

**STATE OF NEW MEXICO**  
**CUMBRES & TOLTEC SCENIC RAILROAD COMMISSION**

Annual Financial Statements  
For the Year Ended June 30, 2018

## INTRODUCTORY SECTION

STATE OF NEW MEXICO  
 CUMBRES & TOLTEC SCENIC RAILROAD COMMISSION  
 June 30, 2018

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STATE OF NEW MEXICO  
CUMBRES & TOLTEC SCENIC RAILROAD COMMISSION  
Official Roster  
June 30, 2018

Commissioners (from October 2017)

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<u>Name</u>	<u>Title</u>
Billy Elbrock	New Mexico - Chairman
Dan Love	Colorado - Vice-Chairman
Richard Cowles	New Mexico - Secretary
Mark Graybill	Colorado - Treasurer

Commissioners (through October 2017)

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<u>Name</u>	<u>Title</u>
Lucy Kay	Colorado - Chairwoman
Billy Elbrock	New Mexico - Vice-Chairman
Dan Love	Colorado - Secretary
Richard Cowles	New Mexico - Treasurer

Commission Officials

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<u>Name</u>	<u>Title</u>
John Bush	President
George Canham	Finance Manager
Ed Beaudette	Chief Financial & Planning Officer (effective April 1, 2018)

FINANCIAL SECTION



## INDEPENDENT AUDITORS' REPORT

Board of Commissioners  
State of New Mexico Cumbres & Toltec Scenic Railroad Commission  
and  
Mr. Wayne Johnson, New Mexico State Auditor

### **Report on the Financial Statements**

We have audited the accompanying financial statements of the governmental activities, the business-type activities, each major fund and the budgetary comparisons for the general fund and major special revenue fund of the State of New Mexico Cumbres & Toltec Scenic Railroad Commission (Commission), as of and for the year ended June 30, 2018, and the related notes to the financial statements, which collectively comprise the Commission's basic financial statements as listed in the table of contents.

### **Management's Responsibility for the Financial Statements**

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

### **Auditors' Responsibility**

Our responsibility is to express opinions on these financial statements based on our audit. 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 from material misstatement.

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

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

## **Opinions**

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, the business-type activities, each major fund and the budgetary comparisons for the general fund and major special revenue fund as of June 30, 2018, and the respective changes in financial position and, where applicable, cash flows thereof for the year then ended in accordance with accounting principles generally accepted in the United States of America.

## **Other Matters**

### *Required Supplementary Information*

Accounting principles generally accepted in the United States of America require that the *Management's Discussion and Analysis* on pages 4-8, and the Statement of Revenues and Expenditures, Budget and Actual (Non-GAAP Budgetary Basis) – Train Operations, be presented to supplement the basic financial statements. Such information, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic or historical context. We have applied certain limited procedures to the required supplementary information in accordance with the auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements, and other knowledge we obtained during our audit of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

### *Other Information*


Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the Commission's basic financial statements. The additional schedules listed as "supplementary information" in the table of contents, which includes schedules required by 2.2.2. NMAC, are presented for purposes of additional analysis and are not a required part of the basic financial statements.

The schedules listed as "supplementary information" in the table of contents, which includes schedules required by 2.2.2. NMAC, are the responsibility of management and was derived from and relate directly to the underlying accounting and other records used to prepare the basic financial statements. Such information has been subjected to the auditing procedures applied in the audit of the basic financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the basic financial statements or to the basic financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America.

In our opinion, the additional schedules listed as "supplementary information" in the table of contents, which includes schedules required by 2.2.2. NMAC are fairly stated, in all material respects, in relation to the basic financial statements taken as a whole.

**Other Reporting Required by *Government Auditing Standards***

In accordance with *Government Auditing Standards*, we have also issued our report dated November 1, 2018 on our consideration of the Commission's internal control over financial reporting and on our tests of its compliance with certain provisions of the laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is solely 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 effectiveness of the Commission's internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the Commission's internal control over financial reporting and compliance.

  
Burt & Company CPAs, LLC

November 1, 2018



STATE OF NEW MEXICO  
 CUMBRES & TOLTEC SCENIC RAILROAD COMMISSION  
 Management's Discussion and Analysis  
 (Unaudited)  
 June 30, 2018

Cumbres & Toltec Scenic Railroad Commission's (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**

- The Commission's year over year comparative ticket revenue, ridership and average price per rider was as follows:

	<u>2018</u>	<u>2017</u>	<u>\$ Change</u>	<u>% Change</u>
Ticket Revenue	\$ 4,566,476	3,981,036	585,440	15%
Ridership	44,260	35,992	8,268	23%
Average price per rider	\$ 103.17	110.61	(7.44)	-7%

- The assets of the Commission exceeded its liabilities by \$16,505,621 at the close of the fiscal year. Of this amount, \$1,586,244 may be used to meet the Commission's ongoing obligations.
- The total assets of the Commission increased by \$1,324,981 or approximately 8%, liabilities increased by \$392,168 or approximately 27% when compared to the previous year resulting in a total increase in the net position of \$933,813.
- Total revenues increased by 13% from last year. Total expenses decreased by 3%.
- The Commission received capital funding from the State of New Mexico and the State of Colorado totaling \$1,602,446 and operating funding of \$335,800 during the fiscal year.

**Overview of the Financial Statements**

This discussion and analysis is intended to serve as an introduction to the Commission's basic financial statements. The Commission's basic financial statements consist of three components; 1) government-wide financial statements, 2) government fund financial statements, and 3) notes to the financial statements.

The basic financial statements present two different views of the Commissions through the use of government-wide statements and government fund financial statements. In addition to the basic financial statements, this report contains other supplemental information that will enhance the reader's understanding of the financial condition of the Commission.

**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 government-wide statements provide information about the Commission's financial status as a whole.

STATE OF NEW MEXICO  
CUMBRES & TOLTEC SCENIC RAILROAD COMMISSION  
Management's Discussion and Analysis (continued)  
(Unaudited)  
June 30, 2018

The *statement of net position* presents information on all the Commission's assets and liabilities with the difference reported as net position. Over time, increases or decreases in net position 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 Commission's net position changed during the most recent fiscal year. All changes in net position are reported as soon as they underlying event giving rise to the change occurs, regardless of the timing of cash flows. Thus, revenues and expenses are reported in this statement for some items that will only result in cash flows in future periods (e.g., earned but unused employee vacation leave).

### **Government 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. The Commission, like other governmental entities, uses fund accounting to ensure and reflect compliance (or non-compliance) with finance-related legal requirements. The Commission uses four funds to account for its financial resources and operation expenses/expenditures. The governments funds focus on how assets can readily be converted into cash and what monies at year-end will be available for spending in the next year. The governmental funds are reported using an accounting method called *modified accrual accounting*. This method also uses the current financial resources measurement focus. As a result, the governmental funds financial statements give the reader a detailed short-term view that helps determine if there are financial resources available to finance the Commission's programs. The relationship between governmental activities (reported in Statement of Net Position and the Statement of Activities) and the governmental funds is described in the footnotes to the financial statements.

The Commission approved the transfer of the committed fund balance reported in the Commission Fund in the prior year to the Capital Projects Fund. This had a significant impact on the remaining fund balance in the Commission Fund as of June 30, 2018.

The financial statements and notes are presented for the reporting entity of the Commission, which includes the Cumbres & Toltec Scenic Railroad Commission as well as two blended component units, Cumbres & Toltec Operating, LLC and Cumbres & Toltec Historic Preservation Association, LLC. (See Note 1 for additional information on the reporting entity.)

The basic financial statements can be found as listed in the table of contents of this report.

### **Notes to Financial Statements**

The notes provide additional information that is essential to a full understanding of the data provided in the financial statements. The notes to the financial statements can be found as listed in the table of contents of this report.

STATE OF NEW MEXICO  
CUMBRES & TOLTEC SCENIC RAILROAD COMMISSION  
Management's Discussion and Analysis (continued)  
(Unaudited)  
June 30, 2018

**Government-Wide Statements**

The following tables summarize the net position of the Commission for the fiscal year ended June 30, 2018, with comparative balances for the fiscal year ended June 30, 2017, as well as Statement of Revenue, Expenses and Changes in Net Position.

	Comparative Analysis of Statement of Net Position						
	Governmental	Business-	Governmental		Business-Type	2017 Total	Change
	Activities	Type	2018 Total	Activities	Activities	Restated	
		Activities		Restated	Restated		
<b>Assets</b>							
Current assets	\$ 894,419	2,536,399	3,430,818	561,342	2,166,233	2,727,575	703,243
Capital assets, net of accumulated depreciation	<u>14,919,377</u>	<u>-</u>	<u>14,919,377</u>	<u>14,297,639</u>	<u>-</u>	<u>14,297,639</u>	<u>621,738</u>
Total assets	<u>15,813,796</u>	<u>2,536,399</u>	<u>18,350,195</u>	<u>14,858,981</u>	<u>2,166,233</u>	<u>17,025,214</u>	<u>1,324,981</u>
<b>Liabilities</b>							
Current liabilities	231,875	1,602,583	1,834,458	134,003	1,301,824	1,435,827	398,631
Noncurrent liabilities	<u>1,592</u>	<u>8,524</u>	<u>10,116</u>	<u>3,608</u>	<u>12,971</u>	<u>16,579</u>	<u>(6,463)</u>
Total liabilities	<u>233,467</u>	<u>1,611,107</u>	<u>1,844,574</u>	<u>137,611</u>	<u>1,314,795</u>	<u>1,452,406</u>	<u>392,168</u>
<b>Net Position</b>							
Net investment in capital assets	14,919,377	-	14,919,377	14,297,639	-	14,297,639	621,738
Unrestricted	<u>660,952</u>	<u>925,292</u>	<u>1,586,244</u>	<u>423,731</u>	<u>850,438</u>	<u>1,274,169</u>	<u>312,075</u>
Total net position	<u>\$ 15,580,329</u>	<u>925,292</u>	<u>16,505,621</u>	<u>14,721,370</u>	<u>850,438</u>	<u>15,571,808</u>	<u>933,813</u>

