



HINKLE + LANDERS

Certified Public Accountants + Business Consultants

**CUMBRES & TOLTEC
SCENIC RAILROAD
COMMISSION**

Financial Statements

For The Year Ended June 30, 2012

CUMBRES & TOLTEC SCENIC RAILROAD COMMISSION
Independent Auditors' Report
And
Financial Statements

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**CUMBRES & TOLTEC SCENIC RAILROAD COMMISSION
Independent Auditors' Report
And
Financial Statements**

**OFFICIAL ROSTER
As of June 30, 2012**

Commission

Member	Title
Randy Randall	Chairman
Peter Foster	Vice Chairman
Billy Elbrock	Secretary
Dan Love	Treasurer

Administration

Name	Title
Leo Schmitz	Executive Director

INDEPENDENT AUDITORS' REPORT

Board of Commissioners of
Cumbres & Toltec Scenic Railroad Commission
Antonito, CO
and
Mr. Hector H. Balderas, New Mexico State Auditor

We have audited the accompanying financial statements of the business-type activities, the aggregate discretely presented component unit, and the respective changes in financial position and cash flows, where applicable thereof for the Cumbres & Toltec Scenic Railroad Commission (the Commission) as of and for the year ended June 30, 2012, which collectively comprise the Commissions basic financial statements as listed in the table of contents. We have also audited the budgetary comparisons for the proprietary funds presented as supplemental information for the year ended June 30, 2012, as listed in the table of contents. These financial statements are the responsibility of the Commission's management. Our responsibility is to express opinions on these financial statements based on our audit. We did not audit the financial statements of the Friends of the Cumbres & Toltec Scenic Railroad, Inc., a discretely presented component unit of the Commission, which represents 100 percent of the assets, net assets, and revenues of the discretely presented component units of the Commission. Those financial statements were audited by other auditors whose report thereon has been furnished to us, and our opinion, insofar as it related to the amounts included for discretely presented component units is based on the report of the other auditors.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the basic financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinions.

In our opinion, the financial statements referred to previously present fairly, in all material respects, the respective financial position of the business-type activities, the aggregate discretely presented component unit of the Commission as of June 30, 2012, and the respective changes in financial position and cash flows thereof for the year then ended in conformity with accounting principles generally accepted in the United States of America. In addition, in our opinion, financial statements referred to previously present fairly, in all material respects, the budget comparisons for the proprietary funds of the Commission for the year ended June 30, 2012, in conformity with accounting principles generally accepted in the United States of America.

In accordance with *Government Auditing Standards*, we have also issued our report dated October 19, 2012, on our consideration of the Commission's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements, and other matters. The purpose of that report is to describe the scope of our testing of internal control over

financial reporting and compliance and the results of that testing, and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be considered in assessing the results of our audit.

Accounting principles generally accepted in the United States of America require that the management's discussion and analysis on pages 4 through 11 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 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.

Our audit was conducted for the purpose of forming opinions on the basic financial statements and the budgetary comparisons. The additional schedules listed as "other supplemental information" in the table of contents are presented for purposes of additional analysis and are not a required part of the financial statements. Such information is the responsibility of management and was derived from and relates directly to the underlying accounting and other records used to prepare the financial statements. The information has been subjected to the auditing procedures applied in the audit of the financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the financial statements or to the financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the information is fairly stated in all material respects in relation to the basic financial statements taken as a whole.



Hinkle + Landers, P.C.
Albuquerque, NM
October 19, 2012

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

**Management's Discussion and Analysis
For The Year Ended June 30, 2012**

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

FINANCIAL HIGHLIGHTS

Year ended June 30, 2012:

- The Commission's financial position, as a whole, declined during the year ended June 30, 2012. Net assets decreased \$586,008 from the previous year. The net assets of the component unit, The Friends of the Cumbres & Toltec Railroad, Inc., decreased from prior year \$151,157.
- The Commission received revenue from the State of Colorado and the State of New Mexico totaling \$775,631 during the fiscal year. Ticket sales were \$3,200,981. The Commission received grant revenue from Candelaria Fund of \$81,200 for the year ended June 30, 2012.
- General Fund, fund balance decreased \$157,073 decreasing the beginning fund balance of \$694,338 to \$537,265.
- Capital Projects fund balance increased \$97,887, bringing the ending fund balance in that fund to \$121,432. The fund spent substantial resources on the track enhancement projects, passenger car improvements, and improvements to equipment.
- On March 14, 2006 the Commission entered into a management agreement with Cumbres & Toltec Scenic Management Corp. The Commission and C&TSMC entered into a new three year contract on March 10, 2008. C&TSMC chose to allow their contract to expire on Dec. 31, 2011. The Commission conducted a Request For Proposal process in the fall of 2011 and entered into a contract with Heritage Rail Management (HRM), a subsidiary company of American Heritage Railways, operator of the Durango & Silverton Railroad. HRM took over management of the C&TSRR on Jan. 1, 2012.
- Ridership increased from FY 11 to FY12 with ridership in the amount of 27,134 in year ended 2011 to 35,441 in year ended 2012; while ticket revenue increased from \$2,355,666 in year ended 2011 to \$3,200,981 in year ended 2012, an increase of 36%. The increase is due to the Lobato Trestle being restored to service and resumption of regular fares and a Thomas the Train Special Event .
- A major Track Upgrade Project is underway with funding from the two States. The project is approximately sixty percent complete. C&TSMC/HRM directed this program; hiring and training employees along with the Commission, and purchasing the materials and supplies. The project is continuing into the next fiscal years with funding from the States of New Mexico and Colorado. An inspection and load rating of the bridges, trestles and tunnels was conducted in compliance with new rules and regulations from the Federal Railroad Administration. Rehabilitation work was accomplished on Locomotive Running Gear.
- The Friends of the Cumbres & Toltec Scenic Railroad, Inc. is presented as a component unit in this audit report. Their two primary purposes are for the preservation and interpretation of the Cumbres & Toltec Scenic Railroad.

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

**Management's Discussion and Analysis
For The Year Ended June 30, 2012**

Year ended June 30, 2011:

- The Commission's financial position, as a whole, improved during the year ended June 30, 2011. Net assets increased \$690,171 from previous year. The net assets of the component unit, The Friends of the Cumbres & Toltec Railroad, Inc., increased from prior year \$181,239.
- The Commission received revenue from the State of Colorado and the State of New Mexico totaling \$1,823,725 during the fiscal year. Ticket sales were \$2,355,666. The Commission received grant revenue from Candelaria Fund of \$24,750 for the year ended June 30, 2011.
- General Fund, fund balance decreased \$96,692 decreasing the beginning fund balances of \$791,029 to \$694,337.
- Capital Projects fund balance increased \$5,577, bringing the ending fund balance in that fund to \$23,546. The fund spent substantial resources on the track enhancement projects, Lobato Trestle rebuild, Locomotive rehabilitation project, and improvements to the Osier Facilities.
- On March 14, 2006 the Commission entered into a management agreement with Cumbres & Toltec Scenic Management Corp. The Commission and C&TSMC entered into a new three year contract on March 10, 2008. Ridership decreased from 2010 to 2011 with ridership in the amount of 40,487 in year ended 2010 to 27,134 in year ended 2011; while ticket revenue decreased from \$3,417,800 in year ended 2010 to \$2,355,666 in year ended 2011, a decrease of 33%. The decrease is due to the Lobato Trestle fire and the Trestle being out of service almost the entire year, resulting in reduced ridership and discounted fares for the reduced trip from Chama in FY10-11.
- A major Track Upgrade Project is underway with funding from the two States. The project is approximately fifty-five percent complete. C&TSMC directed this program; hiring and training employees along with the Commission, and purchasing the materials and supplies. The project is continuing into the next fiscal years with \$1,000,000 in funding from the State of New Mexico and \$200,000 in funding from the State of Colorado. The Lobato trestle was rebuilt and returned to service on June 20, 2011. Improvements were made to the Osier Section House. Rehabilitation work was accomplished on Locomotive Running Gear.
- The Friends of the Cumbres & Toltec Scenic Railroad, Inc. is presented as a component unit in this audit report. Their two primary purposes are for the preservation and interpretation of the Cumbres & Toltec Scenic Railroad.

