



# **State of New Mexico Cumbres & Toltec Scenic Railroad Commission**

Financial Statements,  
Supplementary Information,  
and  
Independent Auditor's Reports,  
  
June 30, 2020

# **State of New Mexico Cumbres & Toltec Scenic Railroad Commission**

## **Table of Contents**

|                                                                                                                                         | <u>Page</u> |
|-----------------------------------------------------------------------------------------------------------------------------------------|-------------|
| <b>Official Roster</b>                                                                                                                  | 1           |
| <b>Independent Auditor’s Report</b>                                                                                                     | 2-4         |
| <b>Management’s Discussion and Analysis</b>                                                                                             | 5-11        |
| <b>Basic Financial Statements</b>                                                                                                       |             |
| Government-Wide Financial Statements                                                                                                    |             |
| Statement of Net Position                                                                                                               | 12          |
| Statement of Activities                                                                                                                 | 13          |
| Governmental Funds Financial Statements                                                                                                 |             |
| Balance Sheet – Governmental Funds                                                                                                      | 14          |
| Reconciliation of the Governmental Funds Balance Sheet to the Statement of Net Position                                                 | 15          |
| Statement of Revenues, Expenditures and Changes in Fund Balances – Governmental Funds                                                   | 16          |
| Reconciliation of the Governmental Funds Statement of Revenues, Expenditures and Changes in Fund Balance to the Statement of Activities | 17          |
| Statement of Revenues and Expenditures – Budget and Actual (Budgetary Basis) – General Fund                                             | 18          |
| Proprietary Funds Financial Statements                                                                                                  |             |
| Statement of Net Position – Proprietary Funds                                                                                           | 19          |
| Statement of Revenues, Expenses and Changes in Net Position – Proprietary Funds                                                         | 20          |
| Statement of Cash Flows – Proprietary Funds                                                                                             | 21          |
| Notes to the Financial Statements                                                                                                       | 22-39       |

# **State of New Mexico Cumbres & Toltec Scenic Railroad Commission**

## **Table of Contents – continued**

|                                                                                                                                                                                                                                    | <u>Page</u> |
|------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|-------------|
| <b>Other Schedules Required by 2.2.2 NMAC</b>                                                                                                                                                                                      |             |
| Schedule of Special, Deficiency, Specific, and Capital Outlay Appropriations                                                                                                                                                       | 40          |
| Statement of Revenues and Expenditures – Budget and Actual<br>(Budgetary Basis) – Cumbres & Toltec Operating, LLC                                                                                                                  | 41          |
| Schedule of Deposits by Financial Institution                                                                                                                                                                                      | 42          |
| Schedule of Pledged Collateral by Financial Institution                                                                                                                                                                            | 43          |
| <b>Compliance Section</b>                                                                                                                                                                                                          |             |
| Independent Auditor’s Report on Internal Control Over Financial<br>Reporting and on Compliance and Other Matters Based on an<br>Audit of Financial Statements Performed in Accordance With<br><i>Government Auditing Standards</i> | 44-45       |
| Schedule of Findings and Responses                                                                                                                                                                                                 | 46-51       |
| Summary Schedule of Prior Year Audit Findings                                                                                                                                                                                      | 52          |
| Exit Conference                                                                                                                                                                                                                    | 53          |

# **State of New Mexico Cumbres & Toltec Scenic Railroad Commission**

## **Official Roster**

### **Commissioners**

| <b>Name</b>   | <b>Title</b>               |
|---------------|----------------------------|
| Dan Love      | Chairman - Colorado        |
| Bill Lock     | Vice Chairman - New Mexico |
| Mark Graybill | Secretary - Colorado       |
| Billy Elbrock | Treasurer - New Mexico     |

### **Administrative Officials**

| <b>Name</b>  | <b>Title</b>                                          |
|--------------|-------------------------------------------------------|
| John Bush    | President (through November 2020)                     |
| Eric Mason   | Interim Chief Executive Officer (after November 2020) |
| Ed Beaudette | Chief Financial and Planning Officer                  |



## Independent Auditor's Report

Board of Commissioners  
State of New Mexico, Cumbres & Toltec Scenic Railroad Commission  
and  
Mr. Brian S. Colón, Esq., New Mexico State Auditor

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

We have audited the accompanying financial statements of the governmental activities, business-type activities, each major fund, and the budgetary comparison for the general fund of the State of New Mexico, Cumbres & Toltec Scenic Railroad Commission (the "Commission"), as of and for the year ended June 30, 2020, 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.

### ***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 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 Commission'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 Commission'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, business-type activities and each major fund of the Commission as of June 30, 2020, and the respective changes in financial position and budgetary comparison of the general fund 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 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. The other schedules required by 2.2.2 NMAC, as listed in the table of contents, are presented for purposes of additional analysis and are not a required part of the basic financial statements.

The other schedules required by 2.2.2 NMAC are the responsibility of management and were derived from and relate directly to the underlying accounting and other records used to prepare the basic financial statements. Such information has been subjected to the auditing procedures applied in the audit of the basic financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the basic financial statements or to the basic financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the other schedules required by 2.2.2 NMAC are fairly stated, in all material respects, in relation to the basic financial statements as a whole.

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

In accordance with *Government Auditing Standards*, we have also issued our report dated March 5, 2021, 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 internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the Commission's internal control over financial reporting and compliance.

SJT Group LLC

Albuquerque, New Mexico  
March 5, 2021

## Management's Discussion and Analysis

# State of New Mexico

## Cumbres & Toltec Scenic Railroad Commission

### Management's Discussion and Analysis For the Year Ended June 30, 2020

As management of the Cumbres & Toltec Scenic Railroad Commission (the "Commission"), we offer the readers of the Commission's financial statements this narrative overview and analysis of the financial activities of the Commission for the fiscal year ended June 30, 2020. Please read it in conjunction with the financial statements of the Commission, which follows this section of the report.

#### Financial Highlights

- ◆ The assets of the Commission exceeded its liabilities at June 30, 2020, by \$17.8 million (net position). Of this amount, \$1.6 million (unrestricted net position) may be used to meet the Commission's ongoing obligations to its citizens and creditors.
- ◆ The Commission's net position increased by \$0.8 million in fiscal year 2020.
- ◆ Total revenues of the Commission in fiscal years 2020 and 2019 were \$7.1 million and \$7.6 million, respectively. The Commission's ticket revenue, ridership and average price per rider was as follows for the years ended June 30, 2020 and 2019:

|                         | 2020         | 2019         | \$ Change    | % Change |
|-------------------------|--------------|--------------|--------------|----------|
| Ticket revenue          | \$ 4,440,086 | \$ 5,160,120 | \$ (720,034) | -14%     |
| Ridership               | 38,748       | 41,870       | (3,122)      | -7%      |
| Average price per rider | \$ 115       | \$ 123       | \$ (8)       | -7%      |

- ◆ Total expenses of the Commission in fiscal years 2020 and 2019 were \$6.4 million and \$7.1 million, respectively. All fund expenditures in fiscal year 2020 were well within the Commission's approved budgets.

#### Overview of the Financial Report

The Commission's financial statements are comprised of four components: 1) *Management's Discussion and Analysis* (this section), 2) the *Basic Financial Statements*, 3) *Other Schedules Required by 2.2.2 NMAC* and 4) the *Compliance Section*. The basic financial statements include two kinds of statements (government-wide financial statements and fund financial statements) that present different views of the Commission.

The first two statements, the statement of net position and the statement of activities, are *government-wide financial statements* that provide both long-term and short-term information about the Commission's overall financial status. *Fund financial statements* report the Commission's operations in more detail than the government-wide financial statements by providing information about the Commission's most significant funds.

**State of New Mexico**  
**Cumbres & Toltec Scenic Railroad Commission**  
**Management's Discussion and Analysis**  
**For the Year Ended June 30, 2020**

The financial statements also include notes that explain some of the information in the financial statements and provide more detail. The financial statements are followed by *Other Schedules Required by 2.2.2 NMAC*, as well as the *Compliance Section*, which presents the Commission's schedule of findings and responses and a schedule presenting the current year status of prior year audit findings (if any).

### **Government-Wide Financial Statements**

The *government-wide financial statements* provide both long-term and short-term information about the overall financial status of the primary government in a manner similar to a private-sector business.

The *statement of net position* presents information about the Commission's governmental and business-type activities 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 activities* presents information showing how the Commission's governmental and business-type activities net position changed during the 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. This represents the accrual basis of accounting. Thus, revenues and expenses are reported in this statement for some items that will only result in cash flows in future years (e.g., uncollected taxes and earned but unused vacation leave).

Both of the government-wide financial statements distinguish functions of the Commission that are principally supported by taxes and state grant revenues (governmental activities) from other functions that are intended to recover all or a significant portion of their costs through user fees and charges (business-type activities).