	Comparative Analysis of Statement of Revenue, Expenses and Changes in Net Position						
	Governmental	Business-	Governmental		Business-Type	2017 Total	Change
		Activities		Restated	Activities <td></td> <td></td>		
		Activities		Restated	Restated		
<b>Revenues</b>							
Operating revenues:							
Charges for services	\$ 40,688	4,790,980	4,831,668	35,634	4,149,664	4,185,298	646,370
Non-operating revenues:							
Appropriations	1,855,133	-	1,855,133	1,870,290	-	1,870,290	(15,157)
Grants and contributions	297,603	-	297,603	152,234	8,617	160,851	136,752
Miscellaneous revenue	12,185	-	12,185	10,787	956	11,743	442
Loss on disposal of assets	-	-	-	(11,668)	-	(11,668)	11,668
Unrestricted investment earnings	1,620	1,380	3,000	1,054	1,470	2,524	476
Transfers, net	<u>634,075</u>	<u>(634,075)</u>	<u>-</u>	<u>97,167</u>	<u>(97,167)</u>	<u>-</u>	<u>-</u>
Total Revenues	<u>2,841,304</u>	<u>4,158,285</u>	<u>6,999,589</u>	<u>2,155,498</u>	<u>4,063,540</u>	<u>6,219,038</u>	<u>780,551</u>
<b>Expenses</b>							
General Government/train operations	<u>1,982,345</u>	<u>4,083,431</u>	<u>6,065,776</u>	<u>2,258,831</u>	<u>3,984,789</u>	<u>6,243,620</u>	<u>(177,844)</u>
Change in net position	858,959	74,854	933,813	(103,333)	78,751	(24,582)	958,395
Net position beginning of year, as restated	<u>14,721,370</u>	<u>850,438</u>	<u>15,571,808</u>	<u>14,824,703</u>	<u>771,687</u>	<u>15,596,390</u>	<u>(24,582)</u>
Net position end of year	<u>\$ 15,580,329</u>	<u>925,292</u>	<u>16,505,621</u>	<u>14,721,370</u>	<u>850,438</u>	<u>15,571,808</u>	<u>933,813</u>

STATE OF NEW MEXICO  
 CUMBRES & TOLTEC SCENIC RAILROAD COMMISSION  
 Management's Discussion and Analysis (continued)  
 (Unaudited)  
 June 30, 2018

**Major Funds Budgetary Highlights**

Commission budgets are prepared for administration (general fund), capital projects, train operations (Cumbres & Toltec Operating, LLC) and historic preservation (Cumbres & Toltec Historic Preservation Association, LLC). 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 budgets. Commission priorities are well defined during this process. The Commission did not prepare budgets for capital projects or the historic preservation funds in 2017.

The Commission's final budgeted expenditures may differ from the original budget due to budget increases and decreases that were made during the fiscal year. There were no budgets passed for capital projects or historic preservation. A summary of the budget to actual expenditures are as follows:

	Original Budgets	Final Budgets	Actual	Variance
Administration/General Fund	\$ 426,428	576,428	547,126	29,302
Train Operations	4,108,093	4,108,093	4,189,911	(81,818)
Total	\$ <u>4,534,521</u>	<u>4,684,521</u>	<u>4,737,037</u>	<u>(52,516)</u>

**Economic Outlook and Cumbres & Toltec Scenic Railroad Commission Future**

Although the binding compact agreement, entered into by Colorado and New Mexico on July 1, 1970, requires the two states provide equal contributions to the Commission, subject to the laws and appropriations of each state and the availability of funds, there are no requirements as to how much shall be provided, nor in what time period. Consequently, budget constraints faced by either state may be a challenge. However, in order to help finance the Commission the two states have waived the 50-50 matching requirement since fiscal year 2004.

The Commission has experienced incremental increases in ridership thanks to the subsequent economic recovery, the offering of additional services, and sustained marketing efforts. The Commission anticipates that continuing growth in ridership should allow the Commission to not only cover operating expenses but also provide support for the capital needs that have been funded by the states in the past. The Commission has both a strategic plan and a five-year rolling operational plan in place to provide clear guidance and transparency.

STATE OF NEW MEXICO  
CUMBRES & TOLTEC SCENIC RAILROAD COMMISSION  
Management's Discussion and Analysis (continued)  
(Unaudited)  
June 30, 2018

**Request 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. If you have any questions concerning any of the information provided in this report or need additional financial information, contact the Commission at the following address:

Cumbres & Toltec Scenic Railroad Commission  
P.O. Box 668  
Antonito, CO 81120  
(719) 376-5488

## BASIC FINANCIAL STATEMENTS

STATE OF NEW MEXICO  
CUMBRES & TOLTEC SCENIC RAILROAD COMMISSION  
Statement of Net Position  
June 30, 2018

	Governmental	Business-Type	
	Activities	Activities	Total
	<u>                    </u>	<u>                    </u>	<u>                    </u>
<b>Assets</b>			
Cash and cash equivalents	\$ 536,956	1,999,248	2,536,204
Receivables	-	29,410	29,410
Due from other governmental agencies	607,224	-	607,224
Prepaid expenses	-	26,080	26,080
Internal balances	(249,761)	249,761	-
Inventories	-	231,900	231,900
Capital assets, net of accumulated depreciation			
Construction in progress	1,455,486	-	1,455,486
Copyright	5,550	-	5,550
Land	100,087	-	100,087
Buildings and railyards	2,292,420	-	2,292,420
Track line, track line improvements and substructs	6,895,719	-	6,895,719
Steam engines, rolling stock and equipment	3,909,063	-	3,909,063
Vehicles, furniture and equipment	261,052	-	261,052
	<u>14,919,377</u>	<u>-</u>	<u>14,919,377</u>
Total capital assets, net			
	<u>15,813,796</u>	<u>2,536,399</u>	<u>18,350,195</u>
<b>Liabilities</b>			
Accounts payable and accrued expenses	142,520	417,528	560,048
Unearned revenues	-	1,150,959	1,150,959
Accrued compensated absences-current portion	6,367	34,096	40,463
Accrued compensated absences-noncurrent portion	1,592	8,524	10,116
	<u>150,479</u>	<u>1,611,107</u>	<u>1,761,586</u>
<b>Total liabilities</b>			
<b>Deferred Inflows of Resources</b>			
Unearned grant revenue	82,988	-	82,988
<b>Net Position</b>			
Net investment in capital assets	14,919,377	-	14,919,377
Unrestricted	660,952	925,292	1,586,244
	<u>15,580,329</u>	<u>925,292</u>	<u>16,505,621</u>
<b>Total net position</b>	<u>\$ 15,580,329</u>	<u>925,292</u>	<u>16,505,621</u>

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





STATE OF NEW MEXICO  
CUMBRES & TOLTEC SCENIC RAILROAD COMMISSION  
Balance Sheet - Governmental Funds  
June 30, 2018

	General Fund	Capital Projects Fund	Total Governmental Funds
<b>Assets</b>			
Cash and cash equivalents	\$ 65,580	471,376	536,956
Due from other governmental agencies	-	607,224	607,224
Due from other funds	3,969	-	3,969
<b>Total assets</b>	<b>\$ 69,549</b>	<b>1,078,600</b>	<b>1,148,149</b>
<b>Liabilities, deferred inflows of resources and fund balances</b>			
Liabilities			
Accounts payable	\$ 6,567	111,113	117,680
Accrued salaries and benefits	10,954	13,886	24,840
Due to other funds	-	253,730	253,730
<b>Total liabilities</b>	<b>17,521</b>	<b>378,729</b>	<b>396,250</b>
<b>Deferred inflows of resources</b>			
Unearned grant revenue	-	82,988	82,988
<b>Total deferred inflows of resources</b>	<b>-</b>	<b>82,988</b>	<b>82,988</b>
<b>Fund balances</b>			
Committed	-	84,534	84,534
Assigned	-	532,349	532,349
Unassigned	52,028	-	52,028
<b>Total fund balances</b>	<b>52,028</b>	<b>616,883</b>	<b>668,911</b>
<b>Total liabilities, deferred inflows of resources, and fund balances</b>	<b>\$ 69,549</b>	<b>1,078,600</b>	<b>1,148,149</b>

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

STATE OF NEW MEXICO  
 CUMBRES & TOLTEC SCENIC RAILROAD COMMISSION  
 Reconciliation of the Governmental Funds Balance Sheet  
 to the Statement of Net Position  
 June 30, 2018

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

Total fund balances - governmental funds	\$	668,911
Capital assets used in governmental activities are not financial resources and therefore are not reported as assets in the governmental funds.		
Cost of capital assets	\$	36,841,627
Accumulated depreciation		<u>(21,922,250)</u>
		14,919,377
Long-term liabilities are not due and payable in the current period and therefore are not reported as liabilities in the governmental funds.		
Long-term liabilities at year end consist of:		
Accrued compensated absences		<u>(7,959)</u>
Net position of governmental activities	\$	<u><u>15,580,329</u></u>

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

STATE OF NEW MEXICO  
CUMBRES & TOLTEC SCENIC RAILROAD COMMISSION  
Statement of Revenues, Expenditures and Changes in Fund Balances -  
Governmental Funds  
Year Ended June 30, 2018

	General Fund	Capital Projects Fund	Total Governmental Funds
<b>Revenues</b>			
Intergovernmental -			
Colorado appropriations	\$ 224,000	1,030,662	1,254,662
New Mexico appropriations	111,800	334,099	445,899
Grants and contributions	-	452,175	452,175
Charges for services	-	40,688	40,688
Investment earnings	321	1,299	1,620
Other	12,185	-	12,185
<b>Total revenues</b>	<b>348,306</b>	<b>1,858,923</b>	<b>2,207,229</b>
<b>Expenditures</b>			
Current:			
General government	547,126	-	547,126
Capital outlay	-	2,058,706	2,058,706
<b>Total expenditures</b>	<b>547,126</b>	<b>2,058,706</b>	<b>2,605,832</b>
<i>Excess (deficiency) of revenues over expenditures</i>	<i>(198,820)</i>	<i>(199,783)</i>	<i>(398,603)</i>
<b>Other financing sources (uses)</b>			
Transfers in	490,568	250,000	740,568
Transfers out	-	(106,493)	(106,493)
<b>Total other financing sources (uses)</b>	<b>490,568</b>	<b>143,507</b>	<b>634,075</b>
<i>Net change in fund balance</i>	291,748	(56,276)	235,472
<b>Fund balance, beginning of year</b>	<b>(239,720)</b>	<b>673,159</b>	<b>433,439</b>
<b>Fund balance, end of year</b>	<b>\$ 52,028</b>	<b>616,883</b>	<b>668,911</b>

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

STATE OF NEW MEXICO  
 CUMBRES & TOLTEC SCENIC RAILROAD COMMISSION  
 Reconciliation of the Statement of Revenues, Expenditures and Changes in Fund Balance  
 to the Statement of Activities  
 Year Ended June 30, 2018

Amounts reported for governmental activities are different because:

Net change in fund balance - governmental funds	\$	235,472
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Capital outlays are reported in the governmental funds as expenditures. However, for governmental activities these costs are reported in the statement of net position and allocated over their estimated useful lives as depreciation expense.