Overview of the Financial Statements

The Commission's activities are reported as business-type activities. As a result, the financial statements are comprised solely of proprietary fund financial statements. Proprietary statements include a Statement of Net Assets, a Statement of Revenues, Expenses and Changes in Fund Net Assets, and a Statement of Cash Flows. These statements provide both short-term and long term information about the Commission's overall financial status

The *Statement of Net Assets* presents information on all of Cumbres & Toltec Scenic Railroad Commission's assets and liabilities, with the difference between the two reported as *net assets*. Over

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

**Management's Discussion and Analysis
For The Year Ended June 30, 2012**

time, increases or decreases in net assets may serve as a useful indicator of whether the financial position of the Commission is improving or deteriorating.

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

The *Statement of Cash Flows* presents information showing the overall cash flows from the government's operating and non-operating activities. It also identifies cash flows from capital and non-capital financing and investing activities.

The financial statements and notes are presented for the reporting entity of the Commission, which includes the Cumbres & Toltec Scenic Railroad Commission and one discretely presented component unit: the Friends of the Cumbres & Toltec Scenic Railroad, Inc. (See Note 1 for additional information on the reporting entity.)

The basic financial statements can be found on pages 12 - 14 of this report.

Notes to the financial statements – The notes provide additional information that is essential to a full understanding of the data provided in the financial statements. The notes to the financial statements can be found on pages 15 - 25 of this report.

Statement of Net Assets

Below is a condensed Statement of Net Assets for the primary government (Commission) for the years ended June 30, 2012 and 2011, and the component unit, the Friends of Cumbres & Toltec Scenic Railroad, Inc. (Friends) for the years ended December 31, 2011 and 2010.

	Primary Government	Component Unit
	June 30, 2012	December 31, 2011
Assets		
Current and other assets	\$ 1,733,632	896,526
Capital assets, net of accumulated depreciation	12,469,324	535,597
Total Assets	<u>\$ 14,202,956</u>	<u>1,432,123</u>
Liabilities		
Current Liabilities	\$ 1,030,581	61,685
Noncurrent Liabilities	17,423	-
Total Liabilities	<u>1,048,004</u>	<u>61,685</u>
Net Assets		
Invested in capital assets, net of related debt	12,469,324	535,597
Teporarily Restricted	191,839	344,286
Permanently Restricted	-	136,173
Unrestricted	493,789	354,382
Total Net Assets	<u>13,154,952</u>	<u>1,370,438</u>
Total Liabilities and Net Assets	<u>\$ 14,202,956</u>	<u>1,432,123</u>

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

**Management's Discussion and Analysis
For The Year Ended June 30, 2012**

	Primary Government June 30, 2011	Component Unit December 31, 2010
Assets		
Current and other assets	\$ 1,523,169	1,074,214
Capital assets, net of accumulated depreciation	13,023,077	479,579
Total Assets	<u>\$ 14,546,246</u>	<u>1,553,793</u>
Liabilities		
Current Liabilities	\$ 793,995	32,198
Noncurrent Liabilities	11,291	-
Total Liabilities	<u>805,286</u>	<u>32,198</u>
Net Assets		
Invested in capital assets, net of related debt	13,023,077	479,579
Temporarily Restricted	23,546	588,170
Permanently Restricted	-	135,682
Unrestricted	694,337	318,164
Total Net Assets	<u>13,740,960</u>	<u>1,521,595</u>
Total Liabilities and Net Assets	<u>\$ 14,546,246</u>	<u>1,553,793</u>

Business-type activities decreased the Commission's net assets by \$586,008. The key elements of this decrease were reduced expenditure for infrastructure improvements, compared to the amount of depreciation.

Analysis of Changes in Net Assets

Following is a condensed Statement of Activities for the primary government (Commission) for the years ended June 30, 2012 and 2011, and the component unit the Friends of Cumbres & Toltec Scenic Railroad, Inc. (Friends) for the years ended December 31, 2011 and 2010.

	Primary Government June 30, 2012	Component Unit December 31, 2011
Revenues		
Program Revenues:		
Charges for service	\$ 3,200,981	251,922
Operation grants and contributions	102,317	674,573
Capital grants	775,631	-
General revenues:		
Miscellaneous revenue	153,792	-
Unrestricted investment earnings	10,468	1,281
Total Revenues	<u>4,243,189</u>	<u>927,776</u>
Expenses		
General government	4,829,197	1,078,933
Total expenses	<u>4,829,197</u>	<u>1,078,933</u>
Decrease in assets	<u>(586,008)</u>	<u>(151,157)</u>
Net assets, beginning of year	13,740,960	1,521,595
Ending net assets	<u>\$ 13,154,952</u>	<u>1,370,438</u>

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

**Management's Discussion and Analysis
For The Year Ended June 30, 2012**

	<u>Primary Government June 30, 2011</u>	<u>Component Unit December 31, 2010</u>
Revenues		
Program Revenues:		
Charges for service	\$ 2,355,666	542,557
Operation grants and contributions	541,200	537,879
Capital grants	1,839,877	-
General revenues:		
Miscellaneous revenue	45,975	-
Unrestricted investment earnings	7,037	9,662
Total Revenues	<u>4,789,755</u>	<u>1,090,098</u>
Expenses		
General government	<u>4,099,584</u>	<u>908,859</u>
Total expenses	<u>4,099,584</u>	<u>908,859</u>
Decrease in assets	<u>690,171</u>	<u>181,239</u>
Net assets, beginning of year	<u>13,050,789</u>	<u>1,340,356</u>
Ending net assets	<u>\$ 13,740,960</u>	<u>1,521,595</u>

Financial Analysis of Commission's Funds

The Commission only presents a single proprietary fund in the financial statements; however it uses fund accounting to ensure and demonstrate compliance with finance-related legal requirements.

Proprietary funds- The Commission's proprietary fund provides the same type of information found in the government-wide financial statements. The overall fund is comprised of the following individual funds: General fund, Capital Projects fund, Historical Preservation fund.

The general fund is the chief operating fund of the Commission. At the end of the fiscal year, unrestricted net assets of the general fund were \$472,150 while total net assets were \$542,558. The net assets of the fund, decreased \$151,779 during the current fiscal year. This is due to lower than anticipated ticket revenue.