### **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 uses fund accounting to ensure and demonstrate compliance with finance-related legal requirements. All of the funds of the Commission can be divided into two categories: (1) *governmental funds*, and (2) *proprietary funds*.

#### **Governmental Funds**

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

# State of New Mexico

## Cumbres & Toltec Scenic Railroad Commission

### Management's Discussion and Analysis For the Year Ended June 30, 2020

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

The Commission maintains individual governmental funds. Information is presented separately in the governmental fund balance sheet and in the governmental fund statement of revenues, expenditures, and changes in fund balances for the General fund and the Capital Projects fund, which are considered to be major governmental funds.

#### Proprietary Funds

Proprietary funds provide the same type of information as the government-wide financial statements, but only in more detail. The Commission maintains two types of proprietary funds, known as an enterprise funds. An enterprise fund is used to report the same functions presented as business-type activities in the primary government-wide financial statements.

The Commission uses enterprise funds to account for the Cumbres & Toltec Operating, LLC (CTO) and Cumbres & Toltec Historic Preservation Association, LLC (HPA), which are both considered blended component units of the Commission.

#### **Government-Wide Financial Analysis**

*Net Position.* The following table reflects the condensed statement of net position as of June 30, 2020 and 2019.

|                                  | Governmental Activities |                      | Business-Type Activities |                     | Total                |                      |
|----------------------------------|-------------------------|----------------------|--------------------------|---------------------|----------------------|----------------------|
|                                  | 2020                    | 2019                 | 2020                     | 2019                | 2020                 | 2019                 |
| <b>Assets</b>                    |                         |                      |                          |                     |                      |                      |
| Current assets                   | \$ 1,205,345            | \$ 1,313,029         | \$ 2,989,931             | \$ 3,084,105        | \$ 4,195,276         | \$ 4,397,134         |
| Capital assets, net              | <u>16,260,902</u>       | <u>15,561,610</u>    | <u>-</u>                 | <u>-</u>            | <u>16,260,902</u>    | <u>15,561,610</u>    |
| <b>Total assets</b>              | <u>17,466,247</u>       | <u>16,874,639</u>    | <u>2,989,931</u>         | <u>3,084,105</u>    | <u>20,456,178</u>    | <u>19,958,744</u>    |
| <b>Liabilities</b>               |                         |                      |                          |                     |                      |                      |
| Current liabilities              | 991,360                 | 1,137,474            | 1,032,816                | 1,684,262           | 2,024,176            | 2,821,736            |
| Refundable advance - PPP loan    | -                       | -                    | 560,900                  | -                   | 560,900              | -                    |
| Compensated absences             | <u>4,794</u>            | <u>6,046</u>         | <u>25,574</u>            | <u>50,502</u>       | <u>30,368</u>        | <u>56,548</u>        |
| <b>Total liabilities</b>         | <u>996,154</u>          | <u>1,143,520</u>     | <u>1,619,290</u>         | <u>1,734,764</u>    | <u>2,615,444</u>     | <u>2,878,284</u>     |
| <b>Net Position</b>              |                         |                      |                          |                     |                      |                      |
| Net investment in capital assets | 16,260,902              | 15,561,610           | -                        | -                   | 16,260,902           | 15,561,610           |
| Unrestricted                     | <u>209,191</u>          | <u>169,509</u>       | <u>1,370,641</u>         | <u>1,349,341</u>    | <u>1,579,832</u>     | <u>1,518,850</u>     |
| <b>Total net position</b>        | <u>\$ 16,470,093</u>    | <u>\$ 15,731,119</u> | <u>\$ 1,370,641</u>      | <u>\$ 1,349,341</u> | <u>\$ 17,840,734</u> | <u>\$ 17,080,460</u> |

**State of New Mexico**  
**Cumbres & Toltec Scenic Railroad Commission**  
**Management's Discussion and Analysis**  
**For the Year Ended June 30, 2020**

The Commission's current assets are made up primarily of cash of \$2.9 million, as well as amounts due from other governmental agencies of \$1 million. The Commission's other significant asset is capital assets, which had a balance of \$16.3 million, net of accumulated depreciation, at June 30, 2020.

The Commission's current liabilities are primarily made up of accounts payable of \$336,402, unearned revenues of \$1.6 million, and a refundable advance received under the Paycheck Protection Program (PPP) of \$560,900. The PPP advance was received in fiscal year 2020 in response to the COVID-19 pandemic, and the expectation is that this advance will be 100% forgiven in fiscal year 2021.

*Changes in Net Position.* The following table summarizes the Commission's change in net position for the years ended June 30, 2020 and 2019.

|                                    | Governmental Activities |               | Business-Type Activities |              | Total         |               |
|------------------------------------|-------------------------|---------------|--------------------------|--------------|---------------|---------------|
|                                    | 2020                    | 2019          | 2020                     | 2019         | 2020          | 2019          |
| <b>Revenues and Transfers</b>      |                         |               |                          |              |               |               |
| Program revenues:                  |                         |               |                          |              |               |               |
| Charges for services               | \$ 69,974               | \$ 49,705     | \$ 4,647,506             | \$ 5,350,884 | \$ 4,717,480  | \$ 5,400,589  |
| Operating grants and contributions | 501,800                 | 339,800       | 11,562                   | -            | 513,362       | 339,800       |
| Capital grants and contributions   | 1,817,595               | 1,881,721     | -                        | -            | 1,817,595     | 1,881,721     |
| Interest income                    | 1,530                   | 2,249         | 4,079                    | 3,707        | 5,609         | 5,956         |
| Other                              | 73,986                  | 20,513        | -                        | -            | 73,986        | 20,513        |
| Transfers in (out)                 | 222,932                 | 239,083       | (222,932)                | (239,083)    | -             | -             |
| Total revenues                     | 2,687,817               | 2,533,071     | 4,440,215                | 5,115,508    | 7,128,032     | 7,648,579     |
| <b>Expenses</b>                    |                         |               |                          |              |               |               |
| General government                 | 1,948,843               | 2,382,281     | -                        | -            | 1,948,843     | 2,382,281     |
| Train operations                   | -                       | -             | 4,365,887                | 4,628,586    | 4,365,887     | 4,628,586     |
| Historic preservation              | -                       | -             | 53,028                   | 62,873       | 53,028        | 62,873        |
| Total expenses                     | 1,948,843               | 2,382,281     | 4,418,915                | 4,691,459    | 6,367,758     | 7,073,740     |
| Change in net position             | 738,974                 | 150,790       | 21,300                   | 424,049      | 760,274       | 574,839       |
| Net position, beginning of year    | 15,731,119              | 15,580,329    | 1,349,341                | 925,292      | 17,080,460    | 16,505,621    |
| Net position, end of year          | \$ 16,470,093           | \$ 15,731,119 | \$ 1,370,641             | \$ 1,349,341 | \$ 17,840,734 | \$ 17,080,460 |

During fiscal year 2020, net position increased by \$760,274. The increase was primarily due to an increase in the general appropriation received from the State of New Mexico of \$150,000, as well as a significant decrease in expenses in fiscal year 2020 as a result of the COVID-19 pandemic.

Expenses totaled \$6.4 million and \$7.1 million during fiscal years 2020 and 2019, respectively. The Commission's expenses were incurred primarily in the area of general government and train operations, comprising 99% of total expenses during fiscal years 2020 and 2019, respectively.

**State of New Mexico**  
**Cumbres & Toltec Scenic Railroad Commission**  
**Management's Discussion and Analysis**  
**For the Year Ended June 30, 2020**

**Financial Analysis of the Commission's Funds**

Governmental Funds

Governmental funds are used to account for essentially the same functions reported as government activities in the government-wide financial statements. However, unlike the government-wide financial statements, which are prepared on the *accrual basis of accounting*, governmental fund financial statements focus on near-term inflows and outflows of spendable resources, as well as on balances of spendable resources available at the end of the fiscal year. Governmental funds are presented on the *modified accrual basis of accounting*. Such information is useful in assessing the Commission's financing requirements.

In particular, unassigned fund balances may serve as a useful measure of the Commission's net resources at the end of the fiscal year. The Commission reports all major governmental funds separately in the fund financial statements.

The table below summarizes the net changes in fund balances and ending fund balances of the Commission's governmental funds at June 30, 2020:

|                       | Fund Balances<br>at June 30, 2019 | Net Changes in<br>Fund Balances | Fund Balances<br>(Deficits) at<br>June 30, 2020 |
|-----------------------|-----------------------------------|---------------------------------|-------------------------------------------------|
| General fund          | \$ 172,974                        | \$ 253,199                      | \$ 426,173                                      |
| Capital Projects fund | <u>2,581</u>                      | <u>(214,769)</u>                | <u>(212,188)</u>                                |
| Total fund balances   | <u>\$ 175,555</u>                 | <u>\$ 38,430</u>                | <u>\$ 213,985</u>                               |

The Commission's governmental funds reported combined ending fund balances of \$213,985 as of June 30, 2020, which represents an increase of \$38,430, or 22% from 2019. Of the total fund balances of governmental funds, \$71,348 is committed for Osier station improvements. The remaining amount of \$142,637 is reported as unassigned fund balance.