Capital outlay	1,966,261	
Depreciation expense	<u>(1,344,522)</u>	
		621,739

Activities such as compensated absences (vacation and excused leave) are measured by amounts earned during the year. In the governmental funds, however, expenditures for these items are measured by amounts actually paid.

The net effect of the above items are as follows:

Change in compensated absences liability		1,749
--	--	-------

Rounding		<u>(1)</u>
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Change in net position - governmental activities	\$	<u><u>858,959</u></u>
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The accompanying notes are an integral part of these financial statements.

STATE OF NEW MEXICO  
CUMBRES & TOLTEC SCENIC RAILROAD COMMISSION  
Commission (General Fund)  
Statement of Revenues, Expenditures and Changes in Fund Balance -  
Budget and Actual (Non-GAAP Budgetary Basis)  
Year Ended June 30, 2018

	<u>Budgeted Amounts</u>		Actual Amounts (Non- GAAP Budgetary Budget Basis)	Variance with Final Budget Positive (Negative)
	<u>Original</u>	<u>Final</u>		
Revenues:				
Colorado appropriations	\$ 224,000	224,000	224,000	-
New Mexico appropriations	111,800	111,800	111,800	-
Other revenue	16,195	16,195	12,185	(4,010)
Interest Income	<u>309</u>	<u>309</u>	<u>321</u>	<u>12</u>
Total revenues	352,304	352,304	348,306	(3,998)
Expenditures:				
Payroll	243,567	243,567	234,442	9,125
Maintenance and repairs	858	858	792	66
Train supplies	183	183	124	59
Contract services	76,283	76,283	67,112	9,171
Utilities	10,391	10,391	9,518	873
Liability and property insurance	75,796	225,796	217,410	8,386
Capital outlay	-	-	-	-
General	<u>19,350</u>	<u>19,350</u>	<u>17,728</u>	<u>1,622</u>
Total expenditures	<u>426,428</u>	<u>576,428</u>	<u>547,126</u>	<u>29,302</u>
Excess (deficiency) of revenues over expenditures	(74,124)	(224,124)	(198,820)	(33,300)
RECONCILIATION TO GAAP BASIS:				
Capital outlay			-	
OTHER FINANCING USES				
Transfers in			<u>490,568</u>	
NET CHANGE IN FUND BALANCE -				
GAAP Basis		\$	<u><u>291,748</u></u>	

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

STATE OF NEW MEXICO  
CUMBRES & TOLTEC SCENIC RAILROAD COMMISSION  
Balance Sheet -  
Proprietary Funds  
June 30, 2018

		Cumbres & Toltec Operating, LLC	Cumbres & Toltec Historic Preservation Association, LLC	Total
<b>Assets</b>				
Current assets:				
Cash and cash equivalents	\$	1,486,330	512,918	1,999,248
Receivables		29,410	-	29,410
Prepaid expenses		25,557	523	26,080
Due from other funds		249,761	69,073	318,834
Inventory		231,900	-	231,900
Total current assets		2,022,958	582,514	2,605,472
<b>Total assets</b>	\$	2,022,958	582,514	2,605,472
<b>Liabilities</b>				
Current liabilities:				
Accounts payable	\$	291,705	55,155	346,860
Payroll related liabilities		70,668	-	70,668
Unearned revenue		1,150,959	-	1,150,959
Due to other funds		69,073	-	69,073
Compensated absences - current portion		34,096	-	34,096
Total current liabilities		1,616,501	55,155	1,671,656
Noncurrent liabilities -				
Compensated absences - noncurrent portion		8,524	-	8,524
Total noncurrent liabilities		8,524	-	8,524
<b>Total liabilities</b>		1,625,025	55,155	1,680,180
<b>Net position</b>				
Unrestricted		397,933	527,359	925,292
<b>Total net position</b>	\$	397,933	527,359	925,292

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

STATE OF NEW MEXICO  
CUMBRES & TOLTEC SCENIC RAILROAD COMMISSION  
Statement of Revenues, Expenditures and Changes in Net Position -  
Proprietary Funds  
Year Ended June 30, 2018

	Cumbres & Toltec Operating, LLC	Cumbres & Toltec Historic Preservation Association, LLC	Total
<b>Revenues</b>			
Charges for services (ticket sales)	\$ 4,291,151	275,325	4,566,476
Retail sales, net of cost of merchandise of \$218,806	<u>224,504</u>	<u>-</u>	<u>224,504</u>
<b>Total revenues</b>	<u>4,515,655</u>	<u>275,325</u>	<u>4,790,980</u>
<b>Operating expenses</b>			
Payroll and payroll related expenses	1,476,049	-	1,476,049
Maintenance	77,186	-	77,186
Train supplies and services	475,753	-	475,753
Vehicle and equipment fleet	360,573	-	360,573
Meal service	470,141	-	470,141
Advertising	636,683	-	636,683
Utilities	145,065	-	145,065
Insurance	20,598	-	20,598
Administrative expenses	259,530	1,062	260,592
Contract services	<u>105,636</u>	<u>55,155</u>	<u>160,791</u>
<b>Total operating expenses</b>	<u>4,027,214</u>	<u>56,217</u>	<u>4,083,431</u>
<i>Operating income (loss)</i>	<u>488,441</u>	<u>219,108</u>	<u>707,549</u>
<b>Non-operating revenues (expenses)</b>			
Interest income	<u>461</u>	<u>919</u>	<u>1,380</u>
Total non-operating revenues (expenses)	<u>461</u>	<u>919</u>	<u>1,380</u>
<i>Income (loss) before contributions and transfers</i>	488,902	220,027	708,929
Transfers out	<u>(384,075)</u>	<u>(250,000)</u>	<u>(634,075)</u>
<i>Change in net position</i>	104,827	(29,973)	74,854
<b>Net position, beginning of year as previously stated</b>	293,106	593,278	886,384
<b>Prior period adjustment</b>	<u>-</u>	<u>(35,946)</u>	<u>(35,946)</u>
<b>Net position, beginning of year as restated</b>	<u>293,106</u>	<u>557,332</u>	<u>850,438</u>
<b>Net position, end of year</b>	\$ <u>397,933</u>	<u>527,359</u>	<u>925,292</u>

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

STATE OF NEW MEXICO  
CUMBRES & TOLTEC SCENIC RAILROAD COMMISSION  
Statement of Cash Flows -  
Proprietary Funds  
For the Year Ended June 30, 2018

	Cumbres & Toltec Operating, LLC	Cumbres & Toltec Historic Preservation Association, LLC	Total
<b>Cash flows from operating activities</b>			
Receipts from customers and users	\$ 4,757,121	244,827	5,001,948
Payments to employees	(1,482,928)	-	(1,482,928)
Payments to suppliers	<u>(2,463,916)</u>	<u>(69,259)</u>	<u>(2,533,175)</u>
<b>Net cash provided by operating activities</b>	<u>810,277</u>	<u>175,568</u>	<u>985,845</u>
<b>Cash flows from non-capital financing activities</b>			
Transfers in	-	-	-
Transfers out	<u>(384,075)</u>	<u>(250,000)</u>	<u>(634,075)</u>
<b>Net cash used by non-capital financing activities</b>	<u>(384,075)</u>	<u>(250,000)</u>	<u>(634,075)</u>
<b>Cash flows from investing activities</b>			
Interest earnings received	<u>461</u>	<u>919</u>	<u>1,380</u>
<b>Net cash provided by investing activities</b>	<u>461</u>	<u>919</u>	<u>1,380</u>
NET INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS	426,663	(73,513)	353,150
CASH AND CASH EQUIVALENTS, beginning of year	<u>1,059,667</u>	<u>586,431</u>	<u>1,646,098</u>
CASH AND CASH EQUIVALENTS, end of year	\$ <u>1,486,330</u>	<u>512,918</u>	<u>1,999,248</u>
Reconciliation of operating income to net cash provided by operating activities			
Operating income	\$ 488,441	219,108	707,549
Adjustments to reconcile operating income to net cash provided by operating activities -			
Change in assets and liabilities -			
Receivables	(6,029)	-	(6,029)
Prepaid expenses	11,519	-	11,519
Due from other funds	26,875	(30,498)	(3,623)
Inventory	(48,404)	-	(48,404)
Accounts payable	94,612	(13,042)	81,570
Payroll related liabilities	16,972	-	16,972
Unearned revenue	220,620	-	220,620
Due to other funds	29,522	-	29,522
Compensated absences	<u>(23,851)</u>	<u>-</u>	<u>(23,851)</u>
Net cash provided by operating activities	\$ <u>810,277</u>	<u>175,568</u>	<u>985,845</u>

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



NOTES TO FINANCIAL STATEMENTS

STATE OF NEW MEXICO  
CUMBRES & TOLTEC SCENIC RAILROAD COMMISSION  
Notes to Financial Statements  
June 30, 2018

1. Summary of Significant Accounting Policies

The financial statements of the State of New Mexico Cumbres & Toltec Scenic Railroad Commission (Commission) have been prepared in conformity with accounting principles generally accepted in the United States of America (GAAP) as applied to governments. The Governmental Accounting Standards Board (GASB) is the accepted standard-setting body for establishing governmental accounting standards and financial reporting policy. A summary of the Commission's significant accounting principles policies applied in the preparation of these financial statements are described.

