



HINKLE + LANDERS

Certified Public Accountants + Business Consultants

**CUMBRES & TOLTEC
SCENIC RAILROAD
COMMISSION**

Financial Statements

For The Year Ended June 30, 2014

**STATE OF NEW MEXICO
CUMBRES & TOLTEC SCENIC RAILROAD COMMISSION
Independent Auditor's Report
And
Financial Statements**

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**STATE OF NEW MEXICO
CUMBRES & TOLTEC SCENIC RAILROAD COMMISSION
Independent Auditor's Report
And
Financial Statements**

**OFFICIAL ROSTER
As of June 30, 2014**

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

Administration	
Name	Title
John Bush	President
George Canham	Finance Manager

INDEPENDENT AUDITOR'S REPORT

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

Report on Financial Statements

We have audited the accompanying 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, 2014, and the related notes to the financial statements which collectively comprise the Commission's basic financial statements as listed in the table of contents. We have also audited the budgetary comparison statements presented as supplementary information, as defined by the *Governmental Accounting Standards Board*, as of and for the year ended June 30, 2014, 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 misstatements, whether due to fraud or error.

Auditor's 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 basic financial statements are free of 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 Commission as of June 30, 2014, and the respective changes in financial

position and cash flows thereof for the year then ended in accordance with accounting principles generally accepted in the United States of America. In addition, in our opinion, the budget comparison statements referred to above present fairly, in all material respects of the Commission for the year ended June 30, 2014, 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 as listed in the table of contents 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.

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 and the budgetary comparisons. The additional schedules listed as "other supplementary information" in the table of contents are presented for purposes of additional analysis and are not a required part of the financial statements.

The additional schedules listed as "other supplementary information" in the table of contents 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.

Other Reporting Required by Government Auditing Standards

In accordance with *Government Auditing Standards*, we have also issued our report dated December 12, 2014, 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 in considering the Commission's internal control over financial reporting and compliance.



Hinkle + Landers, P.C.
Albuquerque, NM
December 12, 2014

**STATE OF NEW MEXICO
CUMBRES & TOLTEC SCENIC RAILROAD COMMISSION
MANAGEMENT DISCUSSION & ANALYSIS (UNAUDITED)
For The Year Ended June 30, 2014**

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

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

		<u>2014</u>	<u>2013</u>	<u># Change</u>	<u>% Change</u>
Ticket revenue	\$	3,333,891	2,985,565	348,326	12%
Ridership		34,503	32,081	2,422	8%
Avg price per rider	\$	96.63	93.06	3.56	4%

- The Commission's financial position, as a whole, increased \$773,283 during the year ended June 30, 2014.
- The Commission received revenue from the State of Colorado and the State of New Mexico totaling \$1,876,837 during the fiscal year.
- A major Track Upgrade Project is underway with funding from the both States. The project is approximately sixty percent complete. Railroad management 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. A 1472-Day Boiler inspection and renovation was completed on the boiler of locomotive #484. Rehabilitation work was accomplished on several locomotive running gears.
- A Marketing Manager was hired in September of 2013, a plan was laid out to increase ridership to 40,000 in the 2014 season. This plan focused on the power of a new website, and drawing in children and their parents. That manager departed before the start of the season.
- Beginning in June of 2013 there was a major “tent caterpillar” outbreak between Chama and the top of Cumbres Pass. As a result there were delays and the need to run additional double headed trains. The Aspen trees were largely stripped of their leaves and the fall color season was affected as a result.
- A regularly scheduled dinner train was offered in 2013. Eight dinner trains were operated between July 4th and August 31, 2013. These trains provided service for 614 customers.
- Three small production movies were filmed on the railroad on August 17th, August 25th, and October 17th. The result was an increase in revenue of \$20,250.
- Ridership improved across all the products but growth in the Tourist and Parlor class improved more than in the regular Coach class.

STATE OF NEW MEXICO
CUMBRES & TOLTEC SCENIC RAILROAD COMMISSION
MANAGEMENT DISCUSSION & ANALYSIS (UNAUDITED)
For The Year Ended June 30, 2014

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 Position, a Statement of Revenues, Expenses and Changes in Fund Net position, 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 Position* presents information on all of Cumbres & Toltec Scenic Railroad Commission's assets and liabilities, with the difference between the two 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 Revenues, Expenses and Changes in Fund Net Position* presents information showing how the government's net position changed during the most recent fiscal year. All changes in net position 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. (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 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 as listed in the table of contents of this report.

Statements of Net Position and Revenue, Expenses and Changes in Net Position

The following tables summarizes the net position of the Commission for the fiscal year ended June 30, 2014, with comparative balances for the fiscal years ended June 30, 2013 as well as the Statement of Revenue, Expenses and Changes in Net Position.

STATE OF NEW MEXICO
CUMBRES & TOLTEC SCENIC RAILROAD COMMISSION
MANAGEMENT DISCUSSION & ANALYSIS (UNAUDITED)
For The Year Ended June 30, 2014

Comparative Analysis of Statement of Net Position

	<u>2014</u>	<u>2013</u>	<u>\$ Change</u>	<u>% Change</u>
Assets				
Current and other assets	\$ 1,953,436	2,076,472	(123,036)	-6%
Capital assets, net of accumulated depreciation	<u>14,216,652</u>	<u>13,304,281</u>	<u>912,371</u>	<u>7%</u>
Total Assets	<u>\$ 16,170,088</u>	<u>15,380,753</u>	<u>789,335</u>	<u>5%</u>
Liabilities				
Current Liabilities	\$ 1,123,958	1,110,392	13,566	1%
Noncurrent Liabilities	<u>7,545</u>	<u>5,059</u>	<u>2,486</u>	<u>49%</u>
Total Liabilities	<u>1,131,503</u>	<u>1,115,451</u>	<u>16,052</u>	<u>1%</u>
Net Position				
Net investment in capital assets	14,216,652	13,304,281	912,371	7%
Temporarily Restricted	73,907	73,907	-	0%
Unrestricted	<u>748,026</u>	<u>887,114</u>	<u>(139,088)</u>	<u>-16%</u>
Total Net Position	<u>15,038,585</u>	<u>14,265,302</u>	<u>773,283</u>	<u>5%</u>
Total Liabilities and Net Position	<u>\$ 16,170,088</u>	<u>15,380,753</u>	<u>789,335</u>	<u>5%</u>

