

CUMBRES & TOLTEC SCENIC RAILROAD COMMISSION

FINANCIAL STATEMENTS

JUNE 30, 2017



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McPherson,
Breyfogle,
Daveline &
Goodrich, PC
Certified Public Accountants

503 N. Main Street, Suite 740

Pueblo, CO 81003

Phone (719) 543-0516

Fax (719) 544-2849

INDEPENDENT AUDITORS' REPORT

Board of Commissioners
Cumbres & Toltec Scenic Railroad Commission
Antonito, CO

We have audited the accompanying financial statements of the governmental activities, the business-type activities and each major fund of the Cumbres & Toltec Scenic Railroad Commission (the Commission) as of and for the year ended June 30, 2017, and the related notes to the financial statements, which collectively comprise the Commission's basic financial statements as listed in the table of contents.

Management's Responsibility for the Financial Statements

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

Auditors' Responsibility

Our responsibility is to express opinions on these financial statements based on our audit. We conducted our audit in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement.

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

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

Opinions

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, the business-type activities and each major fund of the Commission as of June 30, 2017, 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.

Other Matters

Required Supplementary Information

Accounting principles generally accepted in the United States of America require that the management's discussion and analysis on pages 4 – 7 and the Commission (General Fund) – Schedule of Revenues and Expenditures, Budget and Actual on page 30 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.

Supplementary Information

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the Commission's basic financial statements. The budgetary comparison schedule on page 31 is presented for purposes of additional analysis and are not a required part of the basic financial statements.

The budgetary comparison schedule on page 31 is the responsibility of management and was derived from and relates directly to the underlying accounting and other records used to prepare the basic financial statements. Such information has been subjected to the auditing procedures applied in the audit of the basic financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the basic financial statements or to the basic financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the budgetary comparison schedule on page 31 is fairly stated, in all material respects, in relation to the basic financial statements as a whole.

McPherson, Braybogle, Daneline & Goodrich, PC

October 18, 2017

OFFICIAL ROSTER
As of June 30, 2017

Commission

<u>Member</u>	<u>Title</u>
Lucy Kay	Chairman
Billy Elbrock	Vice-Chairman
Richard Cowles	Treasurer
Dan Love	Secretary

Administration

<u>Name</u>	<u>Title</u>
John Bush	President
George Canham	Finance Manager

**CUMBRES & TOLTEC SCENIC RAILROAD COMMISSION
MANAGEMENT’S DISCUSSION AND ANALYSIS
FOR THE YEAR ENDED JUNE 30, 2017**

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>2017</u>	<u>2016</u>	<u>\$ Change</u>	<u>% Change</u>
Ticket Revenue	\$ 3,981,036	\$ 3,711,572	\$ 269,464	7.3%
Ridership	35,992	35,568		1.2%
Average price per rider	\$110.61	\$104.35		6.0%

- The assets of the Commission exceeded its liabilities by \$16,013,958 at the close of the fiscal year. Of this amount, \$1,310,115 may be used to meet the Commission’s ongoing obligations.
- The total assets of the Commission increased by \$900,787 or approximately 5.4%, liabilities increased by \$197,798 or approximately 16.2% when compared to the previous year resulting in a total increase in the net position of \$702,989.
- Total revenues increased by 10.4% from last year.
- Expenses increased by 4.0%.
- The Commission received capital funding from the State of Colorado and the State of New Mexico totaling \$1,691,724 and operating funding of \$330,800 during the fiscal year.

Overview of the Financial Statements

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

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

Government-wide Financial Statements The government-wide financial statements are designed to provide readers with a broad overview of the Commission’s finances, in a manner similar to a private-sector business. The government-wide statements provide short and long-term information about the Commission’s financial status as a whole.

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

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

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

The Commission approved the transfer of the committed fund balance reported in the Commission Fund in the prior year to the Capital Projects Fund. This had a significant impact on the remaining fund balance in the Commission Fund as of June 30, 2017.

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

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

Notes to Financial Statements

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

Government-Wide Statements

The following tables summarize the net position of the Commission for the fiscal year ended June 30, 2017, with comparative balances for the fiscal year ended June 30, 2016, as well as the Statement of Revenue, Expenses and Changes in Net Position.

Comparative Analysis of Statement of Net Position

	Governmental Activities	Business-Type Activities	2017 Total	Governmental Activities	Business-Type Activities	2016 Total	Change
Assets							
Current assets	\$ 561,342	\$ 2,166,233	\$ 2,727,575	\$ 671,738	\$ 1,889,424	\$ 2,561,162	\$ 166,413
Capital assets, net of accumulated depreciation	14,703,843	-	14,703,843	13,969,469	-	13,969,469	734,374
Total Assets	15,265,185	2,166,233	17,431,418	14,641,207	1,889,424	16,530,631	900,787
Liabilities							
Current liabilities	134,003	1,266,878	1,400,881	100,269	1,109,785	1,210,054	190,827
Noncurrent liabilities	3,608	12,971	16,579	1,655	7,953	9,608	6,971
Total Liabilities	137,611	1,279,849	1,417,460	101,924	1,117,738	1,219,662	197,798
Net Position							
Net investment in capital assets	14,703,843	-	14,703,843	13,969,469	-	13,969,469	734,374
Unrestricted	423,731	886,384	1,310,115	569,814	771,686	1,341,500	(31,385)
Total Net Position	15,127,574	886,384	16,013,958	14,539,283	771,686	15,310,969	702,989