A. Description of Entity

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 3-foot gauge railroad and infrastructure. Also included in the purchase was 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 which is responsible for administering the compact and the Cumbres & Toltec Scenic Railroad property. Two members each from Colorado & 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 sides.

The Commission is a body political 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;

STATE OF NEW MEXICO  
CUMBRES & TOLTEC SCENIC RAILROAD COMMISSION  
Notes to Financial Statements  
June 30, 2018

1. Summary of Significant Accounting Policies (continued)

A. Description of Entity (continued)

6. Protect generally the property of the 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

Management History

In the past, the Commission has formed agreements with various outside entities to manage the operation of the railroad. The most recent was Heritage Rail Management, LLC whose contract ended December 31, 2012.

During 2011, the Commission formed Cumbres Toltec Operating, LLC with the Commission being its sole member and took over the management of the Railroad operations effective January 1, 2013.

B. Financial Reporting Entity

The financial reporting entity is comprised of the primary government and component units that are included to ensure that the financial statements are not misleading. The primary government of the Commission consists of all funds, departments, boards and agencies that are not legally separated from the Commission. Blended component units, although legally separate entities, are in substance part of the Commission's operations and, consequently data from these units are combined with the data of the primary government.

Blended Component Units

The financial statements of the following component units have been "blended" with those of the Commission because (1) their governing bodies are substantially the same as the governing body of the Commission and there is a financial benefit or burden relationship between the Commission and the component unit or management of the Commission has operational responsibility for the component unit.

*Cumbres & Toltec Operating, LLC* (CTO LLC) was formed in 2011 under the New Mexico Limited Liability Company Act to manage the operations of the Railroad. CTO LLC is intended to be a disregarded entity for federal income tax purposes. The composition of the Board of Directors for this entity is identical to the Commission and the Commission is the sole member of CTO LLC. Activity for CTO LLC is reported as a proprietary fund.

*Cumbres & Toltec Historic Preservation Association, LLC* (HPA LLC) was formed in 2011 under the New Mexico Limited Liability Company Act to collect and administer fees collected

STATE OF NEW MEXICO  
CUMBRES & TOLTEC SCENIC RAILROAD COMMISSION  
Notes to Financial Statements  
June 30, 2018

1. Summary of Significant Accounting Policies (continued)

B. Financial Reporting Entity (continued)

Blended Component Units (continued)

on ticket charges to fund historic preservation projects which maintain and promote the historical nature of the Railroad. Projects include purchasing, maintaining or restoration of buildings, track structure, locomotive and rolling stock. HPA LLC is intended to be a disregarded entity for federal income tax purposes. The composition of the Board of Directors for this entity is identical to the Commission and the Commission is the sole member of HPA LLC. Activity for HPA LLC is reported as proprietary fund.

C. Government-Wide and Fund Financial Statements

Financial information for the Commission is presented as follows:

- *Basic Financial Statements:* Government-wide financial statements consist of a statement of net position and a statement of activities. For the most part, the effect of interfund activity has been removed from these statements.

These statements report all the non-fiduciary activities of the primary government and its component units. Governmental activities are reported separately from the business-type activities. Governmental activities are normally supported by intergovernmental revenues whereas business-type activities are normally supported by fees and charges for services and are usually intended by management to be financially self-sustaining.

The statement of activities presents a comparison between direct expenses and program revenues for the business-type activities of the Commission and for each function of the Commission's governmental activities. Direct expenses are those that are clearly identifiable with a specific program or function. Program revenues include (a) charges to customers or applicants who purchase, use, or directly benefit from goods, services, or privileges provided by a given function or program and (b) grants and contributions that are restricted to meeting the operational or capital requirements of a particular function or program. Revenues that are not classified as program revenues are presented as general revenues.

- *Fund Financial Statements* consist of a series of statements focusing on information about the Commission's major governmental and enterprises funds. Separate financial statements are provided for governmental funds and proprietary funds. Major individual governmental funds are reported in separate columns in the fund financial statements.

STATE OF NEW MEXICO  
CUMBRES & TOLTEC SCENIC RAILROAD COMMISSION  
Notes to Financial Statements  
June 30, 2018

1. Summary of Significant Accounting Policies (continued)

D. 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 financial statements. Revenues are recorded when earned and expenses are recorded when a liability is incurred regardless of the timing of the real rated cash flows. On the accrual basis, 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. Under the modified accrual basis of accounting, revenues are recognized as soon as they are both measureable and available. Revenues are considered to be available when they are collectable within the current period or soon enough to pay liabilities of the current period. For this purpose, the Commission considers revenues to be available when they are collectable within 90 days of the end of the current fiscal period. Expenditures are generally 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 judgements are recorded only when payment is due. General capital acquisitions are reported as expenditures in governmental funds while proceeds of long-term debt and acquisitions under capital leases are reported as other financial sources.

Grant and entitlement revenues, interest and charges for services are considered susceptible to accrual and have been recognized as revenues of the current fiscal period. Other receipts are 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:

- The **General Fund** is the primary operating fund of the Commission and is always classified as a major fund. The General Fund is used to account for all financial resources of the Commission except those required to be accounted for in another fund. Major revenue sources are intergovernmental revenues and investment revenue. Primary expenditures are for general administration of the Commission.
- The **Capital Projects Fund** is used to account and report financial resources that are restricted, committed or assigned to expenditures for capital outlay (other than those financed by business-type/proprietary funds).

STATE OF NEW MEXICO  
 CUMBRES & TOLTEC SCENIC RAILROAD COMMISSION  
 Notes to Financial Statements  
 June 30, 2018

1. Summary of Significant Accounting Policies (continued)

D. Measurement Focus, Basis of Accounting and Financial Statement Presentation (continued)

The Commission reports the following major proprietary funds:

- The *Cumbres & Toltec Operating, LLC Fund* accounts for the day-to-day operations of the Railroad.
- The *Cumbres & Toltec Historic Preservation, LLC Fund* accounts for the collection of and administration of the fees collected on ticket charges to fund preservation projects which maintain and promote the historical nature of the Railroad.

E. Cash and Cash Equivalents

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.

F. Capital Assets

Capital assets include: buildings, rail yards, track line improvements, substructures, steam engines, rolling stock, and equipment and construction in progress. 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. Such assets are recorded at historical cost or estimated historical cost if purchased or constructed. Information technology equipment including software is capitalized and included in furniture, fixtures and equipment. The costs of normal maintenance and repairs that do not add to value of the asset or materially extend asset lives are not capitalized.

Major outlays for capital assets and improvements are capitalized as projects are constructed. Capital assets of the Commission are depreciated using the straight-line method over the following estimated useful lives.

Classification	Primary Government
Buildings and rail yards	15-30 years
Track line, track line improvements and substructures	15-30 years
Steam engines, rolling stock and equipment	5-20 years

STATE OF NEW MEXICO  
CUMBRES & TOLTEC SCENIC RAILROAD COMMISSION  
Notes to Financial Statements  
June 30, 2018

1. Summary of Significant Accounting Policies (continued)

G. Donated Capital Assets

Donations of capital assets are recorded as support at their estimated fair value at the date of donation. Such donations are reported as unrestricted support unless the donor has restricted the donated asset to a specified purpose. Assets donated with explicit restrictions regarding their use and restricted contributions of cash must be used to acquire property and equipment and are reported as restricted support. Absent donor stipulations regarding how long those donated assets must be maintained, the Commission reports expirations of donor restrictions when the donated or acquired assets are placed in service as instructed by the donor. The Commission reclassifies restricted net position to unrestricted net position at the time.

H. Inventories

Retail Inventory consists of food and beverage, souvenirs and various other amenities which are stated at the lower of cost (first-in, first-out) or fair value.

I. Compensated Absences

It is the Commission's policy to permit employees to accumulate earned but unused paid time off (PTO). Employees are allowed to accumulate PTO benefits up to predetermined maximums and are compensated for these accumulated PTO benefits either through paid time off, at termination, or retirement. Accumulated PTO benefits for employees who terminate or retire are paid out at 70% of the remaining balance. PTO benefits and related payroll costs are measured based on established Commission policy and generally accepted accounting principles.

Accumulated PTO benefits are accrued when earned in the government-wide and the proprietary fund financial statements. A liability for these amounts is reported in the governmental funds only if they have matured and are expected to be liquidated with expendable available financial resources.

J. Fund Balance

Governmental funds report fund balance in classifications based primarily on the extent to which the Commission is bound to honor constraints on the specific purposes for which amounts in the funds can be spent. Fund balance of the Commission's governmental funds may consist of the following:

- Nonspendable - includes amounts that are (a) not in spendable form or (b) legally or contractually required to be maintained intact. The "not in spendable form" criterion includes items that are not expected to be converted to cash such as inventories of consumable supplies, prepaid items and long-term receivables.