Comparative Analysis of Statement of Revenue, Expenses and Changes in Net Position

	<u>2014</u>	<u>2013</u>	<u>\$ Change</u>	<u>% Change</u>
Revenues				
Operating revenues:				
Charges for services	\$ 3,333,891	2,985,565	348,326	12%
Non-Operating revenues:				
Appropriations	1,876,837	2,392,859	(516,022)	-22%
Grants and contributions	61,250	230,834	(169,584)	-73%
Miscellaneous revenue	138,185	229,073	(90,888)	-40%
Unrestricted investment earnings	<u>2,798</u>	<u>4,241</u>	<u>(1,443)</u>	<u>-34%</u>
Total Revenues	<u>5,412,961</u>	<u>5,842,572</u>	<u>(92,331)</u>	<u>-2%</u>
Expenses				
General government	<u>4,639,678</u>	<u>4,732,222</u>	<u>(92,544)</u>	<u>-2%</u>
Change in net position	<u>773,283</u>	<u>1,110,350</u>	<u>(337,067)</u>	<u>-30%</u>
Net position beginning of year	<u>14,265,302</u>	<u>13,154,952</u>	<u>1,110,350</u>	<u>8%</u>
Net position end of year	<u>\$ 15,038,585</u>	<u>14,265,302</u>	<u>773,283</u>	<u>5%</u>

Business-type activities increased the Commission's net position by \$773,283. The key elements of this increase were reduced expenditures for infrastructure improvements, compared to the amount of depreciation.

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.

**STATE OF NEW MEXICO
CUMBRES & TOLTEC SCENIC RAILROAD COMMISSION
MANAGEMENT DISCUSSION & ANALYSIS (UNAUDITED)
For The Year Ended June 30, 2014**

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 departments: General fund, Capital Projects fund, Historical Preservation fund.

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.

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 may differ from the original budget due to budget increases and decreases that were made during the fiscal year. The budget had no differences for the year ended June 30, 2014 the budget to actual expenditures are as follows:

		Original Budgets	Final Budgets	Actual	Variance
Train Operations	\$	3,159,442	3,159,442	3,095,861	63,581
Administration		227,950	227,950	352,616	(124,666)
Capital Projects Fund		3,307,750	3,307,750	1,997,734	1,310,016
Historical Preservation		-	-	80,764	(80,764)
	\$	<u>6,695,142</u>	<u>6,695,142</u>	<u>5,526,975</u>	<u>1,168,167</u>

Economic Outlook and Cumbres & Toltec Scenic Railroad Commission Future

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. 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 561
Antonito, CO 81120
(719) 376-5488

**STATE OF NEW MEXICO
CUMBRES AND TOLTEC SCENIC RAILROAD COMMISSION
STATEMENT OF NET POSITION-PROPRIETARY FUND
As of June 30, 2014**

	Business-type Activities
ASSETS	
Current Assets	
Cash and cash equivalents	\$ 707,978
Receivables	932,055
Prepaid expenses	35,602
Inventory	272,801
Total Current Assets	1,948,436
Non-Current Assets	
Copyright	5,000
Capital Assets, net of accumulated depreciation	14,216,652
Total Assets	\$ 16,170,088
LIABILITIES AND NET POSITION	
LIABILITIES	
Current Liabilities	
Accounts payable	\$ 368,790
Payroll related liabilities	33,687
Unearned revenue	691,301
Compensated absences - current portion	30,180
Total Current Liabilities	1,123,958
Non-Current Liabilities	
Compensated absences - non-current portion	7,545
Total Liabilities	1,131,503
NET POSITION	
Net investment in capital assets	14,216,652
Restricted for:	
Capital projects	73,907
Unrestricted, undesignated	748,026
Total Net Position	15,038,585
Total Liabilities and Net Position	\$ 16,170,088

SEE INDEPENDENT AUDITOR'S REPORT
The accompanying notes are an integral part of these financial statements.

**STATE OF NEW MEXICO
CUMBRES AND TOLTEC SCENIC RAILROAD COMMISSION
STATEMENT OF REVENUE, EXPENSES AND CHANGES IN NET POSITION-
PROPRIETARY FUND
For the Year Ended June 30, 2014**

	Business-type Activities
OPERATING REVENUES	
Charges for services (program revenues)	\$ 3,333,891
Total operating revenues	3,333,891
 OPERATING EXPENSES	
Payroll and payroll related expenses	1,211,772
Licensed special events	29,744
Maintenance	140,921
Train supplies and services	226,625
Vehicle and equipment fleet	270,733
Meal service	327,886
Advertising	350,363
Utilities	125,408
Insurance	212,884
Administrative expenses	236,705
Contract services	145,862
Depreciation	1,360,775
Total operating expenses	4,639,678
 Operating Income (Loss)	 (1,305,787)
NON-OPERATING REVENUES (EXPENSES)	
Colorado Appropriations - Operating	205,000
Colorado Appropriations - Capital	756,075
New Mexico Appropriations - Operating	98,700
New Mexico Appropriations - Capital	817,062
Grants	58,005
Contributions	3,245
Other income	138,185
Interest income	2,798
Total non-operating revenues (expenses)	2,079,070
 Change in net position	 773,283
 Net position, beginning of year	 14,265,302
Net position, end of year	\$ 15,038,585

SEE INDEPENDENT AUDITOR'S REPORT
The accompanying notes are an integral part of these financial statements.