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

	Governmental Activities	Business-Type Activities	2017 Total	Governmental Activities	Business-Type Activities	2016 Total	Change
Revenues							
Operating revenues:							
Charges for services	\$ 35,634	\$ 4,149,664	\$ 4,185,298	\$ 52,292	\$ 3,872,182	\$ 3,924,474	\$ 260,824
Non-operating revenues:							
Appropriations	1,870,290	-	1,870,290	1,638,381	-	1,638,381	231,909
Grants and contributions	152,234	8,617	160,851	64,714	13,034	77,748	83,103
Miscellaneous revenue	10,787	956	11,743	-	-	-	11,743
Unrestricted investment earnings	1,054	1,470	2,524	795	1,279	2,074	450
Transfers	97,167	(97,167)	-	-	-	-	-
Total Revenues	2,167,166	4,063,540	6,230,706	1,756,182	3,886,495	5,642,677	588,029
Expenses							
General government / train operations	1,864,295	3,948,843	5,813,138	2,079,711	3,500,391	5,580,102	233,036
Change in net position	302,871	114,697	417,568	(323,529)	386,104	62,575	354,993
Net position beginning of year, as restated	14,824,703	771,687	15,596,390	14,862,812	385,582	15,248,394	347,996
Net position end of year	\$ 15,127,574	\$ 886,384	\$ 16,013,958	\$ 14,539,283	\$ 771,686	\$ 15,310,969	\$ 702,989

Current year activity increased the Commission's net position by \$702,989. The key elements of this increase in Governmental Activities were increases in capital grants and appropriations; increase in Business-Type Activities related to excess preservation ticket revenues.

Major Funds Budgetary Highlights

Commission budgets are prepared for administration (general fund), capital projects, train operations (Cumbres & Toltec Operating, LLC) and historic preservation (Cumbres & Toltec Historic Preservation Association, LLC). To enhance the process of developing a budget at the Commission level, the Commission utilizes goals and objectives defined by the Commission, long-term plans and input from various staff groups to develop the Commission budgets. Commission priorities are well defined during this process. The Commission did not prepare budgets for the capital projects or the historic preservation funds in 2017.

GASB Statement No. 34 only requires a schedule presenting the general fund budget comparison for each year as required supplementary information; however, the remaining major funds budget to actual comparisons are reported as separate schedules and are reported as supplementary information in this report.

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

	<u>Original Budgets</u>	<u>Final Budgets</u>	<u>Actual</u>	<u>Variance</u>
Administration	\$ 331,013	\$ 331,013	\$ 437,909	\$ (106,896)
Capital Projects	-	-	1,880,731	(1,880,731)
Train Operations	3,834,879	3,834,879	4,201,966	(367,087)
Historical Preservation	-	-	37,767	(37,767)
Total	<u>\$ 4,165,892</u>	<u>\$ 4,165,892</u>	<u>\$ 6,558,373</u>	<u>\$ (2,392,481)</u>

Economic Outlook and Cumbres & Toltec Scenic Railroad Commission Future

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

The recession that began in 2008, followed by the trestle fire in 2010, resulted in a significant decline in ridership and revenue. Since the end of the Management Contract model and establishment of the CTO nonprofit LLC that now operates the railroad, the Commission has experienced incremental increases in ridership thanks to the subsequent economic recovery, the offering of additional services, and sustained marketing efforts. The Commission anticipates that continuing growth in ridership/revenue should allow the Commission to not only cover operating expenses but also provide support for the capital needs that have been funded by the states in the past. This operating season the railroad carried 38,016 passengers, an increase of 7% over the last calendar year. An 11% increase in ticket revenue is the result of an increase in demand for premium service cars. The Commission has both a strategic plan and a ten-year rolling operational plan in place to provide clear guidance and transparency.

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

BASIC FINANCIAL STATEMENTS

CUMBRES & TOLTEC SCENIC RAILROAD COMMISSION
STATEMENT OF NET POSITION
JUNE 30, 2017

	<u>Governmental</u> <u>Activities</u>	<u>Business-Type</u> <u>Activities</u>	<u>Total</u>
ASSETS			
Cash and cash equivalents	\$ 357,327	\$ 1,646,098	\$ 2,003,425
Receivables	43,566	23,381	66,947
Due from other governmental agencies	430,560	-	430,560
Prepaid expenses	5,549	37,598	43,147
Internal balances	(275,660)	275,660	-
Inventories	-	183,496	183,496
Capital assets			
Construction in progress	1,266,318	-	1,266,318
Copyright	5,550	-	5,550
Land	100,087	-	100,087
Buildings and railyards	2,147,628	-	2,147,628
Track line, track line improvements and substructs	7,019,484	-	7,019,484
Steam engines, rolling stock and equipment	3,879,256	-	3,879,256
Vehicles, furniture and equipment	285,520	-	285,520
Total capital assets	<u>14,703,843</u>	<u>-</u>	<u>14,703,843</u>
TOTAL ASSETS	<u>15,265,185</u>	<u>2,166,233</u>	<u>17,431,418</u>
LIABILITIES			
Accounts payable and accrued expenses	62,969	283,039	346,008
Unearned revenues	-	930,339	930,339
Accrued compensated absences - current portion	6,100	53,500	59,600
Accrued compensated absences - noncurrent portion	3,608	12,971	16,579
TOTAL LIABILITIES	<u>72,677</u>	<u>1,279,849</u>	<u>1,352,526</u>
DEFERRED INFLOWS OF RESOURCES			
Unearned grant revenue	<u>64,934</u>	<u>-</u>	<u>64,934</u>
NET POSITION			
Net investment in capital assets	14,703,843	-	14,703,843
Unrestricted	<u>423,731</u>	<u>886,384</u>	<u>1,310,115</u>
TOTAL NET POSITION	<u>\$ 15,127,574</u>	<u>\$ 886,384</u>	<u>\$ 16,013,958</u>

The accompanying notes are an integral part of this statement.