STATE OF NEW MEXICO  
CUMBRES & TOLTEC SCENIC RAILROAD COMMISSION  
Notes to Financial Statements  
June 30, 2018

1. Summary of Significant Accounting Policies (continued)

J. Fund Balance (continued)

- Restricted - includes amounts that are restricted for specific purposes determined by external resource providers constitutionally or through enabling legislation.
- Committed - includes amounts that can only be used for specific purposes determined by the passage of a resolution of the Commission's board of directors. Commitments may be modified or changed only by the Commission's board of directors approving a new resolution.
- Assigned - includes amounts intended to be used by the Commission for specific purposes that are neither restricted nor committed. Intent is expressed by a designee of the Commission's board of directors to which the assigned amounts are to be used for specific purposes.
- Unassigned - this is the residual classification for the general fund.

In circumstances where an expenditure is incurred for a purpose for which amounts are available in multiple fund balance classifications, fund balance is reduced in the order of restricted, committed, assigned and unassigned.

In the government-wide financial statements, net position may be classified in the following categories:

- Net investment in capital assets - this classification consists of capital assets net of accumulated depreciation and reduced by outstanding related debt that is attributed to the acquisition, construction, or improvement of capital assets.
- Restricted net position - this classification consists of restricted amounts created by external creditors, grantors, contributors, laws or regulations of other governments, enabling legislation and constitutional provisions.
- Unrestricted net position - this classification represents the remainder of net position that does not meet the definition of "net investment in capital assets" or "restricted net position".

When both restricted and unrestricted resources are available for use, it is the Commission's policy to use restricted resources first and then use unrestricted resources as they are needed.



STATE OF NEW MEXICO  
CUMBRES & TOLTEC SCENIC RAILROAD COMMISSION  
Notes to Financial Statements  
June 30, 2018

1. Summary of Significant Accounting Policies (continued)

K. Estimates

The preparation of financial statements in conformity with GAAP requires management to make estimates and assumptions that may affect certain reported amounts and disclosures. Accordingly, actual results could differ from those estimates.

L. Grant Revenue

Proceeds from state appropriations and other grants are considered voluntary nonexchange revenues under generally accepted accounting principles. Accordingly, revenues are recorded when all underlying eligibility requirements have been met, which occurs when the Commission has incurred an allowable expenditure under the terms of the appropriation/grant agreement and the receipt of the grant proceeds meet the measurable and available criteria.

M. Unearned Revenue

Unearned revenue consists of advanced ticket deposits for future rides on the train.

N. Interfund Transactions

Interfund transactions are accounted for as revenues, expenditures or expenses. Transactions that constitute reimbursements to fund for expenditures/expenses in the reimbursing fund and as reductions of expenditures/expenses in the fund that is reimbursed. All other interfund transactions are reported as interfund transfers.

2. Stewardship, Compliance and Accountability

A. 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 legislature 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.

STATE OF NEW MEXICO  
 CUMBRES & TOLTEC SCENIC RAILROAD COMMISSION  
 Notes to Financial Statements  
 June 30, 2018

2. Stewardship, Compliance and Accountability (continued)

A. Budgetary Principles (continued)

4. Formal budgetary integration is employed as a management control device during the year for the train operations (CTO, LLC) and general fund (Commission) funds.
5. Budgets for train operations (CTO, LLC) and general fund (Commission) are adopted on a basis that is not consistent with generally accepted accounting principles. Formal budgets are not adopted for the capital projects or historic preservation funds.

The level of budgetary control is at the fund level for Colorado and New Mexico state agencies.

The following funds incurred actual expenditures in excess of appropriations as follows:

	Final Budgeted Expenditures	Actual Expenditures	Variance Positive (Negative)
Commission (general fund)	\$ 576,428	547,126	29,302
CTO, LLC (train operations)	\$ 4,108,093	4,189,911	(81,818)

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 pools, money market accounts, and United States Government obligations. All invested funds of the Commission properly followed both Colorado and New Mexico investment requirements as of June 30, 2018.

Deposits of funds may be made in interest or non-interest bearing checking accounts in one or more bands or savings and loan association within the geographical boundaries of the Commission. Deposits may be made to the extent that they are insured by the FDIC or by collateral deposited as security or by bond given by the financial institutions.

A summary of the carrying value of cash and cash equivalents at June 30, 2018 for the Commission is as follows:

	Demand Deposits
General Fund	\$ 65,580
Capital projects	471,376
Operating - CTO, LLC	1,486,330
HPA, LLC	<u>512,918</u>
Total	<u>\$ 2,536,204</u>

STATE OF NEW MEXICO  
 CUMBRES & TOLTEC SCENIC RAILROAD COMMISSION  
 Notes to Financial Statements  
 June 30, 2018

3. Deposits and Investments (continued)

Custodial Credit Risk

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 the following state statutes.

New Mexico state statutes govern the Commission's deposits of cash in New Mexico. The New Mexico Public Money Act (Section 6-10-1, to 6-10-63, NMSA 1978) limits deposits of public monies to certain banks or credit unions. The public depository must pledge eligible securities with an aggregate value equal to one half of the balance of uninsured funds on deposit with the institution. The securities must be delivered to an eligible custodial bank, and the public depository must deliver a joint safekeeping receipt issued by the custodial bank to the Commission.

Colorado state statutes govern the Commission's deposits of cash in Colorado. The Statutes specify eligible depositories for public cash deposits, which must be Colorado institutions and must maintain federal insurance (FDIC) on deposits held.

The Colorado Public Deposit Protection Act (PDPA) requires that all units of local government deposit cash in eligible public depositories. Amounts on deposit in excess of federal insurance levels must be collateralized in accordance with the PDPA. PDPA allows the institution to create a single collateral pool for all public funds to be maintained by another institution or held in trust for all the uninsured public deposits as a group. The fair value of the collateral must be at least equal to 102% of the aggregate uninsured deposits.

At June 30, 2018, the bank balances of the Commission were exposed to custodial credit risk as follows:

Insured by depository insurance	\$ 1,079,690
Uninsured, collateral held by pledging bank, but not in the name of the Commission	557,679
Uninsured and uncollateralized	<u>-</u>
	<u>\$ 1,637,369</u>

See supplemental Schedule of Cash & Deposits & Pledged Collateral.

STATE OF NEW MEXICO  
 CUMBRES & TOLTEC SCENIC RAILROAD COMMISSION  
 Notes to Financial Statements  
 June 30, 2018

4. Receivables

Receivables at June 30, 2018 consist of the following:

Business-type activities:

CTO, LLC -	
Retail sales	\$ 15,410
Toltec caterer - advance	14,000
Total business-type activities	<u>29,410</u>
Total receivables	<u>\$ 29,410</u>

Accounts receivable are considered 100% collectible at year end.

5. Due From Other Governmental Agencies

The Commission has the following due from other governmental agencies as of June 30, 2018:

Governmental activities:

**State of Colorado**

General fund (Commission) - appropriations	\$ 386,426
Capital projects -	
Capital appropriations	59,659
Capital grants	153,301

**State of New Mexico**

General fund (Commission) - appropriations	6,952
Capital projects -	
Capital grants and appropriations	886
Total governmental activities	<u>607,224</u>

Total due from other governmental agencies	<u>\$ 607,224</u>
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6. Deferred Inflows of Resources

Deferred inflows of resources at June 30, 2018 consist of grant revenue received in advance in the capital projects fund of \$82,988.

STATE OF NEW MEXICO  
 CUMBRES & TOLTEC SCENIC RAILROAD COMMISSION  
 Notes to Financial Statements  
 June 30, 2018

7. Interfund Receivables/Payables/Transfers

The following interfund receivables and payables are included in the fund financial statements at June 30, 2018:

	Interfund Receivable	Interfund Payable
Governmental funds -		
General fund (Commission)	\$ 3,969	-
Capital projects fund	-	253,730
Total governmental funds	3,969	253,730
Enterprise funds -		
CTO LLC	249,761	69,073
HPA LLC	69,073	-
Total enterprise funds	318,834	69,073
Total	\$ 322,803	322,803

The amounts reported as due from other funds and due to other funds and due to other funds are reflective of the time lag between the dates that (1) interfund goods and services are provided or reimbursable expenditures occur, (2) transactions are recorded in the accounting system, and (3) payments between funds are made. All amounts reflected as due from other funds are expected to be collected in the subsequent year.

Transfers for the year ended June 30, 2018 were as follows:

	Transfer In	Transfers Out
Governmental funds -		
General fund (Commission)	\$ 490,568	-
Capital projects fund	250,000	106,493
Total governmental funds	740,568	106,493
Enterprise funds -		
CTO LLC	-	384,075
HPA LLC	-	250,000
Total enterprise funds	-	634,075
Total	\$ 740,568	740,568

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June 30, 2018

8. Capital Assets

Capital asset activity for the year ended June 30, 2018 was as follows:

	Balance July 1, 2017	Additions	Deletions	Prior Period Adjustment	Reclass Adjustment	Balance June 30, 2018
Governmental activities -						
Capital assets not being depreciated -						
Land	\$ 100,087	-	-	-	-	100,087
Construction in progress	1,266,318	890,605	(701,437)	-	-	1,455,486
Copyright	5,550	-	-	-	-	5,550
Total capital assets not being depreciated	1,371,955	890,605	(701,437)	-	-	1,561,123
Capital assets being depreciated -						
Buildings and railyards	6,201,602	234,342	-	-	103,974	6,539,918
Track line, track line improvements and substructures	15,180,302	667,762	-	-	599	15,848,663
Steam engines, rolling stock and equipment	10,816,534	782,073	-	-	(104,573)	11,494,034
Vehicles, furniture and equipment	1,304,364	90,465	-	-	3,060	1,397,889
Total capital assets being depreciated	33,502,802	1,774,642	-	-	3,060	35,280,504
Less: accumulated depreciation for -						
Buildings and railyards	(4,053,974)	(160,966)	-	(15,229)	(17,329)	(4,247,498)
Track line, track line improvements and substructures	(8,160,818)	(697,017)	-	(21,803)	(73,306)	(8,952,944)
Steam engines, rolling stock and equipment	(6,937,278)	(406,984)	-	(331,345)	90,636	(7,584,971)
Vehicles, furniture and equipment	(1,018,844)	(79,555)	-	(37,827)	(611)	(1,136,837)
Total accumulated depreciation	(20,170,914)	(1,344,522)	-	(406,204)	(610)	(21,922,250)
Capital assets being depreciated, net	13,331,888	430,120	-	(406,204)	2,450	13,358,254
Total governmental activities capital assets, net	\$ 14,703,843	1,320,725	(701,437)	(406,204)	2,450	14,919,377

Depreciation expense for the year ended June 30, 2018 was \$1,344,522 and was charged to general and administrative activities.