**STATE OF NEW MEXICO
CUMBRES AND TOLTEC SCENIC RAILROAD COMMISSION
STATEMENT OF CASH FLOWS-PROPRIETARY FUND
For the Year Ended June 30, 2014**

	Business-type Activities
CASH FLOWS FROM OPERATING ACTIVITIES:	
Receipts from customers and users	\$ 3,519,652
Payments to employees	(1,286,439)
Payments to suppliers	(2,292,596)
Net cash provided (used) by operating activities	(59,383)
CASH FLOWS FROM NON-CAPITAL FINANCING ACTIVITIES:	
Receipts from state appropriations	303,700
Receipts from grants and contributions	17,135
Receipts from miscellaneous income	138,185
Net cash provided by (used for) noncapital financing activities	459,020
CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES:	
Receipts from capital appropriations	1,573,137
Receipts from capital grants	44,115
Payments for acquisition of capital assets and other assets	(2,273,147)
Net cash provided by (used for) capital and related financing activities	(655,895)
CASH FLOWS FROM INVESTING ACTIVITIES:	
Cash received from interest on cash and cash equivalents	2,798
Net cash provided by (used for) investing activities	2,798
Net increase (decrease) in cash and cash equivalents	(253,460)
Cash and cash equivalents, beginning of year	961,438
Cash and cash equivalents at end of year	\$ 707,978
Reconciliation of operating loss to net cash used in operating activities	
Operating income/(loss)	\$ (1,305,787)
Adjustments to reconcile increases in net assets to cash provided by operating activities:	
Depreciation expense	1,360,775
Contributions restricted for long term purposes	-
Change in assets and liabilities:	
Receivables	44,012
Inventory	(169,110)
Prepaid expenses	(5,326)
Accounts payables	(51,029)
Payroll related liabilities	(87,100)
Unearned revenue	141,749
Compensated absences	12,433
Net cash used by operating activities	\$ (59,383)

SEE INDEPENDENT AUDITOR'S 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, 2014

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.

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,

STATE OF NEW MEXICO
CUMBRES & TOLTEC SCENIC RAILROAD COMMISSION
NOTES TO THE FINANCIAL STATEMENTS
For The Year Ended June 30, 2014

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.

Related Entities

Cumbres Toltec Operating, LLC (CTO LLC) was formed in 2011 under the New Mexico Limited Liability Company Act to administer the payroll functions 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 each entity is identical, and Cumbres and Toltec Scenic Railroad Commission (C&TSRRC) is the sole member of CTO LLC. Activity for CTO LLC is reported in the Operating Fund of the C&TSRRC.

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

STATE OF NEW MEXICO
CUMBRES & TOLTEC SCENIC RAILROAD COMMISSION
NOTES TO THE FINANCIAL STATEMENTS
For The Year Ended June 30, 2014

locomotives 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 each entity is identical, and Cumbres and Toltec Scenic Railroad Commission (C&TSRRC) is the sole member of HPA LLC. Activity for HPA LLC is reported in the Historic Preservation Fund of the C&TSRRC.

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.

Consideration of 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, 39 and 61, it was determined that The Friends of the Cumbres & Toltec Scenic Railroad should not be a discretely presented component unit of Cumbres & Toltec Scenic Railroad Commission.

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 Position, a Statement of Revenues, Expenses and Changes in Fund Net position, 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 position. The Statement of Revenues, Expenses and Changes in Fund Net position present increases (revenues) and decreases (expenses) in total net position. 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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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.

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) Department budgets for train operations, administration, historic preservation 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 fund 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, 2014.

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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, are depreciated using the straight-line method over the following estimated useful lives in years:

<u>Classification</u>	<u>Primary Government</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

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 position to unrestricted net position at that time.

H. Inventories

Inventory-retail consists of food and beverage, souvenirs and various other amenities which are stated at the lower of cost (FIFO) or market value.

Inventory-parts consist 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.

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I. Compensated Absences

Employees may accumulate paid time off (PTO) up to the total number of hours an employee would accrued during a one year (26 payperiods) period. When an employee leaves employment (regardless of reason) the balance of accumulated PTO is paid out at 70% of the remaining balance. For employees terminated for cause, no accrued PTO is paid out. The Commission accrues the PTO liability when earned by the employee. The PTO liability has been calculated at year-end and adjusted to current salary levels.

Effective April 2, 2013, 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>
0 - 3	4 weeks
4 - 9	5 weeks
10 - 19	6 weeks
20 +	7 weeks

Employee's PTO year coincides with their respective date of hire. Regular full-time employees will begin accruing PTO at 6.154 hours per pay-period (4 weeks = 160 hours /26 pay-periods) and any regular full-time employee in a salaried/exempt position will begin accruing PTO at 7.692 hours per pay-period (5 weeks = 200 hours/26 pay-periods). PTO will not be paid out in lieu of taking the time off.

J. Net Position or Fund Equity

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

- 1) Investment in Capital Assets (net of related debt) – Is intended to reflect the portion of net positions 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, 2014.
- 2) Restricted net position – Consist of net position 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 position – Consist of assets less liabilities after the amount investment in capital assets and any restricted and designated net position have been subtracted.

The statement of net position reports \$70,407 of net position restricted by enabling legislation. All the restricted net position is 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,

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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 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. Unearned Revenue

Unearned revenue consists of advanced ticket deposits for future rides on the train. As of June 30, 2014, 100% of the unearned revenue is considered to be redeemable in the future, i.e. able to be earned.

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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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, 2014.

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:

		2014
Operating	\$	473,061
Capital projects		11,725
Commission		23,822
Historical Preservation		199,370
Total	\$	707,978

A complete list of cash accounts along with applicable collateralization can be found as listed in the table of contents.

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.