The capital projects fund has ending net assets of \$121,432. The net increase in net assets for the current year was \$97,886. The increase is due to primarily to an insurance settlement from the Lobato Trestle Fire, interest and miscellaneous revenues.

The historical preservation fund has ending net assets of \$21,638. This is the fund's first year in existence, as it is a new initiative by the Commission for provide funding for the preservation of the train and related property.

Major Funds Budgetary Highlights

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

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

**Management's Discussion and Analysis
For The Year Ended June 30, 2012**

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

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

		<u>Original Budget</u>	<u>Final Budget</u>
General Fund	\$	3,734,065	4,025,408
Capital Projects Fund		481,738	617,664
Historical Preservation	\$	-	26,507

The General Fund had actual revenues that exceeded budgeted revenues by \$129,648. Actual expenditures were \$339,182 below budgeted expenditures.

The Capital Project Fund had actual revenues that fell short of the budgeted revenue by \$142,011. Actual expenditures were \$239,898 below budgeted expenditures.

The Historical Preservation Fund had actual revenues that fell short of the budgeted revenue by \$2,248. Actual expenditures were \$23,886 below budgeted expenditures.

Capital Asset Administration

At June 30, 2012 and 2011, the Commission had approximately \$12.29 million and \$13.02 million, respectively, invested in capital assets, net of accumulated depreciation of \$13.43 million and \$12.26 million, respectively. Depreciation charges for 2012 and 2011 were \$1,167,316 and \$1,086,945. Details of these assets are listed below.

		<u>June 30, 2012</u>	<u>June 30, 2011</u>
Building and railyard	\$	1,520,319	1,601,307
Trackline, improvements, and Structures		6,779,333	6,982,601
Steam engines, rolling stock, and equipment		4,149,875	4,434,558
Construction in Progress		19,797	4,611
Total	\$	<u>12,469,324</u>	<u>13,023,077</u>

Major capital additions completed in FY 2011-2012 and the resources that funded their acquisition include:

Trackline improvements, funded by the States of New Mexico and Colorado	\$	362,581
Locomotive improvements funded by the State of Colorado		179,190
Passenger Car Improvements, funded by Grants and Operating Revenue		44,493
Equipment Upgrade, funded by Grants and Operating Revenue		12,113
Total	\$	<u>598,377</u>

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

**Management's Discussion and Analysis
For The Year Ended June 30, 2012**

Construction in Progress FY 2011-12 and the resources that funded their acquisition include:

Building and Facility Improvements, funded by State of Colorado and Grants	\$ 15,186
Total	<u>\$ 15,186</u>

Major capital additions completed in FY 2010-2011 and the resources that funded their acquisition include:

Trackline improvements, funded by the States of New Mexico and Colorado	\$ 582,679
Trackline – Lobato Trestle , funded by States of New Mexico and Colorado, Insurance and grants	956,218
Passenger Car Improvements, funded by Grants and Operating Revenue	7,371
Locomotive Upgrade, funded by the State of Colorado	125,553
Equipment Upgrade, funded by Grants	6,692
Building and Facility Improvements, funded by States of Colorado and Grants	208,640
Total	<u>\$ 1,887,153</u>

Construction in Progress FY 2010-11 and the resources that funded their acquisition include:

Building and Facility Improvements, funded by State of Colorado	\$ 4,611
Total	<u>\$ 4,611</u>

Economic Outlook and Cumbres & Toltec Scenic Railroad Commission Future

Fiscal Years 2012 and 2011 ridership totaled 35,441 and 27,134 passengers, respectively. This is a 8,307 increase from the prior year.

On June 20, 2011, the Lobato Trestle was completed and returned to service. The resumption of full regular train operation and a positive marketing plan resulted in a 31% increase in ridership in comparison to the same time period in FY 2011. This increase in ridership and some increased fares contributed to an increase of \$845,315 in ticket revenue. The Cumbres & Toltec Scenic Railroad operated at a near breakeven for FY 11-12.

Cumbres & Toltec Management Corp. gave notice of their desire to voluntarily terminate their management agreement with the Cumbres & Toltec Scenic Railroad Commission on Dec. 31, 2011. The Commission conducted a Request For Proposals process and entered into an Agreement with Heritage Rail Management, LLC, to commence management of the Cumbres & Toltec Scenic Railroad effective January 1, 2012.

On August 29, 2012 HRM gave the Commission notice of its desire to terminate the management agreement. The Commission and HRM reached agreement to terminate the contract effective October 31, 2012. The Commission is exploring options for the operation of the C&TSRR in 2013 and beyond.

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CUMBRES & TOLTEC SCENIC RAILROAD COMMISSION**

**Management's Discussion and Analysis
For The Year Ended June 30, 2012**

The State of Colorado did appropriate \$1,020,500 for improvements to the Passenger Car Fleet; continuation of the Track Upgrade Project; and Rehabilitation of the Los Pinos Water Tank and water line. While the State of New Mexico did not appropriate funds to the C&TSRR in its 2012 Session they had appropriated \$1,500,000 for the continuation of the Track Upgrade Project and the Rehabilitation of a Locomotive Boiler in the 2011 Special Session.

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

REQUESTS FOR INFORMATION

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

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

Friends of the Cumbres & Toltec Scenic Railroad, Inc.
4421 McLeod NE, Suite F
Albuquerque, NM 87109
(505) 880-1311

CUMBRES AND TOLTEC SCENIC RAILROAD COMMISSION
STATEMENT OF NET ASSETS
As of June 30, 2012

ASSETS	Primary Gov't Business-type Activities	Component Unit
Current Assets		
Cash and cash equivalents	\$ 1,489,381	412,653
Receivables	172,426	84,832
Investments	-	106,192
Prepaid expenses	54,251	7,882
Inventory	17,574	56,087
Total Current Assets	1,733,632	667,646
Non-Current Assets		
Other assets-Collections	-	228,880
Capital Assets, net of accumulated depreciation	12,469,324	535,597
Total Assets	\$ 14,202,956	1,432,123
LIABILITIES AND NET ASSETS		
LIABILITIES		
Current Liabilities		
Accounts payable	\$ 310,749	42,764
Payroll related liabilities	48,637	-
Deferred revenue	656,940	18,921
Compensated absences - current portion	14,255	-
Total Current Liabilities	1,030,581	61,685
Non-Current Liabilities		
Compensated absences - non-current portion	17,423	-
Total Liabilities	1,048,004	61,685
NET ASSETS		
Invested in capital assets	12,469,324	535,597
Restricted for:		
Temporarily restricted	73,907	344,286
Permanently restricted	-	136,173
Capital projects	117,932	-
Unrestricted, undesignated	493,789	354,382
Total Net Assets	13,154,952	1,370,438
Total Liabilities and Net Assets	\$ 14,202,956	1,432,123

SEE INDEPENDENT AUDITORS' REPORT

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

CUMBRES AND TOLTEC SCENIC RAILROAD COMMISSION
STATEMENT OF REVENUE, EXPENSES AND CHANGES IN NET ASSETS
For the Year Ended June 30, 2012