Construction in progress consist of materials, upgrades and improvements to various Commission assets.

9. Unearned Revenue

The Commission defers recognition of revenue for funds that are received for train trips to be taken subsequent to June 30, 2018. Unearned revenue at June 30, 2018 was \$1,150,959.

STATE OF NEW MEXICO  
 CUMBRES & TOLTEC SCENIC RAILROAD COMMISSION  
 Notes to Financial Statements  
 June 30, 2018

10. Long-term Liabilities

The following is a summary of changes in long-term liabilities reported in the government-wide financial statements for the year ended June 30, 2018:

	Balance July 1, 2017	Additions	Deletions	Balance June 30, 2018	Due Within One Year
Compensated absences					
Governmental activities	\$ 9,708	18,927	(20,676)	7,959	6,367
Business-type activities	<u>66,471</u>	<u>90,317</u>	<u>(114,168)</u>	<u>42,620</u>	<u>34,096</u>
Total	<u>\$ 76,179</u>	<u>109,244</u>	<u>(134,844)</u>	<u>50,579</u>	<u>40,463</u>

Compensated absences in the governmental activities financial statements are liquidated with resources from the general fund. Compensated absences in the business-type activities financial statements are liquidated from the CTO, LLC fund.

11. Fund Balances

	General Fund	Capital Projects	Total
Committed fund balance	\$		
Osier improvements	-	84,534	84,534
Assigned fund balance			
Capital improvements	-	532,349	532,349
Unassigned fund balance	<u>52,028</u>	<u>-</u>	<u>52,028</u>
Total	<u>\$ 52,028</u>	<u>616,883</u>	<u>668,911</u>

12. Net Position

Prior Period Adjustments

Net position of the governmental activities at June 30, 2017 has been restated from amounts previously reported as follows:

STATE OF NEW MEXICO  
CUMBRES & TOLTEC SCENIC RAILROAD COMMISSION  
Notes to Financial Statements  
June 30, 2018

12. Net Position (continued)

Prior Period Adjustments (continued)

	Governmental Activities	Business Activities	Total
Net position at June 30, 2017, as previously reported	\$ 15,127,574	886,384	16,013,958
Prior period adjustment to correct accumulated depreciation	(406,204)	-	(406,204)
Prior period adjustment for expenditures in the current year which were not accrued in prior year	-	(35,946)	(35,946)
Net position at June 30, 2017, as restated	\$ <u>14,721,370</u>	<u>850,438</u>	<u>15,571,808</u>

13. 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 purchases commercial insurance to cover all significant losses to property, general liability, workers compensation and employee fidelity.

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.

See Evaluation of Subsequent Events footnote.

14. Related Parties

The Commission President's spouse provides subcontracted marketing services to the Commission and received direct and indirect payments during the period ending June 30, 2018 totaling \$39,202.

During the year, the Commission occasionally incurs costs from Fina's Diner, an entity owned by one of the Commissioner's spouses. Total costs incurred during the period ending June 30, 2018 were \$854. There was an outstanding payable of \$38 at year-end.

During the year, the Commission reimburses certain expenditures and pays certain fees to the Friends of the Cumbres & Toltec Scenic Railroad, Inc., a related party. Total costs incurred during the period ending June 30, 2018 were \$87,490. There was an outstanding payable of \$55,155 as of June 30, 2018.



STATE OF NEW MEXICO  
CUMBRES & TOLTEC SCENIC RAILROAD COMMISSION  
Notes to Financial Statements  
June 30, 2018

15. Commitments and Contingencies

Debt Limits

The amount of debt that can be incurred by the Commission is limited by resolution and at June 30, 2018, the Commission had not entered into any debt agreements.

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. The Commission received confirmation from the State of Colorado that it is exempt from the requirements of the amendment.

See Evaluation of Subsequent Events.

16. Simple IRA Plan

In August 2017, the Commission adopted a Simple IRA plan which covers all eligible employees, as defined in the plan document. The Commission's obligation under this plan is to make matching contribution equal to the employee's elective deferral up to 3 percent of their compensation. For the year ended June 30, 2018 employer matching contributions to this plan totaled \$20,843. Employees are 100% vested in employer matching contribution.

17. New Accounting Standards

GASB 75

GASB Statement No. 75 Accounting and Financial Reporting for Postemployment Benefits Other than Pensions (OPEB) establishes new accounting and financial reporting requirements for governments whose employees are provided with OPEB. This statement applies to government employers who provide OPEB plans to their employees and basically parallels GASB Statement 68 and replaces GASB Statement 45. The scope of this Statement addresses accounting and financial reporting for OPEB that is provided to the employees of state and local governmental employers. This Statement establishes standards for recognizing and measuring liabilities, deferred outflows of resources, deferred inflows of resources, and expense/expenditures. GASB 75 is effective for fiscal years beginning after June 15, 2017 (FY18). The Commission adopted GASB Statement No. 75 during fiscal year 2018, with no significant impact to the Commission's financial statements.

STATE OF NEW MEXICO  
CUMBRES & TOLTEC SCENIC RAILROAD COMMISSION  
Notes to Financial Statements  
June 30, 2018

17. New Accounting Standards (continued)

GASB 85

GASB Statement No. 85 Omnibus 2017 address practice issues identified during implementation and application of certain GASB statements. This Statement addresses a variety of topics including issues related to blending component units, goodwill, fair value measurement and application, and post-employment benefits (OPEB).

GASB 85 is effective for fiscal years beginning after June 15, 2017 (FY18). The Commission adopted GASB Statement No. 85 during fiscal year 2018, with no significant impact to the Commission's financial statements.

18. Evaluation of Subsequent Events

The Commission has evaluated subsequent events through November 1, 2018, which is the date the financial statements are available to be issued.

In June 2018, the Commission was notified by the U.S. Equal Employment Opportunity Commission (EEOC), Denver Field Office, of an investigation involving the Commission and a previous employee. In July 2018, the settlement terms were concluded and a conciliation agreement was accepted by the Commission and the Charging Party. As a result, the Commission paid the Charging Party \$38,265 subsequent to year end, which was accrued and charged to expense in the CTO proprietary fund for year end June 30, 2018.

The Commission is unaware of any further investigations being conducted by the EEOC, nor have they been notified of any pending investigation.

SUPPLEMENTARY INFORMATION

STATE OF NEW MEXICO  
CUMBRES & TOLTEC SCENIC RAILROAD COMMISSION  
Train Operations (Cumbres & Toltec Operating, LLC)  
Statement of Revenues, Expenditures and Changes in Fund Balance -  
Budget and Actual (Non-GAAP Budgetary Basis)  
For the Year Ended June 30, 2018

	Budgeted Amounts		Actual	Variance with Final Budget Positive (Negative)
	Original	Final	Amounts (Non- GAAP Budgetary Budget Basis)	
<b>Revenues</b>				
Charges for services	\$ 3,954,006	3,954,006	4,291,151	337,145
Retail sales	398,987	398,987	443,310	44,323
Other revenue	3,168	3,168	-	(3,168)
Interest income	311	311	461	150
<b>Total revenues</b>	<b>4,356,472</b>	<b>4,356,472</b>	<b>4,734,922</b>	<b>378,450</b>
<b>Expenditures</b>				
Train operations -				
Cost of goods sold	175,507	175,507	218,806	(43,299)
Payroll	1,613,512	1,613,512	1,480,598	132,914
Maintenance and repairs	119,130	119,130	77,186	41,944
Train supplies	389,884	389,884	432,111	(42,227)
Contract services	37,644	37,644	105,636	(67,992)
Bus services	315,654	315,654	360,573	(44,919)
Meal services	394,548	394,548	453,125	(58,577)
Advertising and marketing	685,335	685,335	636,683	48,652
Utilities	138,641	138,641	145,065	(6,424)
Liability and property insurance	18,424	18,424	20,598	(2,174)
Capital outlay	-	-	-	-
General	219,814	219,814	259,530	(39,716)
<b>Total expenditures</b>	<b>4,108,093</b>	<b>4,108,093</b>	<b>4,189,911</b>	<b>(81,818)</b>
Excess (deficiency) of revenues over expenditures	248,379	248,379	545,011	296,632
<b>RECONCILIATION TO GAAP BASIS:</b>				
Change in accounts payable			(56,109)	
<b>OTHER FINANCING USES</b>				
Transfers out			(384,075)	
<b>NET CHANGE IN FUND BALANCE - GAAP Basis</b>		<b>\$</b>	<b>104,827</b>	

STATE OF NEW MEXICO  
CUMBRES & TOLTEC SCENIC RAILROAD COMMISSION  
Schedule of Cash and Deposits and Pledged Collateral  
June 30, 2018