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At June 30, 2014 the Commission was exposed to custodial credit risk as follows:

Insured by depository insurance	\$	721,695
Uninsured, collateral held by the pledging banks, but not in the name of the Commission		173,908
Uninsured and uncollateralized		-
	\$	<u><u>895,603</u></u>

NOTE 4—RECEIVABLES

Receivables at June 30, 2014 consist of the following:

Type		2014
Operations		
Ticket Revenue Clearing	\$	97,294
Toltec Caterer - Advance		7,000
Capital improvements		
Capital grants and appropriations		827,761
Total	\$	<u><u>932,055</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. There were no deferred revenues related to grants. Total unearned revenue at June 30, 2014 was \$691,301.

NOTE 5—RESTRICTED NET POSITION

In the Statement of Net Position \$73,907 of the equity of net position is reported as restricted for capital outlay.

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STATE OF NEW MEXICO
CUMBRES & TOLTEC SCENIC RAILROAD COMMISSION
NOTES TO THE FINANCIAL STATEMENTS
For The Year Ended June 30, 2014

NOTE 6—CAPITAL ASSETS

Capital assets activity for the year ended June 30, 2014 was as follows:

Business Type Activities	Balance				Balance
Capital assets not being depreciated:	2013	Additions	Deletions	Transfers	2014
Land	\$ -	100,087	-	-	100,087
Construction in progress	183,931	78,182	-	(183,931)	78,182
Total capital assets not being depreciated	183,931	178,269	-	(183,931)	178,269
Capital assets being depreciated:					
Buildings and rail yards	4,976,571	389,481	-	534,832	5,900,885
Tools & Equipment	-	37,292	-	529,155	566,447
Vehicles - Highway	-	27,800	-	124,777	152,577
Vehicles - Track & Equipment	-	15,900	-	323,496	339,396
Office Equipment	-	18,825	-	12,779	31,604
Track line, track line improvements and substructures	13,001,238	779,863	-	(293,305)	13,487,796
Steam engines, rolling stock and equipment	9,811,775	825,715	-	(990,207)	9,647,283
Total capital assets being depreciated	27,789,584	2,094,877	-	241,527	30,125,988
Total capital assets	27,973,515	2,273,146	-	57,596	30,304,257
Less accumulated depreciation for:					
Buildings and rail yards	(3,282,106)	(100,038)	-	(293,935)	(3,676,079)
Tools & Equipment	-	(48,609)	-	(380,168)	(428,777)
Vehicles - Highway	-	(21,217)	-	(102,490)	(123,707)
Vehicles - Track & Equipment	-	(27,358)	-	(250,739)	(278,097)
Office Equipment	-	(4,563)	-	(1,547)	(6,110)
Track line, track line improvements and substructures	(5,730,731)	(638,994)	-	293,276	(6,076,449)
Steam engines, rolling stock and equipment	(5,656,397)	(519,997)	-	678,007	(5,498,387)
Total accumulated depreciation	(14,669,234)	(1,360,775)	-	(57,596)	(16,087,605)
Total capital assets being depreciated	13,120,350	734,101	-	183,931	14,038,383
Capital assets, net	\$ 13,304,281	912,370	-	0	14,216,652

Depreciation expense for the year ended June 30, 2014 was \$1,360,775 and was charged to train operations.

Construction in progress consists of upgrades and improvements to various Commission assets.

**STATE OF NEW MEXICO
CUMBRES & TOLTEC SCENIC RAILROAD COMMISSION
NOTES TO THE FINANCIAL STATEMENTS
For The Year Ended June 30, 2014**

NOTE 7—COMPENSATED ABSENCES

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

	<u>Balance</u> <u>2013</u>	<u>Additions</u>	<u>Deletions</u>	<u>Balance</u> <u>2014</u>	<u>Due</u> <u>Within</u> <u>One Year</u>
Compensated absences	\$ 25,293	54,237	(41,805)	37,725	30,180

NOTE 8—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 of the three prior years.

NOTE 9—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, 2014.

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, 2014, 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 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 10—DEFERRED OUTFLOWS/INFLOWS OF RESOURCES

In addition to assets, the statement of net position will sometimes report a separate section for deferred outflows of resources. This separate financial statement element, Deferred Outflows of Resources, represents a consumption of net position that applies to a future period and so will not be recognized as an expense or expenditure until then. In addition to liabilities, the statement of net position will sometimes report a separate section for deferred inflows of resources. This separate financial statement element, Deferred Inflows of Resources, represents an acquisition of

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NOTES TO THE FINANCIAL STATEMENTS
For The Year Ended June 30, 2014

net position that applies to a future period and so will not be recognized until then. The Commission did not have any deferred outflows or inflows of resources for the year ended June 30, 2014. Resources received in advance of an exchange transaction are not considered a deferred inflow of resources but rather are recorded as unearned revenue.

NOTE 11—EVALUATION OF 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 December 12, 2014, the date the financial statements were available to be issued.

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CUMBRES AND TOLTEC SCENIC RAILROAD COMMISSION
TRAIN OPERATIONS
STATEMENT OF REVENUE, EXPENSES AND CHANGES IN NET POSITION
BUDGET (NON-GAAP BUDGET BASIS) AND ACTUAL
For the Year Ended June 30, 2014