Proprietary Funds

The Commission's proprietary funds provide the same type of information found in the government-wide financial statements, but in more detail.

**State of New Mexico**  
**Cumbres & Toltec Scenic Railroad Commission**  
**Management's Discussion and Analysis**  
**For the Year Ended June 30, 2020**

The table below summarizes the net changes in net position and ending net positions of the Commission's proprietary funds at June 30, 2020:

|                                                           | Net Position at<br>June 30, 2019 | Change in Net<br>Position | Net Position at<br>June 30, 2020 |
|-----------------------------------------------------------|----------------------------------|---------------------------|----------------------------------|
| Cumbres & Toltec Operating LLC                            | \$ 573,575                       | \$ (188,182)              | \$ 385,393                       |
| Cumbres & Toltec Historic Preservation<br>Association LLC | 775,766                          | 209,482                   | 985,248                          |
| Total net position                                        | <u>\$ 1,349,341</u>              | <u>\$ 21,300</u>          | <u>\$ 1,370,641</u>              |

The net position for the proprietary funds increased by \$21,300, or 2%, for the year ended June 30, 2020. The increase in net position for the year ended June 30, 2019 was \$424,019. The decrease when compared to fiscal year 2019 is primarily due to the impact of the COVID-19 pandemic on train and museum operations at the end of fiscal year 2020.

### **Budgetary Highlights**

Budgets are prepared for administration (General fund), capital projects (Capital Projects fund), train operations (CTO) and historic preservation (HPA). To enhance the process of developing a budget at the Commission level, the Commission utilizes goals and objectives defined by the Commission, long-term plans and input from various staff groups to develop the Commission budgets. Commission priorities are well defined during this process. The Commission did not prepare budgets for capital projects or the historic preservation funds in 2020.

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. A summary of the budget-to-actual expenditures are as follows:

|              | Original budget | Final budget | Actual       | Variance   |
|--------------|-----------------|--------------|--------------|------------|
| General fund | \$ 513,720      | \$ 513,720   | \$ 502,235   | \$ 11,485  |
| CTO          | \$ 4,522,325    | \$ 4,522,325 | \$ 4,365,887 | \$ 156,438 |

### **Capital Assets**

The Commission's capital assets as of June 30, 2020 amount to \$16.3 million (net of accumulated depreciation). Capital assets include land, water rights, construction in progress, buildings and railyards, track line and track line improvements, steam engines, furniture and equipment, and vehicles.

**State of New Mexico**  
**Cumbres & Toltec Scenic Railroad Commission**  
**Management's Discussion and Analysis**  
**For the Year Ended June 30, 2020**

For government-wide financial statement presentation purposes, all depreciable capital assets were depreciated from acquisition date to the end of the current fiscal year. Fund financial statements record capital asset purchases as expenditures. See Note 6 to the basic financial statements for more details regarding capital assets.

**Long-Term Debt**

At the end of fiscal year 2020, the Commission had a refundable advance under the Paycheck Protection Program (PPP) of \$560,900 issued in response to the COVID-19 pandemic. See Note 7 to the basic financial statements for more details.

At June 30, 2020, the Commission also reported a compensated absences liability of \$30,368. See Note 9 to the basic financial statements for more details about the Commission's compensated absences activity.

**Economic Outlook and the Commission's Future**

Prior to the COVID-19 pandemic, the Commission had experienced steady incremental increases in ridership through the addition of services and sustained marketing efforts. The strategic plan had been to continue growth in ridership that would enable the Commission to cover operating expenses and eventually provide support for capital needs that have previously been funded by the states. The COVID-19 pandemic has been devastating to the Commission in 2020 with ridership plunging by over seventy percent. This has set back the long-range planning for self-sustainability by an estimated five years. The Commission's strategic plan and five year rolling operational plan that have provided guidance and transparency have been modified to include recovery from the effects of the COVID-19 pandemic and ultimately achieving self-sustainability.

**Requests for Information**

This financial report is designed to provide a general overview of the Commission's finances and to provide accountability for funds the Commission receives. If you have any questions about this report, or need additional financial information, contact:

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

## Basic Financial Statements

## Government-Wide Financial Statements

**State of New Mexico**  
**Cumbres & Toltec Scenic Railroad Commission**  
**Statement of Net Position**  
**June 30, 2020**

|                                              | Governmental<br>Activities | Business-Type<br>Activities | Total         |
|----------------------------------------------|----------------------------|-----------------------------|---------------|
| <b>Assets</b>                                |                            |                             |               |
| Current assets                               |                            |                             |               |
| Cash and cash equivalents                    | \$ 850,550                 | \$ 2,012,427                | \$ 2,862,977  |
| Accounts receivable                          | -                          | 17,592                      | 17,592        |
| Due from governmental agencies               | 1,038,049                  | -                           | 1,038,049     |
| Prepaid expenses                             | -                          | 33,330                      | 33,330        |
| Inventories                                  | -                          | 243,328                     | 243,328       |
| Internal balances                            | (683,254)                  | 683,254                     | -             |
| Total current assets                         | 1,205,345                  | 2,989,931                   | 4,195,276     |
| Capital assets, net                          | 16,260,902                 | -                           | 16,260,902    |
| Total assets                                 | 17,466,247                 | 2,989,931                   | 20,456,178    |
| <b>Liabilities</b>                           |                            |                             |               |
| Current liabilities                          |                            |                             |               |
| Accounts payable                             | 65,118                     | 271,284                     | 336,402       |
| Accrued payroll liabilities                  | 20,848                     | 50,191                      | 71,039        |
| Unearned revenues                            | -                          | 711,341                     | 711,341       |
| Refundable advance - PPP loan                | -                          | 560,900                     | 560,900       |
| Compensated absences, current portion        | 3,835                      | 5,115                       | 8,950         |
| Total current liabilities                    | 89,801                     | 1,598,831                   | 1,688,632     |
| Compensated absences, net of current portion | 959                        | 20,459                      | 21,418        |
| Total liabilities                            | 90,760                     | 1,619,290                   | 1,710,050     |
| <b>Deferred Inflows of Resources</b>         |                            |                             |               |
| Unearned grant revenue                       | 905,394                    | -                           | 905,394       |
| <b>Net Position</b>                          |                            |                             |               |
| Net investment in capital assets             | 16,260,902                 | -                           | 16,260,902    |
| Unrestricted                                 | 209,191                    | 1,370,641                   | 1,579,832     |
| Total net position                           | \$ 16,470,093              | \$ 1,370,641                | \$ 17,840,734 |

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

**State of New Mexico**  
**Cumbres & Toltec Scenic Railroad Commission**  
**Statement of Activities**  
**For the Year Ended June 30, 2020**

|                                      | Program Revenues      |                         |                                          |                                        | Net (Expense) Revenue and Changes<br>in Net Position |                             |                      |
|--------------------------------------|-----------------------|-------------------------|------------------------------------------|----------------------------------------|------------------------------------------------------|-----------------------------|----------------------|
|                                      | Expenses              | Charges for<br>Services | Operating<br>Grants and<br>Contributions | Capital<br>Grants and<br>Contributions | Governmental<br>Activities                           | Business-Type<br>Activities | Total                |
| <b>Functions/Programs</b>            |                       |                         |                                          |                                        |                                                      |                             |                      |
| Governmental activities:             |                       |                         |                                          |                                        |                                                      |                             |                      |
| General government                   | \$ (1,948,843)        | \$ 69,974               | \$ 501,800                               | \$ 1,817,595                           | \$ 440,526                                           | \$ -                        | \$ 440,526           |
| Total governmental activities        | <u>(1,948,843)</u>    | <u>69,974</u>           | <u>501,800</u>                           | <u>1,817,595</u>                       | <u>440,526</u>                                       | <u>-</u>                    | <u>440,526</u>       |
| Business-type activities:            |                       |                         |                                          |                                        |                                                      |                             |                      |
| Train operations                     | \$ (4,365,887)        | \$ 4,388,223            | \$ 11,562                                | \$ -                                   | \$ -                                                 | \$ 33,898                   | \$ 33,898            |
| Historic preservation                | <u>(53,028)</u>       | <u>259,283</u>          | <u>-</u>                                 | <u>-</u>                               | <u>-</u>                                             | <u>206,255</u>              | <u>206,255</u>       |
| Total business-type activities       | <u>(4,418,915)</u>    | <u>4,647,506</u>        | <u>11,562</u>                            | <u>-</u>                               | <u>-</u>                                             | <u>240,153</u>              | <u>240,153</u>       |
| Total primary government             | <u>\$ (6,367,758)</u> | <u>\$ 4,717,480</u>     | <u>\$ 513,362</u>                        | <u>\$ 1,817,595</u>                    | <u>440,526</u>                                       | <u>240,153</u>              | <u>680,679</u>       |
| General revenues and transfers:      |                       |                         |                                          |                                        |                                                      |                             |                      |
| Interest income                      |                       |                         |                                          |                                        | 1,530                                                | 4,079                       | 5,609                |
| Other                                |                       |                         |                                          |                                        | 30,385                                               | -                           | 30,385               |
| Gain on the sale of train car        |                       |                         |                                          |                                        | 43,601                                               | -                           | 43,601               |
| Transfers in (out)                   |                       |                         |                                          |                                        | <u>222,932</u>                                       | <u>(222,932)</u>            | <u>-</u>             |
| Total general revenues and transfers |                       |                         |                                          |                                        | <u>298,448</u>                                       | <u>(218,853)</u>            | <u>79,595</u>        |
| Change in net position               |                       |                         |                                          |                                        | 738,974                                              | 21,300                      | 760,274              |
| Net position, beginning of year      |                       |                         |                                          |                                        | <u>15,731,119</u>                                    | <u>1,349,341</u>            | <u>17,080,460</u>    |
| <b>Net position, end of year</b>     |                       |                         |                                          |                                        | <u>\$ 16,470,093</u>                                 | <u>\$ 1,370,641</u>         | <u>\$ 17,840,734</u> |