	Primary Gov't Business-type Activities	Component Unit
OPERATING REVENUES		
Charges for services (program revenues)	\$ 3,200,981	251,922
 Total operating revenues	 3,200,981	 251,922
 OPERATING EXPENSES		
Train operations	3,332,088	-
Administration	327,172	-
Program services	-	897,605
Supporting services	-	164,048
Historic preservation	2,621	-
Depreciation	1,167,316	17,280
Total operating expenses	4,829,197	1,078,933
 Operating Income (Loss)	 (1,628,216)	 (827,011)
 NON-OPERATING REVENUES (EXPENSES)		
Appropriations	775,631	-
Grants	90,200	674,573
Contributions	12,117	-
Other income	153,792	-
Interest income	10,468	1,281
Total non-operating revenues (expenses)	1,042,208	675,854
 Change in net assets	 (586,008)	 (151,157)
Net assets, beginning of year	13,740,960	1,521,595
Restatement	-	-
Beginning net assets-as restated	13,740,960	1,521,595
Net assets, end of year	\$ 13,154,952	1,370,438

SEE INDEPENDENT AUDITORS' REPORT

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

CUMBRES AND TOLTEC SCENIC RAILROAD COMMISSION
STATEMENT OF CASH FLOWS
For the Year Ended June 30, 2012 With Comparative Totals For 2011

	Primary Gov't Business-type Activities	Component Unit
CASH FLOWS FROM OPERATING ACTIVITIES:		
Receipts from customers and users	\$ 3,252,252	329,745
Payments to employees	(1,265,619)	(181,447)
Payments to suppliers	(2,213,102)	(911,091)
Net cash provided (used) by operating activities	(226,469)	(762,793)
CASH FLOWS FROM NON-CAPITAL FINANCING ACTIVITIES:		
Receipts from state appropriations	177,000	-
Receipts from grants and contributions	21,117	674,573
Receipts from miscellaneous income	153,792	-
Net cash provided by (used for) noncapital financing activities	351,909	674,573
CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES:		
Receipts from capital appropriations	598,631	-
Receipts from capital grants	81,200	491
Payments for acquisition of capital assets	(613,563)	(74,174)
Net cash provided by (used for) capital and related financing activities	66,268	(73,683)
CASH FLOWS FROM INVESTING ACTIVITIES:		
Cash received from interest on cash and cash equivalents	10,468	1,281
Net cash provided by (used for) investing activities	10,468	1,281
Net increase (decrease) in cash and cash equivalents	202,176	(160,622)
Cash and cash equivalents, beginning of year	1,287,205	573,275
Cash and cash equivalents at end of year	\$ 1,489,381	412,653
Reconciliation of operating loss to net cash used in operating activities		
Operating income/(loss)	\$ (1,628,216)	(827,011)
Adjustments to reconcile increases in net assets to cash provided by operating activities:		
Depreciation expense	1,167,316	17,280
Contributions restricted for long term purposes		(491)
Change in assets and liabilities:		
Receivables	(25,210)	59,393
Inventory	-	(36,022)
Prepaid expenses	16,922	(5,429)
Accounts payables	120,221	10,566
Payroll related liabilities	25,630	-
Deferred revenue	76,481	18,921
Compensated absences	20,387	-
Net cash used by operating activities	\$ (226,469)	(762,793)

SEE INDEPENDENT AUDITORS' REPORT

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

STATE OF NEW MEXICO
CUMBRES & TOLTEC SCENIC RAILROAD COMMISSION
Notes to the Financial Statements
For The Year Ended June 30, 2012

NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

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, narrow-gauge equipment from the Denver and Rio Grande Western Railroad Company.

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

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

The Cumbres & Toltec Scenic Railroad Commission is a body of 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;
- 6) Protect generally the property of its Commission and its inhabitants;
- 7) Preserve peace and order within the Commission; and
- 8) Establish rates for services provided by the Commission, and revenue-producing projects, including amounts which the governing body determines to be reasonable in the operation of similar facilities.

This summary of significant accounting policies of Cumbres & Toltec Scenic Railroad Commission is presented to assist in the understanding of the Commission's financial statements. The financial statements and notes are the representation of the Commission's management who is responsible for their integrity and objectivity. The financial statements of the Commission have been prepared in accordance with accounting principles generally accepted in the United States of America (GAAP) as applied to governmental units. The Governmental Accounting Standards Board (GASB) is the accepted standard-setting body for establishing governmental accounting standards and financial reporting principles. The financial statements have incorporated all applicable GASB pronouncements as well as Financial Accounting Standards Board (FASB) Statements and Interpretations, Accounting Principles Board Opinions and Accounting Research Bulletins of the Committee on accounting

STATE OF NEW MEXICO
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procedures issued on or before November 30, 1989 unless those pronouncements conflict with or contradict GASB pronouncements. Governments also have the option of following subsequent private-sector guidance for their government-wide financial statements, subject to the same limitation. The Commission has elected not to follow subsequent private sector guidance. The more significant accounting and reporting principles and practices used by the Commission are described below.

Management History

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

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

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

On March 14, 2006, the Commission approved a management agreement with the Cumbres & Toltec Management Corporation, for a flat fee of \$4,444.78 per month from March 2006 through December 2006, and extended through March 2009. A new agreement with the Cumbres & Toltec Scenic Management Corporation, commenced on April 1, 2007 through March 31, 2009, with a base fee of \$90,000, plus incentive fees based upon specific criteria. A new management agreement commenced on April 1, 2009 and runs through December 31, 2011.

Cumbres & Toltec Management Corp. gave notice of their desire to voluntarily terminate their management agreement with the Cumbres & Toltec Scenic Railroad Commission on Dec. 31, 2011. Effective January 1, 2012, Heritage Rail Management, LLC, began management of the railroad.

STATE OF NEW MEXICO
CUMBRES & TOLTEC SCENIC RAILROAD COMMISSION
Notes to the Financial Statements
For The Year Ended June 30, 2012

B. Financial Reporting Entity

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

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

Discretely Presented Component Unit

The Friends of the Cumbres & Toltec Scenic Railroad, Inc. (Friends) is a nonprofit corporation devoted to the preservation and interpretation of the Cumbres & Toltec Scenic Railroad, a 64-mile narrow gauge railroad between Antonito, Colorado and Chama, New Mexico. Friends are exempt from income taxes under Section 501(c) (3) of the Internal Revenue Code and uses a December 31 year-end. Audited financial statements can be obtained by writing to: 4421 McLeod NE, Suite F Albuquerque, NM 87109.

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

The Component unit's activities are detailed in the far right column in the Commission's financial reports.

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

The Commission's activities are reported as business-type activities. As a result, the financial statements are comprised solely of proprietary fund financial statements. Proprietary statements include a Statement of Net Assets, a Statement of Revenues, Expenses and Changes in Fund Net Assets, and a Statement of Cash Flows.

Proprietary funds are accounted for using the economic resources measurement focus and the accrual basis of accounting. Accordingly, all assets and liabilities (whether current or noncurrent) are included on the Statement of Net Assets. The Statement of Revenues, Expenses and Changes in Fund Net Assets present increases (revenues) and decreases (expenses) in total net assets. Under the accrual basis of accounting, revenues are recognized in the period in which they are earned while expenses are recognized in the period in which the liability is incurred.