Account Name	Account Type	New Mexico			Colorado			Outstanding Items	Book Balance
		New Mexico Bank & Trust	Washington Federal	First Southwest Bank **	Community Banks of Colorado **	Alamosa State Bank **	Bank Balance		
Ticket Revenue	Checking *	\$ 666,827	-	-	-	-	666,827	41,988	708,815
Accounts Payable	Checking *	91,749	-	-	-	-	91,749	(216,875)	(125,126)
Debit Card Account	Checking *	2,454	-	-	-	-	2,454	(154)	2,300
Money Market Account	Money Market *	100,084	-	-	-	-	100,084	-	100,084
Ticket Revenue	Checking *	-	514,980	-	-	-	514,980	29,875	544,855
CTO, LLC Retail	Checking *	-	239,264	-	-	-	239,264	2,990	242,254
General Fund	Checking *	-	-	6,857	-	-	6,857	(4,662)	2,195
General Fund	Savings *	-	-	63,185	-	-	63,185	-	63,185
CTO, LLC Retail	Money Market *	-	-	9,648	-	-	9,648	-	9,648
Capital	Checking *	-	-	-	56,304	-	56,304	(72,471)	(16,167)
Capital	Money Market *	-	-	-	487,543	-	487,543	-	487,543
HPA	Checking *	-	-	-	-	162,281	162,281	-	162,281
HPA	Money Market *	-	-	-	-	350,637	350,637	-	350,637
Petty Cash	Imprest	-	-	-	-	-	-	-	3,700
Total amount of deposits in banks less FDIC coverage		861,114 (250,000)	754,244 (250,000)	79,690 (79,690)	543,847 (250,000)	512,918 (250,000)	2,751,813 (1,079,690)	(219,309)	2,536,204
Total uninsured public funds		\$ 611,114	504,244	-	293,847	262,918	1,672,123		
50% Collateral Requirement (Section 6-10-17 NMSA 1978)		305,557	252,122	-	-	-	557,679		

Description	CUSIP#	Pledged Market Value	Pledged Market Value
Wilmington County IL Community Unit School District 209, 7%, \$885,000, Suntrust	969071FD6	908,532	-
FNMA, PL#BC2636, 3%, \$800,000, due 11/1/2046	3140EW4W2	-	631,979
Amount over(under) collateralized		\$ 602,975	379,857

\*Denotes interest bearing account

\*\*Denotes bank is properly collateralized as required by the Public Deposit Protection Act per the Colorado Division of Banking

STATE OF NEW MEXICO  
CUMBRES & TOLTEC SCENIC RAILROAD COMMISSION  
Schedule of Special, Deficiency, Specific, and Capital Outlay Appropriations  
For the Year Ended June 30, 2018

Description	Grant #	Appropriation Period	Appropriation Amount	2018 Expenses	Expenses from Inception to June 30, 2018	2018 Reversion Amount	Balance as of June 30, 2018
<b>New Mexico</b>							
Chap 66, Laws 2014, Section 8.1 - Land Acquisition & Track Extension	14-1341	6/24/2014 - 6/30/2018	\$ 100,000	-	100,000	-	-
Chap 66, Laws 2014, Section 8.2 - Locomotive #15 Purchase & Upgrade	14-1342	6/24/2014 - 6/30/2018	85,000	-	85,000	-	-
Chap 3, Laws 2015, Section 9.1 - Track/Locomotive/Boiler Upgrades	15-0221 - 2416 - NM	8/12/2015 - 6/30/2019	500,000	25,869	500,000	-	-
Chap 81, Laws 2016, Section 9.1 - Locomotive and Boiler Upgrades & Rehab	A2035 - 2417N	6/23/2016 - 6/30/2018	300,000	277,725	300,000	-	-
Chap 81, Laws 2016, Section 9.2 - Track Rehabilitation	A2036 - 2317-N	6/23/2016 - 6/30/2020	315,000	10,921	315,000	-	-
Chap 133, Laws 2017, Section 81 - RR Passenger Cars Rehab 9/2, RET	B4078 - 2516N1	8/12/2015 - 6/30/2019	30,000	-	30,000	-	-
Chap 133, Laws 2017, Section 82 - RR Passenger Cars Rehab 9/3, RET	B4079 - 2516N2	8/12/2015 - 6/30/2019	65,000	17,700	45,766	-	19,234
Chap 133, Laws 2017, Section 83 - RR Passenger Cars Rehab 9/4 RET	B4080 - 2516N3	8/12/2015 - 6/30/2019	50,000	1,884	50,000	-	-
Chap 80, Laws 2018, Section 10 - Track & Locomotive/Boiler Rehabilitation	C2052 2404 Loco 487 1472	6/28/2018 - 6/30/2022	750,000	-	-	-	750,000
<b>Total New Mexico</b>			<u>2,195,000</u>	<u>334,099</u>	<u>1,425,766</u>	<u>-</u>	<u>769,234</u>

STATE OF NEW MEXICO  
CUMBRES & TOLTEC SCENIC RAILROAD COMMISSION  
Schedule of Special, Deficiency, Specific, and Capital Outlay Appropriations (continued)  
For the Year Ended June 30, 2018

Description	Appropriation #	Appropriation Period	Appropriation Amount	2018 Expenses	Expenses from Inception to June 30, 2018	2018 Reversion Amount	Balance as of June 30, 2018
<b>Colorado</b>							
Project 60760 Task Order 3							
Track, Bridge and Tunnel	2316 - CO	7/1/2015 - 6/30/2018	350,000	-	350,000	-	-
Locomotive Running Gear	2416 - CO	7/1/2015 - 6/30/2018	130,000	-	130,000	-	-
Passenger Car Upgrade	2516 - CO	7/1/2015 - 6/30/2018	150,000	-	150,000	-	-
Historic Car Project	2516B - CO	7/1/2015 - 6/30/2018	200,000	57,638	200,000	-	-
Premium Passenger Cars	2516A - CO	7/1/2015 - 6/30/2018	250,000	121,828	250,000	-	-
Shop Machines	2616 - CO	7/1/2015 - 6/30/2018	20,000	19,450	20,000	-	-
Commission Operations		7/1/2015 - 6/30/2016	215,000	-	215,000	-	-
Cash Match		7/1/2015 - 6/30/2016	(20,000)	-	(20,000)	-	-
		<b>Total Project 60760 Task Order 3</b>	<b>1,295,000</b>	<b>198,916</b>	<b>1,295,000</b>	<b>-</b>	<b>-</b>
Project 94815 Task Order 1							
Track Upgrade	2317 - CO	7/1/2016 - 6/30/2019	500,000	409,715	500,000	-	-
Loco Rehab	2417 - CO	7/1/2016 - 6/30/2019	250,000	97,290	99,390	-	150,610
Passenger Cars	2517-C CO	7/1/2016 - 6/30/2019	146,000	24,316	24,316	-	121,684
Historic Car	2517A - CO	7/1/2016 - 6/30/2019	200,000	43,422	43,422	-	156,578
Operations		7/1/2016 - 6/30/2017	219,000	-	219,000	-	-
Cash Match		7/1/2016 - 6/30/2017	(20,000)	-	(20,000)	-	-
		<b>Total Project 94815 Task Order 1</b>	<b>1,295,000</b>	<b>574,743</b>	<b>866,128</b>	<b>-</b>	<b>428,872</b>
Project 94815 Task Order 2							
Track Upgrade	2318-C CO	7/1/2017 - 6/30/2020	500,000	272,624	272,624	-	227,376
Loco Rehab	2418 - CO	7/1/2017 - 6/30/2020	245,000	5,562	5,562	-	239,438
Historic Car Rehab	2518A-C	7/1/2017 - 6/30/2020	146,000	-	-	-	146,000
Passenger Car	2518-C CO	7/1/2017 - 6/30/2020	200,000	-	-	-	200,000
Operations		7/1/2017 - 6/30/2018	224,000	-	224,000	-	-
Cash Match		7/1/2017 - 6/30/2018	(20,000)	-	(20,000)	-	-
		<b>Total Project 94815 Task Order 2</b>	<b>1,295,000</b>	<b>278,186</b>	<b>482,186</b>	<b>-</b>	<b>812,814</b>
		<b>Total Colorado</b>	<b>3,885,000</b>	<b>1,051,845</b>	<b>2,643,314</b>	<b>-</b>	<b>1,241,686</b>
		<b>Total Appropriations</b>	<b>\$ 6,080,000</b>	<b>1,385,944</b>	<b>4,069,080</b>	<b>-</b>	<b>2,010,920</b>
					Reversion amount	\$ -	
					Remaining balance as of June 30, 2018	2,010,920	
						<u>\$ 2,010,920</u>	

COMPLIANCE SECTION





INDEPENDENT AUDITORS' 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*

Board of Commissioners  
State of New Mexico  
Cumbres & Toltec Scenic Railroad Commission  
Antonito, CO  
and  
Mr. Wayne Johnson, New Mexico State Auditor

We have audited, in accordance with the 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, the financial statements of the governmental activities, the business-type activities, each major fund, the budgetary comparisons of the general fund and major special revenue fund, of the State of New Mexico Cumbres & Toltec Scenic Railroad Commission (Commission) as of and for the year ended June 30, 2018, and the related notes to the financial statements, which collectively comprise the Commission's basic financial statements and have issued our report thereon dated November 1, 2018.

**Internal Control over Financial Reporting**

In planning and performing our audit, of the financial statements, we considered Commission's internal control over financial reporting (internal control) to determine the audit procedures that are appropriate in the circumstances 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. Accordingly, we do not express an opinion on the effectiveness of the Commission's internal control.

Our consideration of internal control was for the limited purpose described in the preceding paragraph and was not designed to identify all deficiencies in internal control that might be material weaknesses or significant deficiencies and therefore, material weaknesses or significant deficiencies may exist that have not been identified. However, as described in the accompanying schedule of findings and questions costs, we identified certain deficiencies in internal control that we consider to be material weaknesses and significant deficiencies.

A *deficiency in internal control* 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 and correct misstatements on a timely basis. A *material weakness* is a deficiency, or a combination of deficiencies, in internal control such that there is a reasonable possibility that a material misstatement of the entity's financial statements will not be prevented, or detected and corrected on a timely basis. We consider the deficiencies described in the accompanying schedule of findings and responses to be material weaknesses, as items: 2018-001, 2018-002, 2018-003, 2018-006, and 2018-007.

A *significant deficiency* is a deficiency, or a combination of deficiencies, in internal control that is less severe than a material weakness, yet important enough to merit attention by those charged with governance. We consider the deficiencies described in the accompanying schedule of findings and responses to be significant deficiencies as item 2018-004.