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

## Governmental Funds Financial Statements

**State of New Mexico**  
**Cumbres & Toltec Scenic Railroad Commission**  
**Balance Sheet – Governmental Funds**  
**June 30, 2020**

|                                                                                | General<br>Fund   | Capital<br>Projects<br>Fund | Total<br>Governmental<br>Funds |
|--------------------------------------------------------------------------------|-------------------|-----------------------------|--------------------------------|
| <b>Assets</b>                                                                  |                   |                             |                                |
| Cash and cash equivalents                                                      | \$ 199,531        | \$ 651,019                  | \$ 850,550                     |
| Due from government agencies                                                   | -                 | 1,038,049                   | 1,038,049                      |
| Due from other funds                                                           | 282,328           | 24,530                      | 306,858                        |
| Total assets                                                                   | <u>\$ 481,859</u> | <u>\$ 1,713,598</u>         | <u>\$ 2,195,457</u>            |
| <b>Liabilities, Deferred Inflows of Resources, and Fund Balances</b>           |                   |                             |                                |
| <b>Liabilities</b>                                                             |                   |                             |                                |
| Accounts payable                                                               | \$ 1,502          | \$ 63,616                   | \$ 65,118                      |
| Accrued payroll liabilities                                                    | 6,334             | 14,514                      | 20,848                         |
| Due to other funds                                                             | 47,850            | 942,262                     | 990,112                        |
| Total liabilities                                                              | <u>55,686</u>     | <u>1,020,392</u>            | <u>1,076,078</u>               |
| <b>Deferred inflows of resources</b>                                           |                   |                             |                                |
| Unearned grant revenue                                                         | <u>-</u>          | <u>905,394</u>              | <u>905,394</u>                 |
| <b>Fund balances (deficits)</b>                                                |                   |                             |                                |
| Committed for Osier improvements                                               | -                 | 71,348                      | 71,348                         |
| Unassigned                                                                     | 426,173           | (283,536)                   | 142,637                        |
| Total fund balances (deficits)                                                 | <u>426,173</u>    | <u>(212,188)</u>            | <u>213,985</u>                 |
| Total liabilities, deferred inflows of resources, and fund balances (deficits) | <u>\$ 481,859</u> | <u>\$ 1,713,598</u>         | <u>\$ 2,195,457</u>            |

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

**State of New Mexico**  
**Cumbres & Toltec Scenic Railroad Commission**  
**Reconciliation of the Governmental Funds**  
**Balance Sheet to the Statement of Net Position**  
**June 30, 2020**

**Total fund balance - governmental funds** \$ 213,985

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

Capital assets used in governmental activities are not financial  
resources and, therefore, are not reported in the governmental  
funds.

|                               |                     |            |
|-------------------------------|---------------------|------------|
| Capital assets                | 40,919,154          |            |
| Less accumulated depreciation | <u>(24,658,252)</u> |            |
|                               |                     | 16,260,902 |

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

|                      |                |                |
|----------------------|----------------|----------------|
| Compensated absences | <u>(4,794)</u> |                |
|                      |                | <u>(4,794)</u> |

**Net position - governmental activities** **\$ 16,470,093**

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

# State of New Mexico

## Cumbres & Toltec Scenic Railroad Commission

### Statement of Revenues, Expenditures, and Changes in Fund Balance – Governmental Funds For the Year Ended June 30, 2020

|                                                      | General<br>Fund          | Capital<br>Projects<br>Fund | Total<br>Governmental<br>Funds |
|------------------------------------------------------|--------------------------|-----------------------------|--------------------------------|
| <b>Revenues</b>                                      |                          |                             |                                |
| Appropriations - State of Colorado                   | \$ 240,000               | \$ 1,207,716                | \$ 1,447,716                   |
| Appropriations - State of New Mexico                 | 261,800                  | 357,107                     | 618,907                        |
| Grants and contributions                             | -                        | 252,772                     | 252,772                        |
| Charges for services                                 | -                        | 69,974                      | 69,974                         |
| Investment income                                    | 317                      | 1,213                       | 1,530                          |
| Other                                                | 30,385                   | -                           | 30,385                         |
| Total revenues                                       | <u>532,502</u>           | <u>1,888,782</u>            | <u>2,421,284</u>               |
| <b>Expenditures</b>                                  |                          |                             |                                |
| Current                                              |                          |                             |                                |
| General government                                   | 502,235                  | -                           | 502,235                        |
| Capital outlay                                       | <u>-</u>                 | <u>2,156,030</u>            | <u>2,156,030</u>               |
| Total expenditures                                   | <u>502,235</u>           | <u>2,156,030</u>            | <u>2,658,265</u>               |
| Excess (deficiency) of revenues<br>over expenditures | <u>30,267</u>            | <u>(267,248)</u>            | <u>(236,981)</u>               |
| <b>Other Financing Sources (Uses)</b>                |                          |                             |                                |
| Proceeds from the sale of train car                  | -                        | 52,479                      | 52,479                         |
| Transfers in                                         | <u>222,932</u>           | <u>-</u>                    | <u>222,932</u>                 |
| Total other financing sources (uses)                 | <u>222,932</u>           | <u>52,479</u>               | <u>275,411</u>                 |
| Net change in fund balances                          | 253,199                  | (214,769)                   | 38,430                         |
| Fund balances, beginning of year                     | <u>172,974</u>           | <u>2,581</u>                | <u>175,555</u>                 |
| <b>Fund balances (deficits), end of year</b>         | <u><u>\$ 426,173</u></u> | <u><u>\$ (212,188)</u></u>  | <u><u>\$ 213,985</u></u>       |

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

**State of New Mexico**  
**Cumbres & Toltec Scenic Railroad Commission**  
**Reconciliation of the Governmental Funds Statement**  
**of Revenues, Expenditures, and Changes in**  
**Fund Balance to the Statement of Activities**  
**For the Year Ended June 30, 2020**

**Net change in fund balances - governmental funds** \$ 38,430

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

Capital asset additions are reported in the governmental funds as  
part of capital outlay expenditures, however, in the statement of  
activities, the cost of these assets is allocated over their  
estimated useful lives as depreciation expense. In the current  
period, these amounts are:

|                      |             |         |
|----------------------|-------------|---------|
| Capital outlay       | 2,138,168   |         |
| Depreciation expense | (1,429,998) |         |
|                      |             | 708,170 |

In the statement of activities, the gain on the sale of capital assets  
is reported, whereas in the governmental funds, only the  
proceeds from the sale of capital assets is recorded as a  
financial resource. Thus, the change in net position differs from  
the change in fund balance by the cost of the assets sold. (8,878)

Compensated absences reported in the statement of activities do  
not require the use of current financial resources and, therefore,  
are not reported as expenditures in the governmental funds.

|                                    |  |       |
|------------------------------------|--|-------|
| Net change in compensated absences |  | 1,252 |
|------------------------------------|--|-------|