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CUMBRES & TOLTEC SCENIC RAILROAD COMMISSION
Notes to the Financial Statements
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Proprietary funds distinguish *operating* revenues and expenses from *nonoperating* items. Operating revenues and expenses generally result from providing services and producing and delivering goods in connection with a proprietary fund's principal ongoing operations. The principal operating revenues of the Commission are ticket sales generated from train operations. Operating expenses include the cost of sales and services, administrative expenses, and depreciation on capital assets. All revenues and expenses not meeting this definition are reported as nonoperating revenues and expenses.

The Commission applies pronouncements of the Government Accounting Standards Board (GASB) and statements and interpretations of the Financial Accounting Standards Board (FASB) issued on or before November 30, 1989, Accounting Principles Board Opinions, and Accounting Research Bulletins, unless those pronouncements conflict with GASB pronouncements. The Commission has elected not to apply FASB statements and interpretations issued after November 30, 1989.

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

D. Budgetary Principles

The Commission generally follows these procedures in establishing budgetary data:

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

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

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.

The Commission did not hold any investments at June 30, 2012.

**STATE OF NEW MEXICO
CUMBRES & TOLTEC SCENIC RAILROAD COMMISSION
Notes to the Financial Statements
For The Year Ended June 30, 2012**

F. Capital Assets

Capital assets include building, rail yards, track line, track line improvements, substructures, steam engines, rolling stock, 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 per Section 12-6-10 NMSA 1978. Such assets are recorded at historical cost or estimated historical cost if purchased or constructed. Under the guidelines of GASB 34, the Commission is a Phase III government. As a Phase III government, the Commission is not required to capitalize infrastructure existing prior to years beginning before June 15, 2003. The Commission has elected not to capitalize infrastructure prior to years beginning before June 15, 2003. Infrastructure added for years beginning after June 15, 2003 is depreciated. Information Technology Equipment including software is being capitalized and included in furniture, fixtures and equipment in accordance with NMAC 2.2.20.1.9 C (5). The costs of normal maintenance and repairs that do not add to the value of the asset or materially extend assets lives are not capitalized.

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

<u>Classification</u>	<u>Primary Government</u>	<u>Component Unit</u>
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	5 - 10 years

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 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 assets to unrestricted net assets at that time. During the year ended June 30, 2012, the Commission received donated rail equipment totaling \$4,000 from the Rio Grande Railway Preservation Corporation.

H. Inventories

Inventory consists of various parts and supplies to be used in the operation of the train and is valued at estimated cost. Due to the nature of operations and the make-up of the inventory, routine inventory counts are not performed. The current inventory valuation is based on the original cost to establish the inventory. Supplies purchased in the train operations consist of expendable items held for consumption. The cost is recorded as expenditure at the time individual inventory items are purchased.

**STATE OF NEW MEXICO
CUMBRES & TOLTEC SCENIC RAILROAD COMMISSION
Notes to the Financial Statements
For The Year Ended June 30, 2012**

I. Compensated Absences

Employees may accumulate vacation to a maximum of six weeks after which leave is forfeited. An employee may only be compensated for up to six weeks at separation from service. The Commission accrues this liability when earned by the employee. This liability has been calculated at year-end and adjusted to current salary levels.

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

<u>Years of Employment</u>	<u>Annual Accrued Vacation</u>
1 - 10	2 weeks
11 - 15	3 weeks
16+	4 weeks

Full-time employees receive ten days of personal/sick leave days per year. Unused personal/sick leave shall accumulate without limit from year to year; however, accumulated days may only be used for sick leave. Full-time employees are eligible to sell back any or all of the ten days earned at the rate of \$50 per day. The sell back shall apply only to the personal/sick leave accrued during the year it was granted and the sell back shall occur in June of each year.

J. Net Assets or Fund Equity

The proprietary fund financial statements utilize a net asset presentation. Net assets represent the difference between assets and liabilities and are categorized in the following three categories: invested in capital assets (net of related debt), restricted and unrestricted.

- 1) Invested in Capital Assets (net of related debt) – Is intended to reflect the portion of net assets which are associated with non-liquid, capital assets less outstanding capital asset related debt. The net related debt is the debt less the outstanding liquid assets and any associated unamortized cost. The Commission did not have any related debt during the year ended June 30, 2012.
- 2) Restricted net assets – Consist of net assets with constraints placed on the use by (1) external groups such as creditors, grantors, contributors, or laws or regulations of other governments; or (2) law through constitutional provisions or enabling legislation or federal law.
- 3) Unrestricted, undesignated, net assets – Consist of assets less liabilities after the amount invested in capital assets and any restricted and designated net assets have been subtracted.

The statement of net assets reports \$70,407 of net assets restricted by enabling legislation. All the restricted net assets are considered restricted by enabling legislation under the various grant and contract agreements. The enabling legislation has been determined to be legally enforceable. Legal enforceability means that a government can be compelled by an external party-such as citizens, public interest groups, or the judiciary-to use resources created by enabling legislation only for the purposes specified by the legislation. Generally, the enforceability of an enabling legislation restriction is determined by professional judgment, which may be based on actions such as analyzing the legislation to determine if it meets the qualifying criteria for enabling legislation, reviewing determinations made for similar legislation

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CUMBRES & TOLTEC SCENIC RAILROAD COMMISSION
Notes to the Financial Statements
For The Year Ended June 30, 2012

of the government or other governments, or obtaining the opinion of legal counsel. However, enforceability cannot ultimately be proven unless tested through the judicial process, which may never occur. The determination of legal enforceability should be based on the underlying facts and circumstances surrounding each individual restriction. The determination that a particular restriction is not legally enforceable may lead a government to reevaluate the legal enforceability of similar enabling legislation restrictions, but should not necessarily lead a government to conclude that all enabling legislation restrictions are unenforceable.

K. Advertising

The Commission expenses advertising costs as incurred. Advertising costs are incurred primarily for the dissemination of program information.

L. Estimates

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

M. Grant Revenue

Proceeds from state appropriations and other grants are considered voluntary nonexchange revenues under GASB Statement 33. 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.

N. Deferred Revenue

Deferred revenue consists of advanced ticket deposits for future rides on the train. As of June 30, 2012, 100% of the deferred revenue is considered to be redeemable.

NOTE 2 – STEWARDSHIP, COMPLIANCE AND ACCOUNTABILITY

Budgetary Information

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

These budgets are not prepared on the GAAP basis, because capital outlays are reflected as expenditures and depreciation expense (a noncash item) is excluded for train operations, capital projects and administration. They also exclude encumbrances, and secure appropriation of funds for only one year. Carryover funds must be re-appropriated in the budget of the subsequent fiscal year.

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CUMBRES & TOLTEC SCENIC RAILROAD COMMISSION
Notes to the Financial Statements
For The Year Ended June 30, 2012**

NOTE 3 – DEPOSITS AND INVESTMENTS

State statutes authorize the investment of Commission funds in a wide variety of instruments including certificates of deposit and other similar obligations, state investment pool, money market accounts, and United States Government obligations. All invested funds of the Commission properly followed State investment requirements as of June 30, 2012.

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

A) A summary of Cash and Investments for the Commission are as follows:

Cash and Cash Equivalents	2012
Operating	\$ 1,178,269
Capital projects	227,938
Commission	83,174
Total	\$ 1,489,381

A complete list of cash accounts along with applicable collateralization can be found on page 31.

B) 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 following state statutes.

The Public Money Act (Section 6-10-1, to 6-10-63, NMSA 1978) for New Mexico limits deposits of public monies to certain banks or credit unions. In addition, the depository must pledge eligible collateral to the extent of 50% of the balance of uninsured funds.

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

Colorado State Statutes govern the Commission’s deposits of cash. 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), require that all units of local government deposit cash in eligible public depositories, determined by state regulators. 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 market value of the collateral must be at least equal to the aggregate uninsured deposits.

STATE OF NEW MEXICO
CUMBRES & TOLTEC SCENIC RAILROAD COMMISSION
Notes to the Financial Statements
For The Year Ended June 30, 2012

At June 30, 2012 the Commission was exposed to custodial credit risk as follows:

Insured by depository insurance	\$	593,104
Uninsured, collateral held by the pledging banks, but not in the name of the Commission		602,718
Uninsured and uncollateralized		<u>299,815</u>
	\$	<u><u>1,495,637</u></u>

NOTE 4 – RECEIVABLES

Receivables at June 30, 2012 consist of the following:

Type	2012
Operations	
Toltec Gorge Catering	\$ 7,107
Friends of the Cumbres & Toltec SRR	10,883
Tour Groups	3,654
Capital improvements	
Capital grants and appropriations	<u>150,782</u>
Total	<u><u>\$ 172,426</u></u>

Accounts receivable are considered 100% collectable at year end.

The government entity defers recognition of revenue for funds that are received for train trips to be taken subsequent to June 30, and for grant funds that have been received that have not been expended for the intended purpose. Total deferred revenue at June 30, 2012 was \$656,940.

NOTE 5 – CAPITAL ASSETS

Capital assets activity for the year ended June 30, 2012 was as follows:

	Balance 2011	Additions	Deletions	Balance 2012
Business Type Activities				
Capital assets not being depreciated:				
Construction in progress	\$ 4,611	15,186	-	19,797
Total capital assets not being depreciated	<u>4,611</u>	<u>15,186</u>	<u>-</u>	<u>19,797</u>
Capital assets being depreciated:				
Buildings and rail yards	4,713,192	-	-	4,713,192
Track line, track line improvements and substructures	11,528,824	362,581	-	11,891,405
Steam engines, rolling stock and equipment	9,041,053	235,796	-	9,276,849
Total capital assets being depreciated	<u>25,283,069</u>	<u>598,377</u>	<u>-</u>	<u>25,881,446</u>
Less accumulated depreciation for:				
Buildings and rail yards	(3,111,885)	(80,988)	-	(3,192,873)
Track line, track line improvements and substructures	(4,546,223)	(565,849)	-	(5,112,072)
Steam engines, rolling stock and equipment	<u>(4,606,495)</u>	<u>(520,479)</u>	<u>-</u>	<u>(5,126,974)</u>
Total accumulated depreciation	<u>(12,264,603)</u>	<u>(1,167,316)</u>	<u>-</u>	<u>(13,431,919)</u>
Total capital assets being depreciated	<u>13,018,466</u>	<u>(568,939)</u>	<u>-</u>	<u>12,449,527</u>
Capital assets, net	<u><u>\$ 13,023,077</u></u>	<u><u>(553,753)</u></u>	<u><u>-</u></u>	<u><u>12,469,324</u></u>

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CUMBRES & TOLTEC SCENIC RAILROAD COMMISSION
Notes to the Financial Statements
For The Year Ended June 30, 2012**

Depreciation expense for the year ended June 30, 2012 was \$1,167,316 and was charged to train operations.

Construction in progress consists of upgrades and improvements to various Commission assets and totaled \$19,797 as of June 30, 2012.

NOTE 6 – COMPENSATED ABSENCES

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

		<u>Balance 2011</u>	<u>Additions</u>	<u>Deletions</u>	<u>Balance 2012</u>	<u>Due Within One Year</u>
Compensated absences	\$	<u>11,291</u>	<u>26,320</u>	<u>(5,933)</u>	<u>31,678</u>	<u>14,255</u>

NOTE 6 – RESTRICTED NET ASSETS

In the Statement of Net Assets \$73,907 of net assets is reported as restricted for capital outlay.

NOTE 7 – RISK MANAGEMENT

The Commission is exposed to various risks of loss as the owner of a tourist-oriented railroad. To reduce the risk of loss, the Commission and/or management company purchases commercial insurance to cover all significant losses to property, general liability, workers compensation and employee fidelity. Insurance purchased by the Commission names the management company as an additional insured.

There has been no significant reduction in insurance coverage and settled claims from these risks have not exceeded commercial insurance coverage for the current year of the three prior years.

NOTE 8 – COMMITMENTS AND CONTINGENCIES

Grants and Other Federal and State Assistance

The Commission participates in a number of federal and state assisted grant programs. The disbursement of funds received under these programs generally requires compliance with terms and conditions specified in the grant agreements and are subject to audit by grantor agencies. Any disallowed claims resulting from such audits could become a liability of the Commission. In the opinion of management, however, any such disallowed claims will not have a material effect on the financial statements of the Commission as of and for the year ended June 30, 2012.

Debt Limits

The amount of debt that can be incurred by the Commission is limited by resolution. In June 2003, the Commissioners authorized the Commission to borrow up to \$250,000 from other financial institutions for the purpose of funding capital projects. At June 30, 2012, the Commission had not entered into any debt agreements.

STATE OF NEW MEXICO
CUMBRES & TOLTEC SCENIC RAILROAD COMMISSION
Notes to the Financial Statements
For The Year Ended June 30, 2012

State of Colorado

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

NOTE 9 – TRANSACTIONS BETWEEN THE COMPONENT UNIT AND PRIMARY GOVERNMENT

The component unit Friends of the Cumbres & Toltec Scenic Railroad, Inc. raise funds to support the preservation and restoration of the historic railroad. Activities that support this are mainly maintenance of equipment. Other support services include tour guides that work on the trains as well as documentation of the riders that provide maps and other historical information. The total amount expended by the component unit for these purposes, for year ended June 30, 2012, was \$1,078,933.

NOTE 10 SUBSEQUENT EVENTS

The Cumbres & Toltec Scenic Railroad Commission is subject to the provisions of FASB ASC 855-10-50, *Subsequent Events*, which establishes a requirement for disclosing the date through which subsequent events have been evaluated, as well as whether that date is the date of the financial statements, were issued or the date the financial statements were available to be issued. The Cumbres & Toltec Scenic Railroad Commission has evaluated subsequent events through October 19, 2012, the date the financial statements were available to be issued.

In August 2012, the Commission received notification from its current railroad management company of its desire to terminate the management agreement. The Commission and HRM reached agreement to terminate the contract effective October 31, 2012. The Commission is exploring options for the operation of the C&TSRR in 2013 and beyond.

In October 2012, Secretary of the Interior Ken Salazar announced the designation of the CTSRR as a National Historic Landmark.