CUMBRES & TOLTEC SCENIC RAILROAD COMMISSION
STATEMENT OF ACTIVITIES
YEAR ENDED JUNE 30, 2017

<u>Functions/Programs</u>	<u>Expenses</u>	<u>Program Revenues</u>		
		<u>Charges for Services</u>	<u>Operating Grants and Contributions</u>	<u>Capital Grants and Contributions</u>
Governmental activities				
General and administrative	\$ 1,864,295	\$ 35,634	\$ 330,800	\$ 1,691,724
Total governmental activities	1,864,295	35,634	330,800	1,691,724
Business-type activities				
Cumbres & Toltec Operating, LLC	3,911,076	3,969,936	9,458	-
Cumbres & Toltec Historic Preservation Association, LLC	37,767	179,728	-	-
Total business-type activities	3,948,843	4,149,664	9,458	-
TOTAL	\$ 5,813,138	\$4,185,298	\$ 340,258	\$ 1,691,724

General revenues -
Miscellaneous
Unrestricted investment earnings
Transfers
Total general revenues and transfers

Change in net position
Net position - July 1, as restated
Net position - June 30

The accompanying notes are an integral part of this statement.

Net (Expense) Revenue and Changes in Net Position

<u>Governmental Activities</u>	<u>Business-Type Activities</u>	<u>Total</u>
\$ 193,863	\$ -	\$ 193,863
<u>193,863</u>	<u>-</u>	<u>193,863</u>
-	68,318	68,318
<u>-</u>	<u>141,961</u>	<u>141,961</u>
<u>-</u>	<u>210,279</u>	<u>210,279</u>
<u>193,863</u>	<u>210,279</u>	<u>404,142</u>
10,787	115	10,902
1,054	1,470	2,524
<u>97,167</u>	<u>(97,167)</u>	<u>-</u>
<u>109,008</u>	<u>(95,582)</u>	<u>13,426</u>
302,871	114,697	417,568
<u>14,824,703</u>	<u>771,687</u>	<u>15,596,390</u>
<u>\$ 15,127,574</u>	<u>\$ 886,384</u>	<u>\$ 16,013,958</u>

**CUMBRES & TOLTEC SCENIC RAILROAD COMMISSION
BALANCE SHEET
GOVERNMENTAL FUNDS
JUNE 30, 2017**

	General Fund	Capital Projects Fund	Total Governmental Funds
ASSETS			
Cash and cash equivalents	\$ 115,932	\$ 241,395	\$ 357,327
Receivable from other governments	5,000	469,125	474,125
Prepaid items	5,549	-	5,549
Due from other funds	<u>956</u>	<u>189,985</u>	<u>190,941</u>
 TOTAL ASSETS	 <u>\$ 127,437</u>	 <u>\$ 900,505</u>	 <u>\$ 1,027,942</u>
 LIABILITIES AND FUND BALANCES			
LIABILITIES			
Accounts payable	\$ 4,288	\$ 44,415	\$ 48,703
Payroll related liabilities	6,669	7,596	14,265
Due to other funds	<u>356,200</u>	<u>110,401</u>	<u>466,601</u>
TOTAL LIABILITIES	<u>367,157</u>	<u>162,412</u>	<u>529,569</u>
 DEFERRED INFLOWS OF RESOURCES			
Unearned grant revenue	<u>-</u>	<u>64,934</u>	<u>64,934</u>
TOTAL DEFERRED INFLOWS OF RESOURCES	<u>-</u>	<u>64,934</u>	<u>64,934</u>
 TOTAL LIABILITIES AND DEFERRED INFLOWS OF RESOURCES	 <u>367,157</u>	 <u>227,346</u>	 <u>594,503</u>
 FUND BALANCES			
Nonspendable			
Prepaid items	5,549	-	5,549
Committed	-	110,289	110,289
Assigned	-	562,870	562,870
Unassigned	<u>(245,269)</u>	<u>-</u>	<u>(245,269)</u>
Total Fund Balances	<u>(239,720)</u>	<u>673,159</u>	<u>433,439</u>
 TOTAL LIABILITIES, DEFERRED INFLOWS OF RESOURCES AND FUND BALANCES	 <u>\$ 127,437</u>	 <u>\$ 900,505</u>	 <u>\$ 1,027,942</u>

The accompanying notes are an integral part of this statement.

**CUMBRES & TOLTEC SCENIC RAILROAD COMMISSION
RECONCILIATION OF THE GOVERNMENTAL FUNDS BALANCE SHEET
TO THE STATEMENT OF NET POSITION
JUNE 30, 2017**

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

Total fund balances - governmental funds		\$ 433,439
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Capital assets used in governmental activities are not financial resources and therefore are not reported as assets in the governmental funds.

The cost of capital assets is	\$ 34,874,757	
Accumulated depreciation is	<u>(20,170,914)</u>	14,703,843

Long-term liabilities are not due and payable in the current period and therefore are not reported as liabilities in the governmental funds.

Long-term liabilities at year end consist of:

Accrued compensated absences	<u>(9,708)</u>	<u>(9,708)</u>
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Total net position - governmental activities		<u>\$ 15,127,574</u>
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The accompanying notes are an integral part of this statement.