	<u>Original</u>	<u>Final</u>	<u>Actual</u>	<u>Variance</u>
OPERATING REVENUES				
Charges for services (program revenues) \$	<u>3,405,140</u>	<u>3,405,140</u>	<u>3,299,398</u>	<u>(105,742)</u>
Total operating revenues	3,405,140	3,405,140	3,299,398	(105,742)
OPERATING EXPENSES				
Train operations:				
Payroll expenses	1,115,131	1,115,131	1,326,994	(211,863)
Licensed special events	68,379	68,379	29,744	38,635
Maintenance and repairs	100,000	100,000	136,176	(36,176)
Train supplies	239,260	239,260	226,625	12,635
Contract services	67,000	67,000	97,894	(30,894)
Vehicle and equipment fleet	315,000	315,000	270,733	44,267
Meal service	350,000	350,000	327,886	22,114
Advertising and marketing	441,000	441,000	350,363	90,637
Utilities	109,377	109,377	119,501	(10,124)
Liability and property insurance	200,746	200,746	48,803	151,943
General expenses	<u>153,549</u>	<u>153,549</u>	<u>161,142</u>	<u>(7,593)</u>
Total operating expenses	<u>3,159,442</u>	<u>3,159,442</u>	<u>3,095,861</u>	<u>63,581</u>
Operating Income/(Loss)	245,698	245,698	203,537	(42,161)
NON-OPERATING REVENUES/(EXPENSES)				
Appropriations	-	-	-	-
Contributions	-	-	1,195	1,195
Grants	-	-	-	-
Capital outlay	-	-	-	-
Other revenue	(240,434)	(240,434)	(20,996)	219,438
Interest income	<u>6,500</u>	<u>6,500</u>	<u>1,488</u>	<u>(5,012)</u>
Total non-operating revenues/(expenses)	<u>(233,934)</u>	<u>(233,934)</u>	<u>(18,313)</u>	<u>215,621</u>
Change in net position	<u>\$ 11,764</u>	<u>11,764</u>	<u>185,224</u>	<u>173,460</u>
Designated fund balance	<u>\$ 14,265,302</u>	<u>14,265,302</u>	<u>14,265,302</u>	

STATE OF NEW MEXICO
CUMBRES AND TOLTEC SCENIC RAILROAD COMMISSION
ADMINISTRATION
STATEMENT OF REVENUE, EXPENSES AND CHANGES IN NET POSITION
BUDGET (NON-GAAP BUDGET BASIS) AND ACTUAL
For the Year Ended June 30, 2014

	<u>Original</u>	<u>Final</u>	<u>Actual</u>	<u>Variance</u>
OPERATING REVENUES				
Charges for services (program revenues) \$	32,000	32,000	34,493	2,493
Total operating revenues	<u>32,000</u>	<u>32,000</u>	<u>34,493</u>	<u>2,493</u>
OPERATING EXPENSES				
Administration:				
Commission Member Travel	8,000	8,000	-	8,000
Employee Travel	3,000	3,000	-	3,000
Legal Fees	1,000	1,000	-	1,000
Audit Fees	17,000	17,000	18,832	(1,832)
Utilities	10,320	10,320	5,907	4,413
Office and Admin	14,970	14,970	200,567	(185,597)
Payroll Expenses	120,000	120,000	92,721	27,279
Payroll taxes	27,960	27,960	9,600	18,360
Contract Services	25,700	25,700	24,989	711
Total operating expenses	<u>227,950</u>	<u>227,950</u>	<u>352,616</u>	<u>(124,666)</u>
Operating Income/(Loss)	(195,950)	(195,950)	(318,123)	(122,173)
NON-OPERATING REVENUES/(EXPENSES)				
Appropriations	303,700	303,700	303,700	-
Contributions	-	-	1,300	1,300
Grants	150,000	150,000	49,390	(100,610)
Capital outlay	(322,000)	(322,000)	(60,929)	261,071
Other revenue	68,200	68,200	-	(68,200)
Interest income	250	250	72	(178)
Total non-operating revenues/(expenses)	<u>200,150</u>	<u>200,150</u>	<u>293,533</u>	<u>93,383</u>
Change in net position	<u>\$ 4,200</u>	<u>4,200</u>	<u>(24,590)</u>	<u>(28,790)</u>
Designated fund balance	<u>\$ 14,265,302</u>	<u>14,265,302</u>	<u>14,265,302</u>	

STATE OF NEW MEXICO
CUMBRES AND TOLTEC SCENIC RAILROAD COMMISSION
CAPITAL PROJECTS
STATEMENT OF REVENUE, EXPENSES AND CHANGES IN NET POSITION
BUDGET (NON-GAAP BUDGET BASIS) AND ACTUAL
For the Year Ended June 30, 2014

	<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	1,397,774	1,397,774	854,289	543,485
Cumbres Development	33,624	33,624	16,473	17,151
Chama Depot Improvements	300,000	300,000	293,850	6,150
Antonito Depot Improvements	156,215	156,215	89,020	67,195
Contingency	-	-	4,804	(4,804)
Locomotive Boiler/Running Gear Rehal	820,137	820,137	304,342	515,795
Passenger Car Rehab	600,000	600,000	434,956	165,044
Total Operating Expenses	<u>3,307,750</u>	<u>3,307,750</u>	<u>1,997,734</u>	<u>1,310,016</u>
Operating Income/(Loss)	(3,307,750)	(3,307,750)	(1,997,734)	1,310,016
NON-OPERATING REVENUES(EXPENSES)				
Appropriations	3,257,911	3,257,911	1,573,137	(1,684,774)
Contributions	-	-	250	250
Grants	54,839	54,839	8,615	(46,224)
Capital outlay	-	-	-	-
Other revenue	5,000	5,000	14,352	9,352
Interest income	500	500	701	201
Total non-operating revenues(expenses)	<u>3,318,250</u>	<u>3,318,250</u>	<u>1,597,055</u>	<u>(1,721,195)</u>
Change in net position	<u>\$ 10,500</u>	<u>10,500</u>	<u>(400,679)</u>	<u>(411,179)</u>
Designated fund balance	<u>\$ 14,265,302</u>	<u>14,265,302</u>	<u>14,265,302</u>	

**STATE OF NEW MEXICO
CUMBRES AND TOLTEC SCENIC RAILROAD COMMISSION
HISTORIC PRESERVATION
STATEMENT OF REVENUE, EXPENSES AND CHANGES IN NET POSITION
BUDGET (NON-GAAP BUDGET BASIS) AND ACTUAL
For the Year Ended June 30, 2014**