**Change in net position - governmental activities** **\$ 738,974**

**State of New Mexico**  
**Cumbres & Toltec Scenic Railroad Commission**  
**Statement of Revenues and Expenditures – Budget and Actual**  
**(Budgetary Basis) – General Fund**  
**For the Year Ended June 30, 2020**

|                                                   | Budgeted Amounts |            | Actual<br>Amounts<br>(Budgetary<br>Basis) | Variance with<br>Final Budget<br>Positive<br>(Negative) |
|---------------------------------------------------|------------------|------------|-------------------------------------------|---------------------------------------------------------|
|                                                   | Original         | Final      |                                           |                                                         |
| <b>Revenues</b>                                   |                  |            |                                           |                                                         |
| Appropriations - State of Colorado                | \$ 240,000       | \$ 240,000 | \$ 240,000                                | \$ -                                                    |
| Appropriations - State of New Mexico              | 261,800          | 261,800    | 261,800                                   | -                                                       |
| Investment income                                 | -                | -          | 317                                       | 317                                                     |
| Other                                             | 15,000           | 15,000     | 30,385                                    | 15,385                                                  |
| Total revenues                                    | 516,800          | 516,800    | 532,502                                   | 15,702                                                  |
| <b>Expenses</b>                                   |                  |            |                                           |                                                         |
| Current                                           |                  |            |                                           |                                                         |
| General government                                | 513,720          | 513,720    | 502,235                                   | 11,485                                                  |
| Total expenses                                    | 513,720          | 513,720    | 502,235                                   | 11,485                                                  |
| Excess (deficiency) of revenues over expenditures | 3,080            | 3,080      | 30,267                                    | 27,187                                                  |
| <b>Other Financing Sources (Uses)</b>             |                  |            |                                           |                                                         |
| Transfers in                                      | -                | -          | 222,932                                   | 222,932                                                 |
| Total other financing sources (uses)              | -                | -          | 222,932                                   | 222,932                                                 |
| Net change in fund balance                        | \$ 3,080         | \$ 3,080   | \$ 253,199                                | \$ 250,119                                              |

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

## Proprietary Funds Financial Statements

**State of New Mexico**  
**Cumbres & Toltec Scenic Railroad Commission**  
**Statement of Net Position – Proprietary Funds**  
**June 30, 2020**

|                                              | Cumbres &<br>Toltec Operating<br>LLC | Cumbres &<br>Toltec Historic<br>Preservation<br>Association LLC | Total               |
|----------------------------------------------|--------------------------------------|-----------------------------------------------------------------|---------------------|
| <b>Assets</b>                                |                                      |                                                                 |                     |
| Current assets                               |                                      |                                                                 |                     |
| Cash and cash equivalents                    | \$ 1,173,465                         | \$ 838,962                                                      | \$ 2,012,427        |
| Accounts receivable                          | 17,592                               | -                                                               | 17,592              |
| Prepaid expenses                             | 32,662                               | 668                                                             | 33,330              |
| Due from other funds                         | 707,784                              | 259,283                                                         | 967,067             |
| Inventory                                    | 243,328                              | -                                                               | 243,328             |
| Total assets                                 | <u>2,174,831</u>                     | <u>1,098,913</u>                                                | <u>3,273,744</u>    |
| <b>Liabilities</b>                           |                                      |                                                                 |                     |
| Current liabilities                          |                                      |                                                                 |                     |
| Accounts payable                             | 157,619                              | 113,665                                                         | 271,284             |
| Accrued payroll liabilities                  | 50,191                               | -                                                               | 50,191              |
| Unearned revenue                             | 711,341                              | -                                                               | 711,341             |
| Due to other funds                           | 283,813                              | -                                                               | 283,813             |
| Refundable advance - PPP loan                | 560,900                              | -                                                               | 560,900             |
| Compensated absences, current portion        | 5,115                                | -                                                               | 5,115               |
| Total current liabilities                    | <u>1,768,979</u>                     | <u>113,665</u>                                                  | <u>1,882,644</u>    |
| Compensated absences, net of current portion | <u>20,459</u>                        | <u>-</u>                                                        | <u>20,459</u>       |
| Total liabilities                            | <u>1,789,438</u>                     | <u>113,665</u>                                                  | <u>1,903,103</u>    |
| <b>Net Position</b>                          |                                      |                                                                 |                     |
| Unrestricted                                 | <u>385,393</u>                       | <u>985,248</u>                                                  | <u>1,370,641</u>    |
| Total net position                           | <u>\$ 385,393</u>                    | <u>\$ 985,248</u>                                               | <u>\$ 1,370,641</u> |

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

**State of New Mexico**  
**Cumbres & Toltec Scenic Railroad Commission**  
**Statement of Revenues, Expenses and Changes in Net Position – Proprietary Funds**  
**For the Year Ended June 30, 2020**

|                                         | Cumbres &<br>Toltec Operating<br>LLC | Cumbres &<br>Toltec Historic<br>Preservation<br>Association LLC | Total               |
|-----------------------------------------|--------------------------------------|-----------------------------------------------------------------|---------------------|
| <b>Operating Revenues</b>               |                                      |                                                                 |                     |
| Ticket sales                            | \$ 4,180,803                         | \$ 259,283                                                      | \$ 4,440,086        |
| Retail sales                            | 386,352                              | -                                                               | 386,352             |
| Less: Cost of merchandise               | (178,932)                            | -                                                               | (178,932)           |
| Total operating revenues                | <u>4,388,223</u>                     | <u>259,283</u>                                                  | <u>4,647,506</u>    |
| <b>Operating Expenses</b>               |                                      |                                                                 |                     |
| Payroll, benefits, and taxes            | 1,727,372                            | -                                                               | 1,727,372           |
| Insurance                               | 147,809                              | 1,190                                                           | 148,999             |
| Operations                              | 1,163,271                            | -                                                               | 1,163,271           |
| Other miscellaneous service cost        | 2,914                                | -                                                               | 2,914               |
| Supplies and service                    | 299,675                              | 51,838                                                          | 351,513             |
| Professional fees                       | 14,719                               | -                                                               | 14,719              |
| General and administrative              | 239,198                              | -                                                               | 239,198             |
| Advertising and marketing               | 605,808                              | -                                                               | 605,808             |
| Utilities                               | 144,350                              | -                                                               | 144,350             |
| Travel and meetings                     | 19,582                               | -                                                               | 19,582              |
| Other                                   | 1,189                                | -                                                               | 1,189               |
| Total operating expenses                | <u>4,365,887</u>                     | <u>53,028</u>                                                   | <u>4,418,915</u>    |
| Operating income                        | <u>22,336</u>                        | <u>206,255</u>                                                  | <u>228,591</u>      |
| <b>Nonoperating Revenues (Expenses)</b> |                                      |                                                                 |                     |
| Interest income                         | 852                                  | 3,227                                                           | 4,079               |
| Donations                               | 11,562                               | -                                                               | 11,562              |
| Total nonoperating revenues (expenses)  | <u>12,414</u>                        | <u>3,227</u>                                                    | <u>15,641</u>       |
| Income before transfers                 | <u>34,750</u>                        | <u>209,482</u>                                                  | <u>244,232</u>      |
| <b>Transfers</b>                        |                                      |                                                                 |                     |
| Transfers out                           | <u>(222,932)</u>                     | <u>-</u>                                                        | <u>(222,932)</u>    |
| Total transfers                         | <u>(222,932)</u>                     | <u>-</u>                                                        | <u>(222,932)</u>    |
| Change in net position                  | (188,182)                            | 209,482                                                         | 21,300              |
| Net position, beginning of year         | <u>573,575</u>                       | <u>775,766</u>                                                  | <u>1,349,341</u>    |
| Net position, end of year               | <u>\$ 385,393</u>                    | <u>\$ 985,248</u>                                               | <u>\$ 1,370,641</u> |

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

**State of New Mexico**  
**Cumbres & Toltec Scenic Railroad Commission**  
**Statement of Cash Flows – Proprietary Funds**  
**For the Year Ended June 30, 2020**