CUMBRES AND TOLTEC SCENIC RAILROAD COMMISSION
TRAIN OPERATIONS
STATEMENT OF REVENUE, EXPENSES AND CHANGES IN NET ASSETS
BUDGET (NON-GAAP BUDGET BASIS) AND ACTUAL
For the Year Ended June 30, 2012

	<u>Original</u>	<u>Final</u>	<u>Actual</u>	<u>Variance</u>
OPERATING REVENUES				
Charges for services (program revenues) \$	2,946,150	3,072,617	3,163,628	91,011
Total operating revenues	<u>2,946,150</u>	<u>3,072,617</u>	<u>3,163,628</u>	<u>91,011</u>
OPERATING EXPENSES				
Train operations:				
Payroll expenses	1,162,500	1,254,680	1,182,785	71,895
Licensed special events	-	-	41,146	(41,146)
Maintenance and repairs	192,500	243,631	250,143	(6,512)
Train supplies	286,000	200,186	155,833	44,353
Food and beverage expenses	-	-	29,878	(29,878)
Contract services	93,660	195,827	185,827	10,000
Vehicle and equipment fleet	335,000	306,290	292,385	13,905
Fire suppression	-	-	3,235	(3,235)
Meal service	315,095	315,461	315,384	77
Advertising and marketing	393,000	368,917	353,494	15,423
Utilities	151,900	137,491	117,788	19,703
Liability and property insurance	180,000	181,136	171,983	9,153
General expenses	128,000	115,140	121,312	(6,172)
CM locomotive	112,500	164,000	179,190	(15,190)
Grant expenses	-	125,559	125,559	-
Total operating expenses	<u>3,350,155</u>	<u>3,608,318</u>	<u>3,525,942</u>	<u>82,376</u>
Operating Income/(Loss)	(404,005)	(535,701)	(362,314)	173,387
NON-OPERATING REVENUES/(EXPENSES)				
Appropriations	252,500	123,784	236,284	112,500
Contributions	-	45	445	400
Grants	-	-	9,000	9,000
Capital outlay	(5,910)	(5,910)	(5,910)	-
Other revenue	5,000	209,126	30,081	(179,045)
Interest income	10,000	9,105	8,345	(760)
Total non-operating revenues/(expenses)	<u>261,590</u>	<u>336,150</u>	<u>278,245</u>	<u>(57,905)</u>
Change in net assets \$	(142,415)	(199,551)	<u>(84,069)</u>	<u>115,482</u>
Designated fund balance	<u>142,415</u>	<u>199,551</u>		

**CUMBRES AND TOLTEC SCENIC RAILROAD COMMISSION
ADMINISTRATION
STATEMENT OF REVENUE, EXPENSES AND CHANGES IN NET ASSETS
BUDGET (NON-GAAP BUDGET BASIS) AND ACTUAL
For the Year Ended June 30, 2012**

	<u>Original</u>	<u>Final</u>	<u>Actual</u>	<u>Variance</u>
OPERATING REVENUES				
Charges for services (program revenues) \$	45,000	45,000	37,353	(7,647)
Total operating revenues	<u>45,000</u>	<u>45,000</u>	<u>37,353</u>	<u>(7,647)</u>
OPERATING EXPENSES				
Administration:				
Commission Member Travel	8,000	8,000	16,631	(8,631)
Employee Travel	4,500	4,500	3,111	1,389
Legal Fees	1,000	1,000	-	1,000
Telephone	4,500	4,500	4,859	(359)
Audit Fees	14,500	14,500	16,800	(2,300)
Utilities	1,500	1,500	1,267	233
Office and Admin	11,000	11,000	14,219	(3,219)
Payroll	120,000	120,000	119,632	368
Payroll Tax	10,000	10,000	9,219	781
Contract Services	21,000	66,000	65,691	309
Osier Facility Maintenance	32,000	32,000	32,632	(632)
Candelaria Grant	150,000	150,000	79,144	70,856
Total operating expenses	<u>378,000</u>	<u>423,000</u>	<u>363,205</u>	<u>59,795</u>
Operating Income/(Loss)	(333,000)	(378,000)	(325,852)	52,148
NON-OPERATING REVENUES/(EXPENSES)				
Appropriations	177,000	177,000	177,000	-
Contributions	-	-	-	-
Grants	150,000	150,000	79,144	(70,856)
Capital outlay	-	-	-	-
Other revenue	6,000	6,000	6	(5,994)
Interst income	-	-	1,992	1,992
Total non-operating revenues/(expenses)	<u>333,000</u>	<u>333,000</u>	<u>258,142</u>	<u>(74,858)</u>
Change in net assets	-	(45,000)	<u>(67,710)</u>	<u>(22,710)</u>
Designated fund balance \$	<u>-</u>	<u>45,000</u>		

CUMBRES AND TOLTEC SCENIC RAILROAD COMMISSION
CAPITAL PROJECTS
STATEMENT OF REVENUE, EXPENSES AND CHANGES IN NET ASSETS
BUDGET (NON-GAAP BUDGET BASIS) AND ACTUAL
For the Year Ended June 30, 2012

	<u>Original</u>	<u>Final</u>	<u>Actual</u>	<u>Variance</u>
OPERATING REVENUES				
Charges for services (program revenues)	\$ -	-	-	-
Total operating revenues	-	-	-	-
OPERATING EXPENSES				
Capital Outlay:				
Track Improvements	256,025	511,919	354,217	157,702
Cumbres Development	-	40,000	7,056	32,944
Osier Water System	44,046	44,046	4,430	39,616
Lobato Trestle	-	-	8,364	(8,364)
Chama Depot Electrical	93,667	3,699	3,699	-
Antonito Electrical	86,000	16,000	-	16,000
Contingency	2,000	2,000	-	2,000
Chama Shop/Ash Pit	-	-	-	-
Total Operating Expenses	<u>481,738</u>	<u>617,664</u>	<u>377,766</u>	<u>239,898</u>
Operating Income/(Loss)	(481,738)	(617,664)	(377,766)	239,898
NON-OPERATING REVENUES/(EXPENSES)				
Appropriations	423,713	575,664	362,346	(213,318)
Contributions	-	-	11,672	11,672
Grants	56,025	40,000	2,056	(37,944)
Capital outlay	-	-	-	-
Other revenue	2,000	2,000	99,447	97,447
Interest income	-	-	132	132
Total non-operating revenues/(expenses)	<u>481,738</u>	<u>617,664</u>	<u>475,653</u>	<u>(142,011)</u>
Change in net assets	\$ <u>-</u>	<u>-</u>	<u>97,887</u>	<u>97,887</u>

**CUMBRES AND TOLTEC SCENIC RAILROAD COMMISSION
HISTORIC PRESERVATION
STATEMENT OF REVENUE, EXPENSES AND CHANGES IN NET ASSETS
BUDGET (NON-GAAP BUDGET BASIS) AND ACTUAL
For the Year Ended June 30, 2012**

	<u>Original</u>	<u>Final</u>	<u>Actual</u>	<u>Variance</u>
OPERATING REVENUES				
Charges for services (program revenues)	\$ -	26,507	24,259	(2,248)
Total operating revenues	-	26,507	24,259	(2,248)
OPERATING EXPENSES				
Historical Preservation:				
Contract services	-	26,507	2,621	23,886
Total operating expenses	-	26,507	2,621	23,886
Operating Income/(Loss)	-	-	21,638	21,638
Change in net assets	\$ -	-	21,638	21,638

CUMBRES AND TOLTEC SCENIC RAILROAD COMMISSION
RECONCILIATION OF BUDGET STATEMENTS TO
STATEMENT OF REVENUE, EXPENSES AND CHANGES IN NET ASSETS
For the Year Ended June 30, 2012