	<u>Original</u>	<u>Final</u>	<u>Actual</u>	<u>Variance</u>
OPERATING REVENUES				
Charges for services (program revenues) \$	143,598	143,598	126,409	(17,189)
Total operating revenues	<u>143,598</u>	<u>143,598</u>	<u>126,409</u>	<u>(17,189)</u>
OPERATING EXPENSES				
Historical Preservation:				
Payroll expenses	-	-	61	(61)
Contract services	-	-	80,703	(80,703)
Total operating expenses	<u>-</u>	<u>-</u>	<u>80,764</u>	<u>(80,764)</u>
Operating Income/(Loss)	<u>143,598</u>	<u>143,598</u>	<u>45,645</u>	<u>(97,953)</u>
NON-OPERATING REVENUES(EXPENSES)				
Contributions	1,000	1,000	500	(500)
Grants	42,000	42,000	14,000	(28,000)
Capital outlay	(54,000)	(54,000)	(21,740)	32,260
Other revenue	500	500	4,420	3,920
Interest income	<u>500</u>	<u>500</u>	<u>537</u>	<u>37</u>
Total non-operating revenues(expenses)	<u>(10,000)</u>	<u>(10,000)</u>	<u>(2,283)</u>	<u>7,717</u>
Change in net position	<u>\$ 133,598</u>	<u>133,598</u>	<u>43,362</u>	<u>(90,236)</u>
Designated fund balance	<u>\$ 14,265,302</u>	<u>14,265,302</u>	<u>14,265,302</u>	

**STATE OF NEW MEXICO
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, 2014**

	<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	\$ 185,224	250,339	435,563
Administration	(24,590)	60,929	36,339
Capital projects	(400,679)	1,997,734	1,597,055
Historic preservation	43,362	21,740	65,102
Total before depreciation	<u>\$ (196,683)</u>	<u>2,330,742</u>	2,134,059
Depreciation expense			(1,360,775)
Rounding			<u>(1)</u>
Change in net position			<u>\$ 773,283</u>

**STATE OF NEW MEXICO
CUMBRES AND TOLTEC SCENIC RAILROAD COMMISSION
SCHEDULE OF CASH AND DEPOSITS AND PLEDGED COLLATERAL BY BANK AND ACCOUNT**

As of June 30, 2014

Account Name	Account Type	(New Mexico)	(Colorado)	(Colorado)	(Colorado)	Washington Federal	Bank Balance	Outstanding Items	Book Balance
		Community Bank	Community Banks of Colorado**	1st Southwest Bank**	Alamosa State Bank**				
Alamosa State Bank CO - HPA 1044	Checking *	\$ -	-	-	1,545	-	1,545	-	1,545
Community Bank NM - Commission Ticket 5770	Checking *	202,635	-	-	-	-	202,635	3,825	206,460
Washington Federal - 8853	Checking *	-	-	-	-	142,120	142,120	236	142,356
Community Bank NM - TA 8869	Checking *	284,315	-	-	-	-	284,315	(311,603)	(27,288)
1st Southwest Bank CO - 3199	Checking *	-	-	7,379	-	-	7,379	(72)	7,307
1st Southwest Bank CO - 2453	Savings *	-	-	11,239	-	-	11,239	5,276	16,515
Washington Federal - 1790	Checking*	-	-	-	-	36,764	36,764	574	37,338
1st Southwest Bank CO - 7233	Checking	-	-	88,170	-	-	88,170	(87,540)	630
Community Bank CO - Commission 3710	Savings *	-	2,021	-	-	-	2,021	-	2,021
Alamosa State Bank CO - HPA 4069	Checking*	-	-	-	172,774	-	172,774	25,051	197,825
Community Bank NM - 9040	Savings *	110,866	-	-	-	-	110,866	-	110,866
Community Bank CO - MMKT 9193	Money Market *	-	9,683	-	-	-	9,683	-	9,683
Petty Cash - Operating	Imprest	-	-	-	-	-	2,700	-	2,700
Petty Cash - Capital Project Fund	Imprest	-	-	-	-	-	20	-	20
Total amount of deposits in banks		597,816	11,704	106,788	174,319	178,884	1,072,231	(364,253)	707,978
less FDIC coverage		(250,000)	(11,704)	(106,788)	(174,319)	(178,884)	(721,695)		
Total uninsured public funds		347,816	-	-	-	-	350,536		

50% Collateral Requirement
(Section 6-10-17 NMSA 1978) 173,908

Description	CUSIP#	Pledged Market Value
FNMA Pool, 3.5%, 12/1/2025, \$1,000,000	3138A2CF4	423,698
Subtotal - Collateral		423,698
Amount over/(under) collateralized		\$ 249,790
Total book balance		\$ 707,978

* Denotes interest bearing account

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

**STATE OF NEW MEXICO
CUMBRES AND TOLTEC SCENIC RAILROAD COMMISSION
SCHEDULE OF SPECIAL, DEFICIENCY, SPECIFIC AND CAPITAL OUTLAY APPROPRIATIONS
For the Year Ended June 30, 2014**

<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	400,000	-
Chap 5, Laws 2011, Section 7.1 - Track Upgrades	A11-1292	07/01/2011 - 06/30/2016	1,000,000	900,139	99,861
Chap 5, Laws 2011, Section 7. - Track, Boiler & Passenger Car Upgrades	A13-1249	07/01/2013 - 06/30/2017	850,000	139,827	710,173
Chap 5, Laws 2011, Section 7.2 - Boiler Rehab	A11-1293	07/01/2011 - 06/30/2016	500,000	363,628	136,372
Total severance tax bonds outstanding			<u>2,750,000</u>	<u>1,803,593</u>	<u>946,407</u>
General Fund Appropriation		n/a	<u>300,000</u>	<u>293,401</u>	<u>6,599</u>
Total appropriations			<u>3,050,000</u>	<u>2,096,994</u>	<u>953,006</u>
Colorado					
Chama Depot Elec/HVAC	M-10005	06/29/2010 - 06/30/2013	100,600	100,600	-
Antonito Electric	M-11008	07/01/2011 - 06/30/2014	86,000	83,794	2,206
Track Upgrade Project	P-0633	07/01/2011 - 06/30/2014	200,000	200,000	-
Colorado ARRA - APPR 936, Fund ARG	N/A	05/19/2010 - 09/30/2011	1,600,500	1,600,500	-
Colorado Annual CMS Funding	CMS-47777	07/01/2012 - 06/30/2013	1,020,500	1,020,500	-
Colorado 3-Year Plan Years 2 & 3	CMS-62582	07/01/2013 - 06/30/2016	2,590,000	-	2,590,000
Colorado 3-Year Plan Year 1	CMS-62582	07/01/2013 - 06/30/2016	1,295,000	466,017	828,983
Total appropriations			<u>6,892,600</u>	<u>3,471,411</u>	<u>3,421,189</u>
Total Amounts			<u>\$ 9,942,600</u>	<u>5,568,405</u>	<u>4,374,195</u>

**INDEPENDENT AUDITOR'S 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 of
Cumbres & Toltec Scenic Railroad Commission
Antonito, CO
and

Mr. Hector H. Balderas
New Mexico State Auditor
Office of the State Auditor
Santa Fe, New Mexico

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 the *Government Auditing Standards*, issued by the Comptroller General of the United States, 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, 2014, and the budgetary comparisons for the year ended June 30, 2014 and the related notes to the financial statements, which collectively comprise the Commission's basic financial statements, and the related budgetary comparisons of the Commission, presented as supplemental information, and have issued our report thereon dated December 12, 2014.

Internal Control over Financial Reporting

In planning and performing our audit of the financial statements, we considered the 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 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 significant deficiencies or material weaknesses and therefore, material weaknesses or significant deficiencies may exist that were not identified. However, as described in the accompanying schedule of findings and responses, 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 deficiency described in the accompanying schedule of findings and responses to be a material weakness: 2013-005 [13-05].

**Independent Auditor's 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*,
continued**

December 12, 2014

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 deficiency described in the accompanying schedule of findings and responses to be a significant deficiency: 2013-001 [13-01].

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 an instance of noncompliance or other matter that is required to be reported under *Government Auditing Standards* and which is described in the accompanying schedule of findings and responses as items: 2013-001 [13-01], 2013-002 [13-02], 2014-001.

The Commission's Responses to Findings

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

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 results 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.



Hinkle + Landers, PC
Albuquerque, New Mexico
December 12, 2014

**STATE OF NEW MEXICO
CUMBRES & TOLTEC SCENIC RAILROAD COMMISSION
SCHEDULE OF FINDINGS AND RESPONSES
For the Year Ended June 30, 2014**

SUMMARY OF FINDINGS AND RESPONSES

Reference FY- Finding #	Findings	Status of Current and Prior Year Findings	Type of Finding *
Prior Year Findings:			
2013-001 [13-01]	Controls Over Daily Sales Transactions	Repeated	B, D
2013-002 [13-02]	Controls Over Disbursements	Repeated	C
13-03	Lack of Physical Count for Inventory	Resolved	B
13-04	Audit Report Not Submitted Timely	Resolved	D
2013-005 [13-05]	SAS 115 Material Adjustments by Auditor	Repeated	A
13-06	Capital Asset Tracking	Resolved	B
13-07	Under Collateralized Bank Account	Resolved	D
Current Year Findings:			
2014-001	Violation of Per Diem Act & Mileage Act	Current	C, D

* Legend for Type of Findings

- A. Material Weakness in Internal Control Over Financial Reporting
- B. Significant Deficiency in Internal Control Over Financial Reporting
- C. Other Matters Involving Internal Control Over Financial Reporting
- D. Compliance with State Audit Rule

2013-001[13-01]—Controls Over Daily Sales Transactions

Type of Finding: B, D

Statement of Condition

During testing of transactions, the following control deficiencies were noted related to the daily sales and deposit transactions for train operations:

- For two daily sales transactions of the four days tested, the sales and deposit activities were not reconciled and recorded in the Commission’s financial records timely.
- For four daily sales transactions tested, the sales and deposit activities in the amount of \$2,396 did not contain sufficient supporting documentation.

Alternative procedures were performed to verify actual deposit transactions. Differences between sales and deposit transactions were immaterial to the financial statements.

Criteria

NM State Statute 6-5-2 requires that all state agencies implement internal accounting controls designed to prevent accounting errors and violations of state and federal law and rules related to financial matters. In addition, the Commission has an internal Cash Handling Policy which details the supporting documentation and procedures for end of day balancing.

Cause

The Commission did not maintain adequate records supporting the daily sales and deposit activity for train operations. The Commission has experienced turnover in the management of the train operations and controls and as a result, procedures were not properly managed or followed.

**STATE OF NEW MEXICO
CUMBRES & TOLTEC SCENIC RAILROAD COMMISSION
SCHEDULE OF FINDINGS AND RESPONSES
For the Year Ended June 30, 2014**

Effect

There is an increased possibility of loss or theft of cash receipts and an increased risk of misstatement due to fraud or error.

Recommendation

The Commission should analyze policy and procedures and implement a timely reconciliation of daily sales transactions to deposits activities and recording of the same in the Commission's financial records. The Commission should also ensure that all staff are adequately trained in the policies and procedures.

Management Response

All daily sales are now reconciled and entered on a work paper for use by the accounting staff to enter into the accounting system. The Retail and Reservation managers review the reports submitted by the various staff members to verify that the daily reports are complete. The Finance Manger enters the daily activity into the accounting system (QuickBooks) and reconciles the bank statements in a timely manner in order to prepare monthly Financial Statements for presentation to the President for review and then the Commission by mid-month following the month just completed.

Cash discrepancies are to be entered into a Log and reported to the Finance Manager immediately if any staff member has a discrepancy greater than \$5. The log is to be submitted to the Finance Manager monthly where a track of the discrepancies by personnel is to be maintained.