CUMBRES & TOLTEC SCENIC RAILROAD COMMISSION
STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCES
GOVERNMENTAL FUNDS
YEAR ENDED JUNE 30, 2017

	General Fund	Capital Projects Fund	Total Governmental Funds
REVENUES			
Intergovernmental -			
Colorado appropriations	\$ 224,000	\$ 970,894	\$ 1,194,894
New Mexico appropriations	111,800	605,231	717,031
Grants and contributions	-	158,351	158,351
Charges for services	-	35,634	35,634
Investment earnings	309	745	1,054
Other	9,859	928	10,787
TOTAL REVENUES	<u>345,968</u>	<u>1,771,783</u>	<u>2,117,751</u>
EXPENDITURES			
Current -			
General and administrative	427,265	241	427,506
Capital outlay	-	1,880,490	1,880,490
TOTAL EXPENDITURES	<u>427,265</u>	<u>1,880,731</u>	<u>2,307,996</u>
EXCESS (DEFICIENCY) OF REVENUES OVER EXPENDITURES	(81,297)	(108,948)	(190,245)
OTHER FINANCING SOURCES (USES)			
Transfers in	-	214,304	214,304
Transfers out	(117,137)	-	(117,137)
TOTAL OTHER FINANCING SOURCES (USES)	<u>(117,137)</u>	<u>214,304</u>	<u>97,167</u>
NET CHANGE IN FUND BALANCE	(198,434)	105,356	(93,078)
FUND BALANCE, July 1	<u>(41,286)</u>	<u>567,803</u>	<u>526,517</u>
FUND BALANCE, June 30	<u>\$ (239,720)</u>	<u>\$ 673,159</u>	<u>\$ 433,439</u>

The accompanying notes are an integral part of this statement.

**CUMBRES & TOLTEC SCENIC RAILROAD COMMISSION
RECONCILIATION OF THE GOVERNMENTAL FUNDS STATEMENT OF
REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCE
TO THE STATEMENT OF ACTIVITIES
YEAR ENDED JUNE 30, 2017**

Amounts reported for governmental activities are different because:

Net change in fund balance - governmental funds	\$	(93,078)
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Capital outlays are reported in the governmental funds as expenditures. However, for governmental activities these costs are reported in the statement of net position and allocated over their estimated useful lives as depreciation expense. This is the amount capital outlay exceeds depreciation expense.

Capital outlay	1,851,880	
Depreciation expense	<u>(1,391,258)</u>	460,622

Loss on disposal of capital assets		(11,668)
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Deferred inflows of resources for amounts not received within the availability period are not reported as revenue in the governmental funds

Change in deferred inflows of resources		(47,752)
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Activities such as compensated absences (vacation and excused leave) are measured by amounts earned during the year. In the governmental funds, however, expenditures for these items are measured by amounts actually paid. The net effect of the above items are as follows:

Change in compensated absences liability		<u>(5,253)</u>
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Change in net position - governmental activities	\$	<u>302,871</u>
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The accompanying notes are an integral part of this statement.

CUMBRES & TOLTEC SCENIC RAILROAD COMMISSION
STATEMENT OF NET POSITION
PROPRIETARY FUNDS
JUNE 30, 2017

	Business-Type Activities Enterprise Funds		
	Cumbres & Toltec Operating, LLC	Cumbres & Toltec Historic Preservation Association, LLC	Total
ASSETS			
CURRENT ASSETS			
Cash and cash equivalents	\$ 1,059,667	\$ 586,431	\$ 1,646,098
Receivables	23,381	-	23,381
Prepaid expenses	37,076	523	37,599
Due from other funds	276,636	38,575	315,211
Inventory	183,496	-	183,496
TOTAL CURRENT ASSETS	1,580,256	625,529	2,205,785
TOTAL ASSETS	\$ 1,580,256	\$ 625,529	\$ 2,205,785
LIABILITIES AND NET POSITION			
LIABILITIES			
Current liabilities -			
Accounts payable	\$ 197,093	\$ 32,251	\$ 229,344
Payroll related liabilities	53,696	-	53,696
Unearned revenue	930,339	-	930,339
Due to other funds	39,551	-	39,551
Compensated absences - current portion	53,500	-	53,500
Total current liabilities	1,274,179	32,251	1,306,430
Noncurrent liabilities -			
Compensated absences - noncurrent portion	12,971	-	12,971
Total noncurrent liabilities	12,971	-	12,971
TOTAL LIABILITIES	1,287,150	32,251	1,319,401
NET POSITION			
Unrestricted	293,106	593,278	886,384
TOTAL NET POSITION	\$ 293,106	\$ 593,278	\$ 886,384

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

CUMBRES & TOLTEC SCENIC RAILROAD COMMISSION
STATEMENT OF REVENUES, EXPENSES AND CHANGES IN FUND NET POSITION -
PROPRIETARY FUNDS
FOR THE YEAR ENDED JUNE 30, 2017

	Business-Type Activities Enterprise Funds		
	Cumbres & Toltec Operating, LLC	Cumbres & Toltec Historic Preservation Association,	Total
OPERATING REVENUES			
Charges for services (ticket sales)	\$ 3,801,308	\$ 179,728	\$ 3,981,036
Retail sales, net of cost of merchandise of \$244,370	<u>154,499</u>	<u>-</u>	<u>154,499</u>
TOTAL OPERATING REVENUES	<u>3,955,807</u>	<u>179,728</u>	<u>4,135,535</u>
OPERATING EXPENSES			
Payroll and payroll related expenses	1,663,105	-	1,663,105
Maintenance	52,816	-	52,816
Train supplies and services	366,034	52	366,086
Vehicle and equipment fleet	323,440	4,039	327,479
Meal service	389,792	-	389,792
Advertising	627,908	-	627,908
Utilities	138,547	-	138,547
Insurance	17,978	-	17,978
Administrative expenses	188,162	1,425	189,587
Contract services	<u>129,163</u>	<u>32,251</u>	<u>161,414</u>
TOTAL OPERATING EXPENSES	<u>3,896,945</u>	<u>37,767</u>	<u>3,934,712</u>
OPERATING INCOME	<u>58,862</u>	<u>141,961</u>	<u>200,823</u>
NONOPERATING REVENUES			
Operating grants and contributions	9,458	-	9,458
Interest income	316	1,153	1,469
Other income	<u>-</u>	<u>115</u>	<u>115</u>
TOTAL NONOPERATING REVENUES	<u>9,774</u>	<u>1,268</u>	<u>11,042</u>
INCOME BEFORE TRANSFERS	68,636	143,229	211,865
Transfers out	<u>(60,651)</u>	<u>(36,516)</u>	<u>(97,167)</u>
CHANGE IN NET POSITION	7,985	106,713	114,698
NET POSITION, beginning of year	<u>285,121</u>	<u>486,565</u>	<u>771,686</u>
NET POSITION, end of year	<u>\$ 293,106</u>	<u>\$ 593,278</u>	<u>\$ 886,384</u>