|                                                                                               | Cumbres &<br>Toltec Operating<br>LLC | Cumbres &<br>Toltec Historic<br>Preservation<br>Association LLC | Total                      |
|-----------------------------------------------------------------------------------------------|--------------------------------------|-----------------------------------------------------------------|----------------------------|
| <b>Cash flows from operating activities</b>                                                   |                                      |                                                                 |                            |
| Cash received from customers                                                                  | \$ 4,098,365                         | \$ 259,283                                                      | \$ 4,357,648               |
| Cash paid to employees                                                                        | (1,786,960)                          | -                                                               | (1,786,960)                |
| Cash paid to suppliers                                                                        | (2,720,669)                          | (196,807)                                                       | (2,917,476)                |
| Net cash provided (used) by operating activities                                              | <u>(409,264)</u>                     | <u>62,476</u>                                                   | <u>(346,788)</u>           |
| <b>Cash flows from noncapital financing activities</b>                                        |                                      |                                                                 |                            |
| Cash transfers paid to other funds                                                            | (222,932)                            | -                                                               | (222,932)                  |
| Donations received                                                                            | 11,562                               | -                                                               | 11,562                     |
| Proceeds from issuance of PPP loan                                                            | 560,900                              | -                                                               | 560,900                    |
| Net cash provided by noncapital financing activities                                          | <u>349,530</u>                       | <u>-</u>                                                        | <u>349,530</u>             |
| <b>Cash flows from investing activities</b>                                                   |                                      |                                                                 |                            |
| Interest earnings received                                                                    | 852                                  | 3,227                                                           | 4,079                      |
| Net cash provided by investing activities                                                     | <u>852</u>                           | <u>3,227</u>                                                    | <u>4,079</u>               |
| Net increase (decrease) in cash and cash equivalents                                          | (58,882)                             | 65,703                                                          | 6,821                      |
| Cash and cash equivalents, beginning of year                                                  | 1,232,347                            | 773,259                                                         | 2,005,606                  |
| <b>Cash and cash equivalents, end of year</b>                                                 | <u><u>\$ 1,173,465</u></u>           | <u><u>\$ 838,962</u></u>                                        | <u><u>\$ 2,012,427</u></u> |
| <b>Reconciliation of operating income to net cash provided (used) by operating activities</b> |                                      |                                                                 |                            |
| Operating income                                                                              | \$ 22,336                            | \$ 206,255                                                      | \$ 228,591                 |
| Adjustments to reconcile operating income to net cash provided (used) by operating activities |                                      |                                                                 |                            |
| Changes in operating assets and liabilities:                                                  |                                      |                                                                 |                            |
| Decrease (increase) in accounts receivable                                                    | 6,725                                | -                                                               | 6,725                      |
| Decrease (increase) in prepaid expenses                                                       | (6,297)                              | (145)                                                           | (6,442)                    |
| Decrease (increase) in due from other funds                                                   | 13,815                               | (195,472)                                                       | (181,657)                  |
| Decrease (increase) in inventory                                                              | 62,392                               | -                                                               | 62,392                     |
| Increase (decrease) in accounts payable                                                       | (193,109)                            | 51,838                                                          | (141,271)                  |
| Increase (decrease) in accrued payroll liabilities                                            | (34,660)                             | -                                                               | (34,660)                   |
| Increase (decrease) in unearned revenue                                                       | (475,515)                            | -                                                               | (475,515)                  |
| Increase (decrease) in due to other funds                                                     | 219,977                              | -                                                               | 219,977                    |
| Increase (decrease) in compensated absences                                                   | (24,928)                             | -                                                               | (24,928)                   |
| Net cash provided (used) by operating activities                                              | <u><u>\$ (409,264)</u></u>           | <u><u>\$ 62,476</u></u>                                         | <u><u>\$ (346,788)</u></u> |

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**  
**June 30, 2020**

**1) History and Organization**

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 & New Mexico are appointed by their respective state governors to serve indefinite terms representing the four-member commission. Each state generally appropriates matching amounts to be used for part of the annual operating costs of the Commission and each state has also provided amounts for renovation and improvement of the railroad property.

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

The Commission is a body political and corporate under the name and form of government selected by its qualified electors. The Commission may:

- ◆ Sue or be sued;
- ◆ Enter into contracts and leases;
- ◆ Acquire and hold property, both real and personal;
- ◆ Have common seal, which may be altered at pleasure;
- ◆ 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;
- ◆ Protect generally the property of the Commission and its inhabitants;
- ◆ Preserve peace and order within the Commission; and
- ◆ 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

**State of New Mexico**  
**Cumbres & Toltec Scenic Railroad Commission**  
**Notes to the Financial Statements**  
**June 30, 2020**

1) History and Organization – continued

In the past, the Commission had 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.

Financial Reporting Entity

The financial reporting entity consists of (a) the primary government, (b) organizations for which the primary government is financially accountable and (c) other organizations for which the nature and significance of their relationship with the primary government are such that exclusion would cause the reporting entity's financial statements to be misleading or incomplete.

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 Governmental Accounting Standards Board (GASB) Statement No. 14, as amended by GASB Statement No. 39, GASB Statement No. 61 and GASB Statement No. 80. Blended component units, although legally separate entities, are in substance part of the government's operations. Each discretely presented component unit is reported in a separate column in the government-wide financial statements to emphasize that it is legally separate from the government.

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

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

**State of New Mexico**  
**Cumbres & Toltec Scenic Railroad Commission**  
**Notes to the Financial Statements**  
**June 30, 2020**

1) History and Organization – continued

- ♦ *Cumbres & Toltec Historic Preservation Association, LLC* (HPA, LLC) was formed in 2011 under the Colorado 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.

2) **Summary of Significant Accounting Principles**

Accounting Standards

The accompanying financial statements have been prepared in accordance with the accounting principles generally accepted in the United States of America (GAAP) applicable to governmental units. The GASB is the standard-setting body for governmental accounting and financial reporting. GASB standards and interpretations constitute GAAP for governments.

Basis of Presentation

*Government-Wide Financial Statements.* The government-wide financial statements (statement of net position and the statement of activities) report on the Commission's entire primary government, excluding fiduciary activities.

*Governmental activities*, which are normally supported by taxes and intergovernmental revenues, are reported separately from *business-type activities*, which rely to a significant extent on charges for service and user fees. Both governmental and business-type activities are reported in the government-wide financial statements using the economic resources measurement focus and the accrual basis of accounting, which includes long-term assets as well as long-term liabilities and other obligations. The government-wide financial statements focus more on sustainability of the Commission as an entity and the change in aggregate financial position resulting from the activities of the fiscal year.

The government-wide financial statement of net position reports all financial and capital resources of the Commission, excluding fiduciary funds. It is displayed in a format of assets less liabilities equal net position, with assets and liabilities shown in order of their relative liquidity.

**State of New Mexico**  
**Cumbres & Toltec Scenic Railroad Commission**  
**Notes to the Financial Statements**  
**June 30, 2020**

2) Summary of Significant Accounting Principles – continued

The government-wide statement of activities demonstrates the degree to which direct expenses of the various functions of the Commission are offset by program revenues. Direct expenses are those that are specifically associated with a program or function and, therefore, are clearly identifiable to a particular function. Program revenues include (1) charges to customers or users who purchase, use, or directly benefit from goods, services, or privileges provided by a particular program or activity and (2) grants and contributions that are restricted to meeting the operational or capital requirements of a particular program or activity. Taxes, investment income and other revenues not identifiable with a particular program or activity are included as general revenues. The general revenues support the net cost of the programs and activities not covered by program revenues.

*Fund Financial Statements.* Part of the basic financial statements are the fund financial statements for governmental and proprietary funds. The focus of the fund financial statements is on major funds, as defined by GASB Statement No. 34. Although this model sets forth the minimum criteria for determination of major funds, it also gives governments the option of displaying other funds as major funds.

The governmental fund financial statements are prepared on the current financial resources measurement focus and the *modified accrual basis of accounting*. This is the traditional basis of accounting for governmental funds. This presentation is deemed most appropriate to demonstrate legal and covenant compliance, demonstrate the sources and uses of liquid resources, and demonstrate how the Commission's actual revenues and expenditures conform to the annual budget. Since the governmental fund financial statements are presented on a different basis than the governmental activities column of the government-wide financial statements, a reconciliation is provided immediately following the fund statements. These reconciliations explain the adjustments necessary to transform the fund financial statements into the governmental activities column of the government-wide financial statements.

The proprietary funds financial statements are prepared on the economic resources measurement focus and the *accrual basis of accounting*, which is the same as the government-wide financial statements. Therefore, most lines for the total enterprise funds on the proprietary fund financial statements will directly reconcile to the business-type activities column on the government-wide financial statements. Because the enterprise funds are combined into a single business-type activities column on the government-wide financial statements, certain interfund activities between these funds may be eliminated in the consolidation for the government-wide financial statements but is included in the fund columns in the proprietary fund financial statements.

**State of New Mexico**  
**Cumbres & Toltec Scenic Railroad Commission**  
**Notes to the Financial Statements**  
**June 30, 2020**

2) Summary of Significant Accounting Principles – continued

The Commission uses funds to report its financial position and the results of its operations. Fund accounting segregates funds according to their intended purpose and is designed to demonstrate legal compliance and to aid financial management by segregating transactions related to certain governmental functions or activities. A fund is a separate accounting entity with a self-balancing set of accounts, which includes assets, liabilities, fund equity, revenues and expenditures/expenses.

Governmental funds are those through which most of the governmental functions of the Commission are financed. The measurement focus is based upon determination of changes in financial position rather than upon net income determination. Accordingly, 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. The major revenue source of the General fund is intergovernmental revenues. Expenditures of the General fund 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).

Proprietary funds are used to account for the Commission's ongoing business-type activities, which are similar to those often found in the private sector and where cost recovery and the determination of net income is useful or necessary for sound fiscal management. The measurement focus is based upon determination of net income, changes in net position, financial position and cash flows. Accordingly, the Commission reports the following major proprietary (enterprise) funds:

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

Measurement Focus and Basis of Accounting

The accounting and financial reporting treatment applied to a fund is determined by its measurement focus. Governmental funds are accounted for using the current financial resources measurement focus whereby only current assets and current liabilities are generally included on the balance sheet. Statements of revenues, expenditures and changes in fund balance present increases (i.e., revenues and other financing sources) and decreases (i.e., expenditures and other financing uses) in net fund balance.

**State of New Mexico**  
**Cumbres & Toltec Scenic Railroad Commission**  
**Notes to the Financial Statements**  
**June 30, 2020**

2) Summary of Significant Accounting Principles – continued

Proprietary funds are accounted for on the flow of economic resources measurement focus whereby all assets and liabilities associated with the operation of these funds are included on the statement of net position. Statements of revenues, expenses and changes in net position present increases (i.e., revenues) and decreases (i.e., expenses) in net position for proprietary funds.

The modified accrual basis of accounting is used by governmental funds. Revenues are recognized when susceptible to accrual (i.e., when they become both measurable and available). “Measurable” means the amount of the transaction can be determined and “available” means collectible within the current period or soon enough thereafter to be used to pay liabilities of the current period. The Commission considers revenues to be available if they are collected within 90 days after year-end. Grant revenue (for expenditure driven grants) of the governmental funds is generally recognized as revenue when earned as long as the payment is expected to be received within twelve months at year-end. In applying the susceptible to accrual concept to intergovernmental revenues, the legal and contractual requirements of the numerous individual programs are used as guidance.

In applying the susceptible to accrual concept to intergovernmental revenues, the legal and contractual requirements of the numerous individual programs are used as guidance. There are essentially two types of these revenues. In one, monies must be expended on the specific purpose or project before any amounts will be paid to the Commission; therefore, revenues are recognized based upon the expenditures recorded. In the other, monies are virtually unrestricted as to purpose of expenditure and are usually revocable only for failure to comply with prescribed compliance requirements. These resources are reflected as revenues at the time of receipt or earlier if the susceptible to accrual criteria are met.

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.

Expenditures are recorded when the related fund liability is incurred. Principal and interest on general long-term debt are recorded as fund liabilities when due or when amounts have been accumulated in the debt service fund for payments to be made early in the following year. General capital asset acquisitions are reported as expenditures in governmental funds.

**State of New Mexico**  
**Cumbres & Toltec Scenic Railroad Commission**  
**Notes to the Financial Statements**  
**June 30, 2020**

2) Summary of Significant Accounting Principles – continued

Proceeds from long-term debt and acquisitions under capital leases are reported as other financing sources. Indirect expenditures are allocated to the programs or funds that they benefit.

The accrual basis of accounting is followed for proprietary funds, whereby revenues are recognized in the accounting period in which they are earned and become measurable, and expenses are recognized when incurred. 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 the fund's principal ongoing operations. Operating expenses for proprietary funds include administrative expenses and depreciation on capital assets. All revenues and expenses not meeting this definition are reported as nonoperating items.

Cash and Cash Equivalents

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.

Due from Other Governmental Agencies

All amounts due from other governmental agencies are reported at their gross value and, where appropriate, are reduced by the estimated portion that is expected to be uncollectible. At June 30, 2020, all receivables are considered to be 100% collectible.

Capital Assets

According to Section 12-6-10 NMSA 1978, capital assets are defined as assets with an initial, individual cost of more than \$5,000 and an estimated useful life in excess of one year. Such assets are recorded at historical cost or estimated historical cost if purchased or constructed. Donated capital assets are recorded at estimated fair market value at the date of donation. The costs of normal maintenance and repairs that do not add to the value of the asset or materially extend asset lives are not capitalized.

Depreciation on all capital assets is provided using the straight-line basis over the following estimated useful lives of the assets:

| <u>Asset Class</u>                         | <u>Useful Life</u> |
|--------------------------------------------|--------------------|
| Buildings and rail yards                   | 15-30 years        |
| Track line and track line improvements     | 15-30 years        |
| Steam engines, rolling stock and equipment | 5-20 years         |
| Vehicles, furniture and equipment          | 5-20 years         |

**State of New Mexico**  
**Cumbres & Toltec Scenic Railroad Commission**  
**Notes to the Financial Statements**  
**June 30, 2020**

2) Summary of Significant Accounting Principles – continued

Inventory

Retail inventory consists of food and beverage, souvenirs and various other amenities which are stated at the lower of cost or market, with cost determined on the first-in, first out (FIFO) basis.

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.

Deferred Outflows/Inflows of Resources

In addition to assets, the governmental funds balance sheet reports a separate section for deferred outflows of resources. This separate financial statement element represents a *consumption* of net position that applies to a future period and so will not be recognized as an outflow of resources (expenditure) until that time. The Commission reported no deferred outflows of resources at June 30, 2020.

In addition to liabilities, the governmental funds balance sheet reports a separate section for deferred inflows of resources. This separate financial statement element represents an *acquisition* of net position that applies to a future period and so will not be recognized as an inflow of resources (revenue) until that time. Revenue must be susceptible to accrual (measurable and available to finance expenditures of the current fiscal period) to be recognized. If assets are recognized in connection with a transaction, but those assets are not yet available to finance expenditures of the current fiscal period, then the assets must be offset by deferred inflows of resources. The Commission reports one type of deferred inflow which arises under the modified accrual basis of accounting. Accordingly, the financial statement line items “unearned grant revenue” is reported only in the governmental funds balance sheet. This amount consists of appropriations revenues and grant revenues received in advance in the Capital Projects fund of \$833,898 and \$71,496, respectively.

**State of New Mexico**  
**Cumbres & Toltec Scenic Railroad Commission**  
**Notes to the Financial Statements**  
**June 30, 2020**

2) Summary of Significant Accounting Principles – continued

Net Position and Fund Balance

In the government-wide financial statements, net position is classified into the following categories:

- ◆ *Net investment in capital assets*—Consists of capital assets, net of accumulated depreciation and outstanding principal balances attributable to the acquisition, construction, or improvement of those assets;
- ◆ *Restricted*—When constraints placed on an assets use are either (1) externally imposed by creditors (such as through debt covenants), grantors, contributors, or laws or regulations of other governments, or (2) imposed by law through constitutional provisions or enabling legislation. The basic concept is that restrictions are not unilaterally established by a reporting government itself and cannot be removed without the consent of those imposing the restrictions. This category of net position is intended to identify resources that were received or earned by the Commission with an explicit understanding between the Commission and the resource providers that the funds would be used for a specific purpose;
- ◆ *Unrestricted*—Consists of net position that does not meet the definition of the two preceding categories.

In accordance with GASB Statement No. 54, *Fund Balance Reporting and Governmental Fund Type Definitions*, the Commission classifies fund balance primarily on the extent to which the Commission is bound to observe constraints imposed on the use of the resources reported in governmental funds. This statement provides the following classifications:

- ◆ *Nonspendable*—Amounts that cannot be spent either because they are not in a spendable form or because they are legally or contractually required to be maintained intact.
- ◆ *Restricted*—Amounts constrained to specific purposes by their providers (such as grantors, bondholders, and higher levels of government), through constitutional provisions, or by enabling legislation;
- ◆ *Committed*—Amounts that can only be used for specific purposes to constraints imposed by formal action of the highest level of authority, the Commission Board of Directors. Those committed amounts cannot be used for any other purpose unless the Board removes or changes the specific use by taking the same type of action (for example, resolution or ordinance) it employed to previously commit those amounts;
- ◆ *Assigned*—Amounts that are constrained by the Commission’s intent to be used for specific purposes, but are neither restricted nor committed and should be reported as assigned fund balance. The Board has not delegated the authority to assign amounts to any individuals or committees within the Commission;

**State of New Mexico**  
**Cumbres & Toltec Scenic Railroad Commission**  
**Notes to the Financial Statements**  
**June 30, 2020**

2) Summary of Significant Accounting Principles – continued

- ♦ *Unassigned*—Residual classification for the General fund. This classification represents fund balance that has not been assigned to other funds and that has not been restricted, committed, or assigned to specific purposes within the General fund. The General fund should be the only fund that reports a positive unassigned fund balance amount.

At June 30, 2020, committed fund balance in the Capital Projects fund of \$71,348 represents the accumulated revenues over expenditures generated from meal fees from the Osier station. These funds are committed for improvements at the Osier station.

When both restricted and unrestricted resources are available for use, it is the Commission's policy to use restricted resources first, then unrestricted resources. Furthermore, committed fund balances are reduced first, followed by assigned amounts, and then unassigned amounts when expenditures are incurred for purposes for which amounts in any of those unrestricted fund balance classifications can be used.

Use of Estimates

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

Tax Abatements

GASB Statement No. 77, *Tax Abatement Disclosures*, requires disclosure of tax abatement information about (1) a reporting government's own tax abatement agreements and (2) those that are entered into by other governments that reduce the reporting government's tax revenues. For financial statement reporting purposes, this statement defines a tax abatement as resulting from an agreement between a government and an individual or entity in which the government promises to forego tax revenues and the individual or entity promises to subsequently take a specific action that contributes to economic development or otherwise benefits the government or its citizens. These tax abatements may affect the financial position of the government and its results of operations, including its ability to raise resources in the future.

The Commission has evaluated the requirements of GASB Statement No. 77 and has concluded that this disclosure requirement does not apply to the Commission.

**State of New Mexico**  
**Cumbres & Toltec Scenic Railroad Commission**  
**Notes to the Financial Statements**  
**June 30, 2020**

2) Summary of Significant Accounting Principles – continued

Budgetary Data

The Commission generally follows these procedures in establishing budgetary data:

- ◆ Prior to each September, the Commission decides what level of appropriation will be requested from each state's legislature for the next fiscal year.
- ◆ 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.
- ◆ 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.
- ◆ Formal budgetary integration is employed as a management control device during the year for the train operations (CTO, LLC) and General fund (Commission) funds.
- ◆ 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 fund or HPA, LLC.

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

New Accounting Standards

GASB has issued several new accounting standards that are not yet effective or implemented by the Commission. The Commission will implement the new GASB pronouncements in the fiscal year no later than the required effective date. Management believes that none of the new accounting standards will have a significant impact on the Commission.

**State of New Mexico**  
**Cumbres & Toltec Scenic Railroad Commission**  
**Notes to the Financial Statements**  
**June 30, 2020**

**3) Cash and Cash Equivalents**

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. Deposits of funds may be made in interest or noninterest-bearing checking accounts in one or more banks or savings and loan associations. Deposits may be made to the extent that they are insured by an agency of the United States or collateralized as required by statute. The financial institution must provide pledged collateral for at least 50% of the deposit amount in excess of the deposit insurance.

At June 30, 2020, the carrying amount of the Commission's cash and cash equivalents was comprised of the following:

|                                                       |                     |
|-------------------------------------------------------|---------------------|
| Carrying amount of deposits                           | \$ 2,859,577        |
| Cash on hand                                          | <u>3,400</u>        |
| Total cash and cash equivalents                       | <u>\$ 2,862,977</u> |
| Statement of net position - cash and cash equivalents | <u>\$ 2,862,977</u> |

*Custodial Credit Risk – Deposits.* Custodial credit risk is the risk that in the event of a bank failure, the Commission's deposits may not be returned to it. The Commission does not have a deposit policy for custodial credit risk, other than the following state statutes.

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

Colorado state statutes govern the Commission's deposits of cash in Colorado. The Colorado state 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.

**State of New Mexico**  
**Cumbres & Toltec Scenic Railroad Commission**  
**Notes to the Financial Statements**  
**June 30, 2020**

3) Cash and Cash Equivalents – continued

At June 30, 2020, the bank balances of the Commission were exposed to custodial credit risk as follows:

|                                                | Alamosa<br>State Bank | Community<br>Banks of<br>Colorado | First<br>Southwest<br>Bank | New Mexico<br>Bank and<br>Trust | Washington<br>Federal |
|------------------------------------------------|-----------------------|-----------------------------------|----------------------------|---------------------------------|-----------------------|
| Bank balance of deposits                       | \$ 838,962            | \$ 655,535                        | \$ 211,638                 | \$ 641,448                      | \$ 563,096            |
| Less: FDIC insurance coverage                  | <u>(250,000)</u>      | <u>(250,000)</u>                  | <u>(211,638)</u>           | <u>(250,000)</u>                | <u>(473,974)</u>      |
| Total uninsured deposits                       | 588,962               | 405,535                           | -                          | 391,448                         | 89,122                |
| Less: Pledged collateral at fair value         | <u>(588,962)</u>      | <u>(405,535)</u>                  | <u>-</u>                   | <u>(841,229)</u>                | <u>(186,194)</u>      |
| Total uninsured/uncollateralized deposits      | <u>\$ -</u>           | <u>\$ -</u>                       | <u>\$ -</u>                | <u>\$ (449,781)</u>             | <u>\$ (97,072)</u>    |
| Collateral requirement (50%)                   | \$ 419,481            | \$ 327,768                        | \$ 105,819                 | \$ 320,724                      | \$ 281,548            |
| FDIC insurance coverage and pledged collateral | <u>838,962</u>        | <u>655,535</u>                    | <u>211,638</u>             | <u>1,091,229</u>                | <u>660,168</u>        |
| Over (under) collateralized                    | <u>\$ 419,481</u>     | <u>\$ 327,767</u>                 | <u>\$ 105,819</u>          | <u>\$ 770,505</u>               | <u>\$ 378,620</u>     |

4) **Accounts Receivable**

Accounts receivable of the Commission are as follows as of June 30, 2020:

| <i>Business-type activities</i> | <u>CTO, LLC</u>  |
|---------------------------------|------------------|
| Retail sales                    | \$ 6,053         |
| Caterer advance                 | 5,600            |
| Other                           | <u>5,939</u>     |
| Total accounts receivable       | <u>\$ 17,592</u> |

5) **Due from Government Agencies**

The Commission has the following amounts due from government agencies as of June 30, 2020:

| <i>Governmental activities</i>                          | <u>Capital Projects<br/>Fund</u> |
|---------------------------------------------------------|----------------------------------|
| State of Colorado - capital grants and appropriations   | \$ 642,737                       |
| State of New Mexico - capital grants and appropriations | <u>395,312</u>                   |
| Total due from government agencies                      | <u>\$ 1,038,049</u>              |

**State of New Mexico**  
**Cumbres & Toltec Scenic Railroad Commission**  
**Notes to the Financial Statements**  
**June 30, 2020**

**6) Capital Assets**

Capital assets activity for the year ended June 30, 2020 was as follows:

| <i>Governmental activities</i>              | Beginning<br>Balance | Additions          | Deletions         | Transfers        | Ending<br>Balance    |
|---------------------------------------------|----------------------|--------------------|-------------------|------------------|----------------------|
| <i>Capital assets not being depreciated</i> |                      |                    |                   |                  |                      |
| Land                                        | \$ 118,048           | \$ -               | \$ -              | \$ -             | \$ 118,048           |
| Water rights                                | 30,000               | -                  | -                 | -                | 30,000               |
| Construction in progress                    | 1,182,137            | 777,808            | -                 | (454,158)        | 1,505,787            |
| Copyright                                   | 5,000                | -                  | -                 | -                | 5,000                |
| Total capital assets not being depreciated  | <u>1,335,185</u>     | <u>777,808</u>     | <u>-</u>          | <u>(454,158)</u> | <u>1,658,835</u>     |
| <i>Capital assets being depreciated</i>     |                      |                    |                   |                  |                      |
| Buildings and railyards                     | 6,498,657            | -                  | -                 | 22,219           | 6,520,876            |
| Track line and track line improvements      | 16,863,195           | 709,273            | -                 | -                | 17,572,468           |
| Steam engines, rolling stock and equipment  | 12,794,650           | 627,159            | (78,463)          | 431,939          | 13,775,285           |
| Vehicles, furniture and equipment           | 1,367,762            | 23,928             | -                 | -                | 1,391,690            |
| Total capital assets being depreciated      | <u>37,524,264</u>    | <u>1,360,360</u>   | <u>(78,463)</u>   | <u>454,158</u>   | <u>39,260,319</u>    |
| <i>Less accumulated depreciation</i>        |                      |                    |                   |                  |                      |
| Buildings and railyards                     | (4,416,650)          | (142,989)          | -                 | -                | (4,559,639)          |
| Track line and track line improvements      | (9,657,809)          | (720,782)          | -                 | -                | (10,378,591)         |
| Steam engines, rolling stock and equipment  | (8,043,665)          | (507,370)          | 69,585            | -                | (8,481,450)          |
| Vehicles, furniture and equipment           | (1,179,715)          | (58,857)           | -                 | -                | (1,238,572)          |
| Total accumulated depreciation              | <u>(23,297,839)</u>  | <u>(1,429,998)</u> | <u>69,585</u>     | <u>-</u>         | <u>(24,658,252)</u>  |
| Capital assets being depreciated, net       | <u>14,226,425</u>    | <u>(69,638)</u>    | <u>(8,878)</u>    | <u>454,158</u>   | <u>14,602,067</u>    |
| Total capital assets, net                   | <u>\$ 15,561,610</u> | <u>\$ 708,170</u>  | <u>\$ (8,878)</u> | <u>\$ -</u>      | <u>\$ 16,260,902</u> |

Depreciation expense for the year ended June 30, 2020 was charged to the general government function of the Commission's governmental activities.

**7) Refundable Advance – PPP Loan**

CTO, LLC was granted a loan of \$560,900 under the PPP administered by a Small Business Administration (SBA) approved partner. The loan is uncollateralized and is fully guaranteed by the Federal government. CTO, LLC is eligible for loan forgiveness of up to 100% of the loan, upon meeting certain requirements. CTO, LLC has initially recorded this loan as a refundable advance and will record the forgiveness in accordance with guidance included in GASB Statement No. 70. Proceeds from the loan are eligible for forgiveness if they are used for certain payroll, rent, and utility expenses. CTO, LLC will be required to repay any remaining balance, plus interest accrued at 1%, in monthly payments commencing upon notification of forgiveness or partial forgiveness. