350,648
06/30/11	50,000	50,000	11,396	38,604
06/30/10	1,350,000	1,350,000	1,350,000	-
06/30/12	600,000	600,000	219,901	380,099
06/30/11	80,000	80,000	20,986	59,014

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COMPLIANCE SECTION

**REPORT ON INTERNAL CONTROL OVER FINANCIAL REPORTING
AND ON COMPLIANCE AND OTHER MATTERS BASED ON AN AUDIT
OF FINANCIAL STATEMENTS PERFORMED IN ACCORDANCE
WITH *GOVERNMENT AUDITING STANDARDS***

Hector Balderas
New Mexico State Auditor
and
The Board of Commissioners
Cumbres & Toltec Scenic Railroad Commission
Antonito, Colorado

We have audited the accompanying financial statements of the governmental activities, the major fund, and the budgetary comparison of the general fund, of the Cumbres & Toltec Scenic Railroad Commission (the Commission), as of and for the year ended June 30, 2008, which collectively comprise the Commission's basic financial statements as listed in the table of contents, and have issued our report thereon dated December 4, 2008. Our report was modified to include a reference to other auditors. We have also audited the budgetary comparison of the capital projects fund. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Other auditors audited the financial statements of the discretely presented component unit as described in our report of Cumbres & Toltec Scenic Railroad Commission's financial statements. The audit of the discretely presented component unit was not performed under Government Auditing Standards. This report relates solely to our consideration of the primary government's internal control over financial reporting and on compliance and other matters.

Internal Control Over Financial Reporting

In planning and performing our audit, we considered Cumbres & Toltec Scenic Railroad Commission's internal control over financial reporting as a basis for designing our auditing procedures for the purpose of expressing our opinions on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of The Commission's internal control over financial reporting. Accordingly, we do not express an opinion on the effectiveness of the Commission's internal control over financial reporting.

Our consideration of internal control over financial reporting was for the limited purpose described in the preceding paragraph and would not necessarily identify all deficiencies in internal control over financial reporting that might be significant deficiencies or material weaknesses. However, as discussed below, we identified certain deficiencies in internal control over financial reporting that we consider to be significant deficiencies.

A control deficiency exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent or detect misstatements on a timely basis. A significant deficiency is a control deficiency, or combination of control deficiencies, that adversely affects the Commission's ability to initiate, authorize, record, process, or report financial data reliably in accordance with generally accepted accounting principles such that there is more than a remote likelihood that a misstatement of the Commission's financial statements that is more than inconsequential will not be prevented or detected by the Commission's internal control. We consider items FS-07-03 and FS-08-01 of the deficiencies described in the accompanying schedule of findings and responses to be significant deficiencies in internal controls over financial reporting.

A material weakness is a significant deficiency, or combination of significant deficiencies, that results in more than a remote likelihood that a material misstatement of the financial statements will not be prevented or detected by the Commission's internal control.

Our consideration of the internal control over financial reporting was for the limited purpose described in the first paragraph of this section and would not necessarily identify all deficiencies in the internal control that might be significant deficiencies and, accordingly, would not necessarily disclose all significant deficiencies that are also considered material weaknesses. However, we believe that none of the significant deficiencies described above is a material weakness.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether Cumbres & Toltec Scenic Railroad Commission's financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statements amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit, and accordingly, we do not express such an opinion. The results of our tests disclosed instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards* and which are described in the accompanying schedule of findings and recommendations as items FS 07-04 and FS-08-02.

The Commission's responses to the findings identified in our audit are described in the accompanying schedule of findings and responses. We did not audit the Commission's response and, accordingly, we express no opinion on it.

This report is intended solely for the information and use of management, others within the Commission, the audit committee, the State Auditor, the New Mexico Legislature, the Colorado Legislature, and applicable federal grantors, and is not intended to be and should not be used by anyone others than these specified parties.

Accounting & Consulting Group, L.L.P.

Accounting & Consulting Group, LLP
Albuquerque, New Mexico
December 4, 2008

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FINANCIAL STATEMENT FINDINGS:

FS 07-03 — Preparation of Financial Statements

Criteria: According to the American Institute of Certified Public Accountants' Statement on Auditing Standards No. 112, a system of internal control over financial reporting does not stop at the general ledger. Well designed systems include controls over financial statement preparation, including footnote disclosures.

Condition: Financial statements and related disclosure were not prepared by management.

Cause: Management does not have the adequate amount of time required to develop the requisite skill set to prepare its own financial statements and related disclosures according to generally accepted accounting principles as described by the Government Accounting Standards Board.

Effect: When sufficient controls over the preparation of financial statements and related disclosures are not designed, implemented and operating effectively, an entity's ability to prevent or detect a misstatement in its financial statements is limited.

Auditor's Recommendation: We recommend the Commission's management receive training on preparation of financial statements and related disclosures according to generally accepted accounting principles as described by the Government Accounting Standards Board. In addition, we recommend that the District develop and implement policies and procedures designed to prevent or detect possible misstatements in its financial statements and related footnote disclosures.

Agency's Response: The Commission Executive Director did receive training on financial reporting, however due to job responsibilities and commitments; he does not have the time to prepare the financial statements and related disclosures. The Commission audit committee and Executive Director do review the draft financial statements and related disclosures to detect and prevent possible misstatements of its financial statements and related footnote disclosures.

FS 07-04 — Exceeded Budget Authority

Criteria: Sound accounting and management practices require that budgets be monitored and adhered to. In the event that circumstances arise that cause expenditures to be more than originally budgeted or revenues to be less than originally budgeted, formal action by management and the Commission should be considered.

Condition: The Commission exceeded the budgeted expenditures in the following fund:

<u>Fund</u>	<u>Amount</u>
General Fund	\$34,471

Cause: The budget procedures were not adequately monitored.

Effect: When the Commission's budget is overspent, financial resources may not be used according to the fiscal plan. As a result, the Commission may not have the financial resources to carry out operations as intended later in the fiscal year.

Auditor's Recommendation: Consideration should be given to training staff and assigning accountability to appropriate individuals. Greater attention should be given to the budget monitoring process.

Agency's Response: The Commission has been charged to operate the C&TSRR like a business, so once annual budgets are approved, they are not regularly modified to reflect actual results. The Commission and the Management Company (CTSMC) review the actual revenue and expenses in comparison to the budget at every Commission meeting. In addition monthly budget comparisons are sent to Commission members and CTSMC board members on a monthly basis for review. While the Commission staff monitored the budget expenditures, there were some invoices which arrived late that resulted in actual expenditures exceeding the budget.

FINANCIAL STATEMENT FINDINGS (continued):

FS 08-01 Deficiencies in Internal Control Structure Design, Operation, and Oversight

Criteria: The Codification of Statements on Auditing Standards (SAS AU) paragraph 110.03 states that the financial statements are management's responsibility. Management is responsible for adopting sound accounting policies, and for establishing and maintaining internal control that will, among other things, initiate, authorize, record, process, and report transactions (as well as events and conditions) consistent with management's assertions embodied in the financial statements.

Condition: The Commission does not have a comprehensive documented internal control structure. Due to this lack of documentation, management and staff are unsure about what internal control procedures and processes to follow, which internal controls are the most important for safeguarding the Commission's assets, and which internal controls could ensure that the Commission's accounting information is not misstated.

The SAS 112 Appendix lists the following circumstance as a possible control deficiency, significant deficiency, or material weakness, "inadequate documentation of the components of internal control." SAS 112 paragraph 19 states that ineffective oversight of the agency's financial reporting and internal control by those charged with governance should be regarded as at least a significant deficiency and a strong indicator of a material weakness in internal control.

Cause: The Commission was unaware of the need to have a documented internal control system.

Effect: Management and employees will not be able to prevent or detect misstatements on a timely basis while performing their normal course of assigned functions as long as the Commission does not have effectively designed and implemented internal controls.

Auditors' Recommendation: The Commission should ensure that a comprehensive internal control structure is designed, documented, and implemented. The Commission should consult the New Mexico State Controller and the equivalent individual in Colorado State Government regarding applicable procedures that should be incorporated. The body charged with governance should provide effective oversight of the internal control and financial reporting process.

Agency's Response: The Commission and staff will develop a comprehensive documented internal control system. Most of the internal control processes and financial reporting processes are in place, just not documented.

FS 08-02 Unallowable Reimbursement

Criteria: Section 6-5-6, NMSA 1978, as amended, requires the New Mexico Department of Finance and Administration's Financial Control Division to determine that all expenditures are for a purpose authorized by law. Expenditures made by an agency shall contribute to an agency's achieving its constitutional, statutory, or contractual mission by two ways: 1) by serving a "public purpose" and 2) by providing a "public benefit".

Condition: During testwork of credit cards we noted one instance out of five expenditures tested where an unallowable expense made was reimbursed with public funds. The total amount of the unallowable expense was \$6.00.

Cause: The Commission contracts with a Management Company. Approval for the reimbursement was made by the Management Company and was not double checked for allowable expenses before reimbursement was made with public funds.

Effect: Funds are being spent for inappropriate and unallowable items which could lead to a misappropriation of assets.

Auditors' Recommendation: We recommend the Commission review all reimbursement before payment is made.

Agency's Response: The Commission does review all invoices before payments are made. The Commission has addressed this finding as a result of last year's audit. However, this finding occurred prior to the auditor conducting their field work last year and before the finding was issued and addressed.

STATE OF NEW MEXICO
Cumbres & Toltec Scenic Railroad Commission
Schedule of Findings and Responses
June 30, 2008

Schedule IV
Page 3 of 3

STATUS OF PRIOR YEAR FINDINGS:

FS 07-01 — Lack of Purchase Order Authorization – Resolved

FS 07-02 — Internal Controls Over Non-Standard Journal Entries – Resolved

FS 07-03 — Insufficient Training to Prepare Own Financials Statements – Repeated and modified

FS 07-04 — Exceeded Budget Authority – Repeated

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STATE OF NEW MEXICO
Cumbres & Toltec Scenic Railroad Commission
Other Disclosures
June 30, 2008

OTHER DISCLOSURES

Exit Conference

An exit conference was conducted on December 4, 2008, with the following individuals:

Cumbres & Toltec Scenic Railroad Commission

Leo Schmitz, Executive Director
Randy Randall, Chairman
Peter Foster, Vice-Chairman
Richard Tower, General Manager

Accounting & Consulting Group, LLP

Jeffrey W. McWhorter, CPA, Director

Auditor Prepared Financial Statements

Although it would be preferred and desirable for The Commission to prepare its own GAAP-basis financial statements, it is felt that the Commission's personnel do not have the sufficient training or the time to prepare them. Therefore, the outside auditor, Accounting & Consulting Group, LLP, prepared the GAAP-basis financial statements and footnotes for inclusion in the annual audit report.