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

CUMBRES & TOLTEC SCENIC RAILROAD COMMISSION
STATEMENT OF CASH FLOWS
PROPRIETARY FUNDS
FOR THE YEAR ENDED JUNE 30, 2017

	Business-Type Activities Enterprise Funds		
	Cumbres & Toltec Operating, LLC	Cumbres & Toltec Historic Preservation Association, LLC	Total
CASH FLOWS FROM OPERATING ACTIVITIES			
Receipts from customers and users	\$ 4,094,948	\$ 179,728	\$ 4,274,676
Payments to employees	(1,656,689)	-	(1,656,689)
Payments to suppliers	(2,153,352)	(5,516)	(2,158,868)
Payments for interfund services	(11,153)	(1,916)	(13,069)
NET CASH PROVIDED BY OPERATING ACTIVITIES	273,754	172,296	446,050
CASH FLOWS FROM NONCAPITAL FINANCING ACTIVITIES			
Transfers out	(60,651)	(36,516)	(97,167)
Miscellaneous income	-	115	115
Operating contributions received	9,458	-	9,458
NET CASH PROVIDED (USED) BY NONCAPITAL FINANCING ACTIVITIES	(51,193)	(36,401)	(87,594)
CASH FLOWS FROM INVESTING ACTIVITIES			
Interest earnings received	316	1,153	1,469
NET CASH PROVIDED BY INVESTING ACTIVITIES	316	1,153	1,469
NET INCREASE IN CASH AND CASH EQUIVALENTS	222,877	137,048	359,925
CASH AND CASH EQUIVALENTS, beginning of year	836,790	449,383	1,286,173
CASH AND CASH EQUIVALENTS, end of year	1,059,667	586,431	1,646,098
RECONCILIATION OF OPERATING INCOME TO NET CASH PROVIDED BY OPERATING ACTIVITIES			
Operating income	58,862	141,961	200,823
Adjustments to reconcile operating income to net cash provided by operating activities -			
Change in assets and liabilities -			
Receivables	(5,179)	-	(5,179)
Due from other funds	72,635	1,975	74,610
Inventory	103,825	-	103,825
Prepaid expenses	(2,463)	-	(2,463)
Accounts payable	(20,875)	32,251	11,376
Payroll related liabilities	1,398	-	1,398
Due to other funds	(83,787)	(3,891)	(87,678)
Unearned revenue	144,320	-	144,320
Compensated absences	5,018	-	5,018
NET CASH PROVIDED BY OPERATING ACTIVITIES	\$ 273,754	\$ 172,296	\$ 446,050

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

NOTES TO FINANCIAL STATEMENTS

CUMBRES & TOLTEC SCENIC RAILROAD COMMISSION
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2017

NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

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

A. Description of Entity

In an effort to preserve a part of the history of the area, the states of Colorado and New Mexico created separate Railroad Authorities in 1969. On July 16, 1970, the states, as tenants in common, purchased the 64-mile 3-foot gauge railroad and infrastructure. Also included in the purchase was narrow-gauge equipment from the Denver and Rio Grande Western Railroad Company.

On July 1, 1970, the Cumbres & Toltec Scenic Railroad Compact between the states of Colorado and New Mexico was approved, thereby establishing the present day Cumbres & Toltec Scenic Railroad. The compact was later ratified by the United States Congress on December 26, 1974. In 1977, the states of Colorado and New Mexico created a bi-state agency known as the Cumbres & Toltec Scenic Railroad Commission (the Commission) which is responsible for administering the compact and the Cumbres & Toltec Scenic Railroad property. Two members each 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 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 the Commission and its inhabitants;
7. Preserve peace and order within the Commission; and
8. Establish rates for services provided by the Commission, and revenue-producing projects, including amounts which the governing body determines to be reasonable in the operation of similar facilities.

CUMBRES & TOLTEC SCENIC RAILROAD COMMISSION
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2017

Management History

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

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

B. Financial Reporting Entity

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

Blended Component Units

The financial statements of the following component units have been "blended" with those of the Commission because (1) their governing bodies are substantially the same as the governing body of the Commission and there is a financial benefit or burden relationship between the Commission and the component unit or management of the Commission has operational responsibility for the component unit. Other criteria that are considered for "blending" component units include (2) whether the component unit provides services entirely, or almost entirely, to the Commission, and (3) whether the component unit's total debt outstanding, including leases, is expected to be repaid entirely, or almost entirely, with resources of the Commission.