	<u>Budget Basis</u>	<u>Add Back Items Capitalized</u>	<u>GAAP Basis</u>
Excess/(deficiency) of revenues over expenditures			
Non-GAAP budget basis:			
Train operations	\$ (84,069)	199,763	115,694
Administration	(67,710)	36,033	(31,677)
Capital projects	97,887	377,767	475,654
Historic preservation	21,638	-	21,638
Total before depreciation	<u>\$ (32,254)</u>	<u>613,563</u>	<u>581,309</u>
 Depreciation expense			 (1,167,316)
Rounding			<u>(1)</u>
 Excess/(deficiency) of revenues over expenses			 <u>\$ (586,008)</u>

CUMBRES AND TOLTEC SCENIC RAILROAD COMMISSION
SCHEDULE OF CASH AND DEPOSITS AND PLEDGED COLLATERAL BY BANK AND ACCOUNT
As of June 30, 2012

<u>Account Name</u>	<u>Account Type</u>	<u>Community Bank</u>	<u>Community Banks of Colorado</u>	<u>1st Southwest Bank</u>	<u>Bank of America</u>	<u>Bank Balance</u>	<u>Outstanding Items</u>	<u>Book Balance</u>
Community Bank - Tierra	Checking *	\$ 67,970	-	-	-	67,970	38,531	106,501
Bank of America Deposit Acct	Checking *	-	-	-	32,013	32,013	-	32,013
Train Operating Checking	Checking *	56,071	-	-	-	56,071	(46,307)	9,764
Train Operating MMKT	MMKT *	1,028,492	-	-	-	1,028,492	-	1,028,492
Capital Project Checking	Checking *	-	1,755	-	-	1,755	-	1,755
Capital Project MMKT	MMKT *	-	226,162	-	-	226,162	-	226,162
Commission Checking	Checking *	-	-	68,341	-	68,341	-	68,341
Commission Savings	Savings *	-	-	14,833	-	14,833	-	14,833
Total amount of deposit in bank		1,152,533	227,917	83,174	32,013	1,495,637	(7,776)	1,487,861
FDIC coverage		(250,000)	(227,917)	(83,174)	(32,013)	(593,104)		
Total uninsured public funds		902,533	-	-	-	902,533		
50% Collateral Requirement (Section 6-10-17 NMSA 1978)		451,267	-	-	-	451,267		
			Pledged					
			Market Value					
Description	Maturity - CUSIP							
Pledged Security At:								
FHLMC	06/20/16 - #3134G3DC	602,718	-	-	-	602,718		
Subtotal - Collateral		602,718	-	-	-	602,718		
Amount over/(under) collateralized		\$ 151,451	-	-	-	151,451		
Total book balance								\$ <u>1,487,861</u>

* Denotes interest bearing account

CUMBRES AND TOLTEC SCENIC RAILROAD COMMISSION
SCHEDULE OF SPECIAL, DEFICIENCY, SPECIFIC AND CAPITAL OUTLAY APPROPRIATIONS
For the Year Ended June 30, 2012

<u>Description</u>	<u>Grant #</u>	<u>Appropriation Period</u>	<u>Original Appropriation</u>	<u>Expend- itures To Date</u>	<u>Unencumb- ered Balances</u>
Special, Deficiency, Specific and Capital Outlay Appropriations					
New Mexico					
Chap 4, Laws 2010, Section 6 - Track Rehab	A10-1281	07/01/2010 - 06/30/2014	\$ 400,000	364,505	35,495
Chap 5, Laws 2011, Section 7.1 - Track Upgrades	A11-1292	07/01/2011 - 06/30/2016	1,000,000	30,816	969,184
Chap 5, Laws 2011, Section 7.2 - Boiler Rehab	A11-1293	07/01/2011 - 06/30/2016	500,000	-	500,000
Total severance tax bonds outstanding			<u>1,900,000</u>	<u>395,321</u>	<u>1,504,679</u>
Colorado					
Chama Deport Elec/HVAC	M-10005	06/29/2010 - 06/30/2013	100,600	8,310	92,290
Antonito Electric	M-11008	07/01/2011 - 06/30/2014	86,000	-	86,000
Track Upgrade Project	P-0633	07/01/2011 - 06/30/2014	200,000	46,977	153,023
Colorado ARRA - APPR 936, Fund ARG	N/A	05-19/2010 - 09/30/2011	1,600,500	1,600,500	-
Total appropriations			<u>1,987,100</u>	<u>1,655,787</u>	<u>331,313</u>
Total Amounts			<u>\$ 3,887,100</u>	<u>2,051,108</u>	<u>1,835,992</u>

*Revenue associated with severance tax bonds is recognized when eligibility requirements are met.

All unencumbered balances may be used during the appropriation period noted above.

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

Board of Commissioners of
Cumbres & Toltec Scenic Railroad Commission
Antonito, CO
and
Mr. Hector H. Balderas, New Mexico State Auditor

We have audited the financial statements of the business-type activities of the Cumbres & Toltec Scenic Railroad Commission (the Commission) as of and for the year ended June 30, 2012, and the budget comparison schedules for the year ended June 30, 2012 presented as supplementary information, which collectively comprise the Commission's basic financial statements and have issued our report thereon dated October 19, 2012. 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.

Internal Control over Financial Reporting

Management of the Commission, is responsible for establishing and maintaining effective internal control over financial reporting. In planning and performing our audit, we considered the Commission's internal control over financial reporting as a basis for designing our auditing procedures for the purpose of expressing our opinions on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the Commission's internal control over financial reporting. Accordingly, we do not express an opinion on the effectiveness of the Commission's internal control over financial reporting.

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.

Our consideration of internal control over financial reporting was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control over financial reporting that might be deficiencies, significant deficiencies, or material weaknesses. We did not identify any deficiencies in internal control over financial reporting that we consider to be material weaknesses, as defined above.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether the Commission's financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial 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 no instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards*.

This report is intended solely for the information and use of management, of the Commission, others within the agency, the New Mexico State Auditor, the New Mexico Legislature, the New Mexico Department of Finance and Administration and federal awarding agencies and pass-through entities and is not intended to be and should not be used by anyone other than these specified parties.



Hinkle + Landers, P.C.
October 19, 2012

CUMBRES & TOLTEC SCENIC RAILROAD COMMISSION
Schedule of Findings and Reponses
For the Year Ended June 30, 2012

PRIOR YEAR FINDINGS

NONE

CURRENT YEAR FINDINGS

NONE

CUMBRES & TOLTEC SCENIC RAILROAD COMMISSION

Other Disclosures

For the Year Ended June 30, 2012

An exit conference was held in a closed session on October 19, 2012, at the Commission's offices in Antonito, Colorado. In attendance were the following:

Representing the Commission:

Randy Randall
Leo Schmitz

Commission Chairman
Executive Director

Representing Hinkle + Landers, PC:

Erick Robinson, CPA, CFE
Steve Nolan

Shareholder
Audit Senior

FINANCIAL STATEMENTS

The financial statements of the Commission as of June 30, 2012, were substantially prepared by Hinkle + Landers, PC; however, the financial statements are the responsibility of management.