### **Compliance and Other Matters**

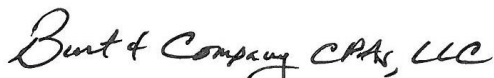
As part of obtaining reasonable assurance about whether the Commission's financial statements are free from material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement 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 an instance of noncompliance or other matters that is required to be reported under Government Auditing Standards and which is described in the accompanying schedule of findings and responses as item 2018-005.

### **State of New Mexico, Cumbres & Toltec Scenic Railroad Commission's Responses to Findings**

The Commission's responses to the findings identified in our audit is described in the accompanying schedule of findings and responses. The Commission's responses was not subjected to the auditing procedures applied in the audit of the financial statements and, accordingly, we express no opinion on it.

### **Purpose of this Report**

The purpose of this report is solely to describe the scope of our testing of internal control and compliance and the result of that testing, and not to provide an opinion on the effectiveness of the entity's internal control or on compliance. This report is an integral part of an audit performed in accordance with Government Auditing Standards in considering the entity's internal control and compliance. Accordingly, this communication is not suitable for any other purpose.

  
Burt & Company CPAs, LLC

November 1, 2018

STATE OF NEW MEXICO  
CUMBRES & TOLTEC SCENIC RAILROAD COMMISSION  
Summary Schedule of Findings and Responses  
June 30, 2018

**Current Year Findings**

2018-001 Controls Overs Transfers - Material Weakness

2018-002 Controls Over Fixed Assets - Material Weakness

2018-003 Posting of Prior Year Audit Entries - Material Weakness

2018-004 Controls Over Payroll - Significant Deficiency

2018-005 Controls Over Budget – Material Non-Compliance

2018-006 Proprietary Revenue Reconciliation - Material Weakness

2018-007 Reconciliation of Financial Accounting Records - Material Weakness

**Prior Year Findings**

None.

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CURRENT FINDINGS:

**2018-001 Controls Over Transfers - *Material weakness***

Condition: During testing, the following deficiencies were noted on transfers:

- One transfer in the amount of \$250,000 was posted to fund balance in error.
- Two transfers in the amount of \$490,568 were posted to due to/due from in error.

Criteria: Generally accepted accounting principles require interfund transfers to be recorded as transfers and reported as other financing sources separately from revenues.

Effect: The Commission did not record transfers in accordance with generally accepted accounting principles.

Cause: The Commission was not aware of the accounting treatment of transfers.

Recommendation: The Commission should record transfers as separate transactions and report the same as other financing sources.

Management's Response: The CFO is aware of accounting treatment of transfers and will record transfers in accordance with GAAP effective immediately. This will be fully implemented by the end of fiscal year 2019.

**2018-002 Controls Over Fixed Assets - *Material weakness***

Condition: During testing over fixed assets, the following deficiency was noted:

- A prior period adjustment of \$406,206 was recorded for depreciation not recorded in prior years. Amounts identified by Management were adjusted by (\$18,514) due to formula errors in Excel.

Criteria: The Commission should have adequate internal controls over the amount of and reporting of Fixed Assets. Fixed Assets should be accounted for accurately in accordance with generally accepted accounting principles.

Effect: The Commission does not have adequate controls over fixed assets and is not accounting for fixed assets accurately.

Cause: The Commission uses an Excel spreadsheet to account for over 600 individual assets in the amount of approximately \$37 million dollars in assets. This spreadsheet is fraught with the potential for material errors and is cumbersome to keep track of accurately.

Recommendation: The Commission should attain and employ depreciation software to assist in the accurate tracking of capital assets and the accurate calculation of depreciation expense.

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Management's Response: The CFO will acquire depreciation software and will have fixed asset record keeping fully implemented by the end of fiscal year 2019.

**2018-003 Posting of Prior Year Audit Entries – *Material weakness***

Condition: During audit testing it was noted that prior year audit entries were not posted accurately resulting in adjustments to balance to prior year net position.

- General Fund (Commission) \$100,072
- Capital Projects Fund \$14,680
- CTO Fund (\$149)

Criteria: The Commission should ensure that the financial statements are adjusted to prior year audited balances.

Effect: The Commission's final statements were not adjusted to the prior year audit balances.

Cause: Management was not able to accurately adjust the financial statements to the prior year audited balances.

Recommendation: The Commission should establish procedures to ensure audit adjustments are reviewed, accepted and posted prior to the Commission's acceptance of the related financial statements.

Management's Response: The CFO will post audit adjustments and will reconcile them to the audit effective immediately.

**2018-004 Controls Over Payroll - *Significant deficiency***

Condition: Of the 40 employees tested, the Commission has the following deficiencies over payroll:

- One of the 40 employees tested was being paid in excess of their approved pay rate by \$25,463 annually.
- Seven of the 40 employees tested had payroll deductions for insurance and retirement contributions that did not match the employee's authorized deduction amount in the amount of \$554.
- Two of the 40 employees tested had elected deductions for insurance and retirement contributions that were not being deducted from the employee's gross pay. Authorized deductions not deducted for totaled \$63.

Criteria: Per Section 6-5-2 NMSA 1978, State agencies shall implement internal accounting controls designed to prevent accounting errors and violations of state and federal law and rules related to financial matters. In addition, state agencies shall implement controls to prevent the submission of processing documents to the division that contain errors or that are for the purpose not authorized by law.

Cause: The Commission does not have adequate controls over payroll.

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Effect: The Commission is not in compliance with NMSA 1978 Section 6-5-2 and is lacking significant controls over payroll.

Recommendation: The Commission should establish and implement procedures over payroll to ensure that payroll is accounted for in accordance with applicable laws and policy manuals.

Management's Response: The Commission will document and update changes in compensation to the President/GM including any medical stipend. The CFO will ensure this is completed by June 2019. The HR Manager will correctly update and document employee payroll deductions. The CFO will ensure that this is fully implemented in FY 19.

**2018-005 Controls Over Budget – *Material non-compliance***

Condition: Expenditures exceeded the approved budget in the following funds:

- Cumbres Toltec Operating (CTO) Fund \$81,818.

Criteria: Per Section 6-6-6, NMSA 1978, any claims or warrants in excess of budgets are a violation.

Effect: The Commission is not in compliance with state statute. Any expenditure in excess of the approved budget shall be a liability against the officials so allowing or paying such claims or warrants, and recover of such excess amounts so allowed or paid may be had against the bondsmen of such official.

Cause: The Commission does not have adequate monitoring of budgeting procedures at year end.

Recommendation: The Commission should establish adequate procedures to monitor budget compliance with state statutes.

Management's Response: The CFO will monitor budget compliance and will take necessary steps to ensure full compliance. This will be fully implemented by the end of FY 19.

**2018-006 Proprietary Revenue Reconciliation - *Material weakness***

Condition: The Commission's annual ticket sales and deferred revenue reports from the point of sale system supported by Dynamic Ticket Solutions (DTS) do not agree with the ticket revenue recorded on the books.

- Unexplained variance of \$61,125 between annual DTS reported revenue and the annual Commission reported revenue.
- Two deposits in the amount of \$4,969 out of the twenty-five tested could not be reconciled to the DTS reports.

Criteria: Per Section 6-5-2 NMSA 1978, State agencies shall comply with the model accounting practices established by the division of financial control and the administrative head of each state agency shall ensure that the model accounting practices are followed.

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Cause: The Commission does not have adequate controls over recording and reconciling detail activity to accounts balances for proprietary revenue accounts.

Effect: The Commission is not in compliance with state statute.

Recommendation: The Commission should comply with state statute requirements concerning reconciliations of accounting records.

Management's Response: The CFO will begin work immediately with DTS to develop a revenue report that reconciles the General Ledger and implement in FY 19.

**2018-007 Reconciliation of Financial Accounting Records - Material Weakness**

Condition: The Commission has several areas where they are not reconciling the supporting documentation to the related account balances on a regular basis. While conducting the audit of the Commission, there were material adjustments made to the financial statements which were identified by the auditor:

- Prior period adjustment in HPA Fund the amount of \$35,946 to record HPA fees due to a related party in the fiscal year 2017.
- Adjustment to current year payables in the HPA Fund in the amount of \$55,155 to record HPA fees due to a related party in the fiscal year 2018.
- Adjustment to current year receivables in the Capital Project Fund in the amount of \$66,608 for reimbursable expenditures incurred but not yet billed for capital appropriations.
- Adjustment to current year receivables in Capital Project Fund in the amount of \$168,218 for reimbursable expenditures incurred but not yet billed for capital grants.
- Adjustment to deferred revenue in the Capital Project fund the amount of \$82,988 for capital project funding in excess of expenditures incurred.

Criteria: Per Section 6-5-2 NMSA 1978, State agencies shall comply with the model accounting practices established by the division of financial control and the administrative head of each state agency shall ensure that the model accounting practices are followed.

Cause: The Commission does not have adequate controls over recording and reconciling detail activity to accounts balances for certain asset and liability accounts.

Effect: The Commission is not in compliance with state statute.

Recommendation: The Commission should comply with state statute requirements concerning reconciliations of accounting records.

Management's Response: The CFO will insure that all necessary accruals and deferred revenues are posted in the correct fiscal year. This will be fully implemented in FY 19.

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Exit Conference  
June 30, 2018

The contents of this report were discussed at an exit conference held October 26, 2018.

The exit conference was attended by the following:

Billy Elbrock, New Mexico Commissioner  
Dan Love, Colorado Commissioner  
Richard Cowles, New Mexico Commissioner  
Mark Graybill, Colorado Commissioner  
John Bush, President  
Ed Beaudette, Chief Financial & Planning Officer

Burt & Company CPAs, LLC was represented by:

Ronald E. Schranz, CPA, CVA  
Misty Schuck, CPA, CGMA, CFE, CGFM (telephonically)

The accompanying financial statements are the responsibility of the Commission and are based upon information from the Commission's records. Burt & Company CPAs, LLC, with the aid of responsible Commission personnel, prepared the financial statements of the Commission as of and for the year ended June 30, 2018.