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

Cumbres & Toltec Historic Preservation Association, LLC (HPA LLC) was formed in 2011 under the New Mexico Limited Liability Company Act to collect and administer fees collected on ticket charges to fund historic preservation projects which maintain and promote the historical nature of the Railroad. Projects include purchasing, maintaining or restoration of buildings, track structure, locomotive and rolling stock. HPA LLC is intended to be a disregarded entity for federal income tax purposes. The composition of the Board of Directors for this entity is identical to the Commission and the Commission is the sole member of HPA LLC. Activity for HPA LLC is reported as a proprietary fund.

CUMBRES & TOLTEC SCENIC RAILROAD COMMISSION
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2017

C. Government-Wide and Fund Financial Statements

Financial information for the Commission is presented as follows:

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

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

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

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

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

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

Governmental fund financial statements are reported using the current financial resources measurement focus and the modified accrual basis of accounting. Under the modified accrual basis of accounting, revenues are recognized as soon as they are both measurable and available. Revenues are considered to be available when they are collectable within the current period or soon enough to pay liabilities of the current period. For this purpose, the Commission considers revenues to be available if they are collected within 90 days of the end of the current fiscal period. Expenditures are generally recorded when a liability is incurred, as under accrual accounting. However, debt service expenditures as well as expenditures related to compensated absences and claims and judgments are recorded only when payment is due. General capital acquisitions are reported as expenditures in governmental funds while proceeds of long-term debt and acquisitions under capital leases are reported as other financing sources.

CUMBRES & TOLTEC SCENIC RAILROAD COMMISSION
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2017

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

The Commission reports the following major governmental funds:

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

The Commission reports the following major proprietary funds:

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

E. Cash and Cash Equivalents

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

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

F. Capital Assets

Capital assets include buildings, rail yards, track line, track line improvements, substructures, steam engines, rolling stock, and equipment and construction in progress. With the exception of a few rolling stock items, capital assets are defined by the government as assets with an initial, individual cost of more than \$500 and an estimated useful life in excess of one year based on Section 12-6-10 NMSA 1978. Such assets are recorded at historical cost or estimated historical cost if purchased or constructed. Information technology equipment including software is capitalized and included in furniture, fixtures and equipment 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 asset lives are not capitalized.

CUMBRES & TOLTEC SCENIC RAILROAD COMMISSION
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2017

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:

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

H. Inventories

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

I. Compensated Absences

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

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

J. Fund Equity

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

- Nonspendable – includes amounts that are (a) not in spendable form or (b) legally or contractually required to be maintained intact. The “not in spendable form” criterion includes items that are not expected to be converted to cash such as inventories of consumable supplies, prepaid items and long-term receivables.
- Restricted – includes amounts that are restricted for specific purposes determined by external resource providers constitutionally or through enabling legislation.

CUMBRES & TOLTEC SCENIC RAILROAD COMMISSION
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2017

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

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

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

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

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

K. Estimates

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

L. Grant Revenue

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

M. Unearned Revenue

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

CUMBRES & TOLTEC SCENIC RAILROAD COMMISSION
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2017

N. Interfund Transactions

Interfund transactions are accounted for as revenues, expenditures or expenses. Transactions that constitute reimbursements to a fund for expenditures/expenses initially made from it that are properly applicable to another fund are recorded as expenditures/expenses in the reimbursing fund and as reductions of expenditures/expenses in the fund that is reimbursed. All other interfund transactions are reported as interfund transfers.

NOTE 2 – STEWARDSHIP, COMPLIANCE AND ACCOUNTABILITY

A. Budgetary Principles

The Commission generally follows these procedures in establishing budgetary data:

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

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

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

	Actual Expenditures	Final Budgeted Expenditures	Variance Positive (Negative)
Commission (general fund)	\$ 437,909	\$ 331,013	\$ (106,896)
CTO, LLC (train operations)	\$ 4,201,966	\$ 3,834,879	\$ (367,087)

CUMBRES & TOLTEC SCENIC RAILROAD COMMISSION
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2017

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 pools, money market accounts, and United States Government obligations. All invested funds of the Commission properly followed both Colorado and New Mexico investment requirements as of June 30, 2017.

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

A summary of the carrying value of cash and cash equivalents at June 30, 2017 for the Commission is as follows:

	<u>Demand Deposits</u>
CTO, LLC	\$ 1,059,667
Capital projects	241,395
General fund	115,932
HPA, LLC	586,431
Total	<u>\$ 2,003,425</u>

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.

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

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

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

At June 30, 2017, the bank balances of the Commission were exposed to custodial credit risk as follows:

Uninsured, collateral held by the pledging banks, but not in the name of the Commission	<u>\$ 941,999</u>
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CUMBRES & TOLTEC SCENIC RAILROAD COMMISSION
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2017

NOTE 4 - RECEIVABLES

Receivables at June 30, 2017 consist of the following:

Governmental activities:

General fund (Commission) –	
State of Colorado appropriations	\$ 5,000
Capital projects –	
Candelaria Fund	38,566
Capital grants and appropriations	<u>430,560</u>
Total governmental activities	<u>474,126</u>

Business-type activities:

CTO, LLC –	
Retail sales	5,781
Toltec caterer – advance	<u>17,600</u>
Total business-type activities	<u>23,381</u>

Total receivables	<u>\$ 497,507</u>
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Accounts receivable are considered 100% collectible at year end.

The Commission defers recognition of revenue for funds that are received for train trips to be taken subsequent to June 30. Unearned revenue at June 30, 2017 was \$930,339.

NOTE 5 – DEFERRED INFLOWS OF RESOURCES

Deferred inflows of resources at June 30, 2017 consist of grant revenue received in advance in the capital projects fund of \$64,934.