2013-002[13-02]—Controls Over Disbursements (Modified)

Type of Finding: C

Statement of Condition

During testing of transactions, the following control deficiency was noted related to disbursement testing:

- For four of the thirty-five disbursements tested, there was a lack of documentation for receipt of merchandise in the amount of \$50,257, i.e., receiving report, etc.
- For six of the thirty-five disbursements tested, there was no approved purchase order for purchases in the amount of \$26,005.

Expenses appeared to be proper for business purposes and consistent with other operating expenses.

Criteria

Disbursements should be properly supported by an approved purchase order and a receipt of merchandise.

Cause

The Commission did not maintain adequate records supporting purchasing and receipt of merchandise.

Effect

There is an increased possibility of loss and an increased risk of misstatement due to fraud or error.

Recommendation

**STATE OF NEW MEXICO
CUMBRES & TOLTEC SCENIC RAILROAD COMMISSION
SCHEDULE OF FINDINGS AND RESPONSES
For the Year Ended June 30, 2014**

The Commission should maintain sufficient documentation to support the purchase and receipt of merchandise.

Management Response

All managers are to submit packing slips noted or initialed as received with the invoice for the product ordered. If no packing list is included with the shipment the appropriate manager is to verify the shipment was complete and attests to the by his or her approval signature of the purchase. The signature is required as part of the coding and approval process to complete recording and payment.

2013-005[13-05]—SAS115 Material Adjustments by Auditor

Type of Finding: A

Statement of Condition

Statement of Auditing Standards (SAS) 115 effectively states that an auditor cannot serve as a part of the internal controls of the client. While conducting the audit of the Commission, there were material adjustments made to the financial statements which were identified by the auditor.

Criteria

Some of the key underlying concepts of Statement of Auditing Standards (SAS) 115 are:

- The auditor cannot be part of a client's internal control. Becoming part of a client's internal control impairs the auditor's independence.
- What the auditor does is independent of the client's internal control over financial reporting. Therefore, the auditor cannot be a compensating control for the client.
- A system of internal control over the financial reporting does not stop at the general ledger; rather it includes controls over the preparation of the financial statements.

There were four adjustments recorded in the amount of \$466,842 with a net financial statement impact of (\$41,630). Recording these adjustments is considered a significant process that the client needs to maintain. Also since significant adjustments to the financials were made it calls into question whether the Commission staff has/had the expertise to apply generally accepted accounting principles in recording the entity's financial transactions and/or preparing its financial statements.

Cause

Because these adjustments were identified and/or corrected by the auditor and not by the Commission, it shows an internal control weakness in maintaining the general ledger at the modified accrual level and would potentially extend to the audit report. This significantly increases the potential for misstated financial statements.

Effect

The Commission's personnel and internal control procedures were not effective in identifying and correcting necessary accruals to the general ledger that would have resulted in material misstatement of the financial statements had they not been identified and/or corrected by the auditor.

Recommendation

We recommend that the Commission make adjustments to their general ledger in a timely manner. Asking for technical advice from the auditor or from someone else when these adjustments are needed is not considered a control deficiency as long as the staff of the Commission initiates and makes the

**STATE OF NEW MEXICO
CUMBRES & TOLTEC SCENIC RAILROAD COMMISSION
SCHEDULE OF FINDINGS AND RESPONSES
For the Year Ended June 30, 2014**

adjustment and understands how and why the adjustments were made. We recommend that at year end and in the months directly after year end, the Commission identify those accruals and deferrals necessary to take the books into the modified-accrual basis. This information should be provided to the auditors during the annual audit for further testing.

Management Response

An unfortunate misunderstanding on the part of an accounts payable clerk resulted in the belief that it was essential to record purchase orders as invoices in order to receive funding from Colorado that had been believed to be reverting at 6/30/2014. That funding was in fact not reverting. This is not a normal action on the part of that staffer and should not happen again.

2014-001—Violation of Per Diem Act & Mileage Act

Type of Finding: C, D

Statement of Condition

During testing of transactions, it was noted a New Mexico Commissioner was paid \$57 mileage reimbursement in excess of the amount allowed of \$45 under Per Diem and Mileage Act of the State of New Mexico.

Criteria

Section 2.42.2.11 B. (1) states that public officers and employees of state agencies shall be reimbursed for mileage at 80% of the internal revenue service standard mileage rate.

Effect

The Commission does not appear to be in compliance with the Per Diem and Mileage Act of the State of New Mexico.

Cause

The Commission paid mileage in excess of the amount allowed under the Per Diem and Mileage Act of the State of New Mexico.

Recommendation

The Commission should reimburse mileage for New Mexico Commissioners in compliance with the Per Diem and Mileage Act of the State of New Mexico.

Management Response

The Reimbursement in question was an isolated incident. The Commissioner involved accidentally used the same rate he receives from his place of employment. He only recently began requesting reimbursements after several years on the Commission without requesting any reimbursements at all. The amount in question (\$12) was returned by the Commissioner in his next reimbursement request.

**STATE OF NEW MEXICO
CUMBRES & TOLTEC SCENIC RAILROAD COMMISSION
EXIT CONFERENCE
For the Year Ended June 30, 2014**

An exit conference was held in a closed session on December 12, 2014, at the Commission's offices in Antonito, Colorado. In attendance were the following:

Representing the Commission:

Dan Love	Vice-Chairman
Randy Randall	Secretary
Peter Foster	Treasurer
John Bush	President
George Canham	Finance Manager

Representing Hinkle + Landers, PC:

Farley Vener, CPA, CFE	President
Misty L. Crawford, CPA, CGMA, CFE	Audit Manager

FINANCIAL STATEMENTS

The financial statements of the Commission as of June 30, 2014, were substantially prepared by Hinkle + Landers, PC; however, the financial statements are the responsibility of management.