CUMBRES & TOLTEC SCENIC RAILROAD COMMISSION
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2017

NOTE 6 – INTERFUND RECEIVABLES/PAYABLES/TRANSFERS

The following interfund receivables and payables are included in the fund financial statements at June 30, 2017:

	<u>Interfund Receivable</u>	<u>Interfund Payable</u>
Governmental funds –		
General fund (Commission)	\$ 956	\$ 356,200
Capital projects fund	<u>189,985</u>	<u>110,401</u>
Total governmental funds	<u>190,941</u>	<u>466,601</u>
Enterprise funds –		
CTO LLC	276,636	39,552
HPA LLC	<u>38,576</u>	<u>-</u>
Total enterprise funds	<u>315,212</u>	<u>39,552</u>
Total	<u>\$ 506,153</u>	<u>\$ 506,153</u>

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

Transfers for the year ended June 30, 2017 were as follows:

	<u>Transfers In</u>	<u>Transfers Out</u>
Governmental funds –		
General fund (Commission)	\$ -	\$ 117,137
Capital projects fund	<u>214,304</u>	<u>-</u>
Total governmental funds	<u>214,304</u>	<u>117,137</u>
Enterprise funds –		
CTO LLC	-	60,651
HPA LLC	<u>-</u>	<u>36,516</u>
Total enterprise funds	<u>-</u>	<u>97,167</u>
Total	<u>\$ 214,304</u>	<u>\$ 214,304</u>

CUMBRES & TOLTEC SCENIC RAILROAD COMMISSION
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2017

NOTE 7 – CAPITAL ASSETS

Capital asset activity for the year ended June 30, 2017 was as follows:

	Balance July 1, <u>2016</u>	<u>Additions</u>	<u>Deletions</u>	Balance June 30, <u>2017</u>
Governmental activities –				
Capital assets not being depreciated –				
Land	\$ 100,087	\$ -	\$ -	\$ 100,087
Construction in progress	728,046	800,473	(262,201)	1,266,318
Copyright	<u>5,275</u>	<u>275</u>	<u>-</u>	<u>5,550</u>
Total capital assets not being depreciated	<u>833,408</u>	<u>800,748</u>	<u>(262,201)</u>	<u>1,371,955</u>
Capital assets being depreciated –				
Buildings and railyards	6,104,099	97,503	-	6,201,602
Track line, track line improvements and substructures	14,572,392	607,910	-	15,180,302
Steam engines, rolling stock and equipment	10,307,756	508,778	-	10,816,534
Vehicles, furniture and equipment	<u>1,216,891</u>	<u>87,473</u>	<u>-</u>	<u>1,304,364</u>
Total capital assets being depreciated	<u>32,201,138</u>	<u>1,301,664</u>	<u>-</u>	<u>33,502,802</u>
Less: accumulated depreciation for –				
Buildings and railyards	(3,918,612)	(135,362)	-	(4,053,974)
Track line, track line improvements and substructures	(7,448,041)	(712,777)	-	(8,160,818)
Steam engines, rolling stock and equipment	(6,467,246)	(470,032)	-	(6,937,278)
Vehicles, furniture and equipment	<u>(945,757)</u>	<u>(73,087)</u>	<u>-</u>	<u>(1,018,844)</u>
Total accumulated depreciation	<u>(18,779,656)</u>	<u>(1,391,258)</u>	<u>-</u>	<u>(20,170,914)</u>
Capital assets being depreciated, net	<u>13,421,482</u>	<u>(89,594)</u>	<u>-</u>	<u>13,331,888</u>
Total governmental activities capital assets, net	<u>\$14,254,890</u>	<u>\$ 711,154</u>	<u>\$ (262,201)</u>	<u>\$ 14,703,843</u>

Depreciation expense for the year ended June 30, 2017 was \$1,391,258 and was charged to general and administrative activities.

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

CUMBRES & TOLTEC SCENIC RAILROAD COMMISSION
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2017

NOTE 8 – LONG-TERM LIABILITIES

The following is a summary of changes in long-term liabilities reported in the government-wide financial statements for the year ended June 30, 2017:

	Balance July 1, <u>2016</u>	<u>Additions</u>	<u>Deletions</u>	Balance June 30, <u>2017</u>	Due Within <u>One Year</u>
Compensated absences:					
Governmental activities	\$ 4,455	\$ 11,357	\$ (6,104)	\$ 9,708	\$ 6,100
Business-type activities	<u>61,453</u>	<u>58,485</u>	<u>(53,467)</u>	<u>66,471</u>	<u>53,500</u>
Total	<u>\$ 65,908</u>	<u>\$ 69,842</u>	<u>\$ (59,571)</u>	<u>\$ 76,179</u>	<u>\$ 59,600</u>

NOTE 9 – FUND BALANCES

At June 30, 2017, fund balances for governmental funds consist of the following:

	General <u>Fund</u>	Capital <u>Projects</u>	<u>Total</u>
Nonspendable fund balance			
Prepaid items	\$ 5,549	\$ -	\$ 5,549
Committed fund balance			
Osier improvements	-	110,289	110,289
Assigned fund balance			
Capital improvements	-	562,870	562,870
Unassigned fund balance	<u>(245,269)</u>	<u>-</u>	<u>(245,269)</u>
Total	<u>\$ (239,720)</u>	<u>\$ 673,159</u>	<u>\$ 433,439</u>

NOTE 10 – NET POSITION

Prior Period Adjustment

Net position of the governmental activities at July 1, 2016 has been restated from amounts previously reported as follows:

	<u>Governmental Activities</u>
Net Position at July 1, 2016, as previously reported	\$ 14,539,283
Prior period adjustment to correct accumulated depreciation and capital assets	<u>285,420</u>
Net Position at July 1, 2016, as restated	<u>\$ 14,824,703</u>

CUMBRES & TOLTEC SCENIC RAILROAD COMMISSION
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2017

NOTE 11 – RISK MANAGEMENT

The Commission is exposed to various risks of loss as the owner of a tourist-oriented railroad. To reduce the risk of loss, the Commission purchases commercial insurance to cover all significant losses to property, general liability, workers compensation and employee fidelity.

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

NOTE 12 – RELATED PARTIES

The Commission President's spouse is not an employee of the Commission, however, she provides contract marketing services to the Commission and received direct and indirect payments during the period ending June 30, 2017 totaling \$23,497. There were no related amounts payable at year-end.

NOTE 13 – COMMITMENTS AND CONTINGENCIES

Debt Limits

The amount of debt that can be incurred by the Commission is limited by resolution and at June 30, 2017, the Commission had not entered into any debt agreements.

State of Colorado

Colorado voters passed an amendment to the state constitution in November 1992 which contains several limitations, including revenue raising, spending abilities and other specific requirements affecting state and local governments. The amendment, commonly known as the Tabor Amendment, is complex and subject to judicial interpretation. The Commission received confirmation from the State of Colorado that it is exempt from the requirements of the amendment.

**REQUIRED SUPPLEMENTARY
INFORMATION**

**CUMBRES & TOLTEC SCENIC RAILROAD COMMISSION
 COMMISSION (GENERAL FUND)
 SCHEDULE OF REVENUES AND EXPENDITURES
 BUDGET AND ACTUAL
 FOR THE YEAR ENDED JUNE 30, 2017**

	Budgeted Amounts Original	Budgeted Amounts Final	Actual Budget Basis	Variance with Final Budget - Positive (Negative)
REVENUES				
Colorado appropriations	\$ 202,500	\$ 202,500	\$ 224,000	\$ 21,500
New Mexico appropriations	118,300	118,300	111,800	(6,500)
Other revenue	17,700	17,700	9,859	(7,841)
Interest income	514	514	309	(205)
TOTAL REVENUES	339,014	339,014	345,968	6,954
EXPENDITURES				
Payroll	134,024	134,024	103,268	30,756
Maintenance and repairs	-	-	358	(358)
Train supplies	134	134	-	134
Contract services	41,439	41,439	51,170	(9,731)
Utilities	5,709	5,709	6,769	(1,060)
Liability and property insurance	107,008	107,008	215,377	(108,369)
Capital outlay	-	-	10,644	(10,644)
General	42,699	42,699	50,323	(7,624)
TOTAL EXPENDITURES	331,013	331,013	437,909	(106,896)
EXCESS (DEFICIENCY) OF REVENUES OVER EXPENDITURES	\$ 8,001	\$ 8,001	(91,941)	\$ (99,942)
BUDGETARY BASIS				
Explanation of differences between budgetary revenues and expenditures and GAAP revenues and expenditures and other financing uses				
Differences - Budget to GAAP				
EXPENDITURES				
Capital Outlay			10,644	
OTHER FINANCING USES				
Transfers out			(117,137)	
NET CHANGE IN FUND BALANCE - GAAP Basis			\$ (198,434)	

**SUPPLEMENTARY
INFORMATION**

**CUMBRES & TOLTEC SCENIC RAILROAD COMMISSION
TRAIN OPERATIONS (CUMBRES & TOLTEC OPERATING, LLC)
SCHEDULE OF REVENUES AND EXPENDITURES
BUDGET (NON-GAAP BASIS) AND ACTUAL
FOR THE YEAR ENDED JUNE 30, 2017**

	<u>Budgeted Amounts Original</u>	<u>Budgeted Amounts Final</u>	<u>Actual Budget Basis</u>	<u>Variance with Final Budget - Positive (Negative)</u>
REVENUES				
Charges for services	\$ 3,873,533	\$ 3,873,533	\$ 3,801,308	\$ (72,225)
Retail sales	377,834	377,834	398,869	21,035
Other revenue	-	-	9,458	9,458
Interest income	<u>286</u>	<u>286</u>	<u>316</u>	<u>30</u>
TOTAL REVENUES	<u>4,251,653</u>	<u>4,251,653</u>	<u>4,209,951</u>	<u>(41,702)</u>
EXPENDITURES				
Train operations -				
Cost of goods sold	205,080	205,080	244,370	(39,290)
Payroll	1,438,091	1,438,091	1,663,105	(225,014)
Maintenance and repairs	110,960	110,960	52,816	58,144
Train supplies	433,611	433,611	366,034	67,577
Contract services	54,429	54,429	129,163	(74,734)
Bus service	301,450	301,450	323,440	(21,990)
Meal service	413,851	413,851	389,792	24,059
Advertising and marketing	500,946	500,946	627,908	(126,962)
Utilities	123,453	123,453	138,547	(15,094)
Liability and property insurance	13,843	13,843	17,978	(4,135)
Capital outlay	9,129	9,129	60,651	(51,522)
General	<u>230,036</u>	<u>230,036</u>	<u>188,162</u>	<u>41,874</u>
TOTAL EXPENDITURES	<u>3,834,879</u>	<u>3,834,879</u>	<u>4,201,966</u>	<u>(367,087)</u>
EXCESS (DEFICIENCY) OF REVENUES OVER EXPENDITURES	<u>\$ 416,774</u>	<u>\$ 416,774</u>	7,985	<u>\$ (408,789)</u>

BUDGETARY BASIS

Explanation of differences between budgetary revenues and expenditures and GAAP revenues and expenditures and other financing uses

Differences - Budget to GAAP

EXPENDITURES

Capital Outlay 60,651

OTHER FINANCING USES

Transfers out (60,651)

CHANGE IN NET POSITION - GAAP Basis \$ 7,985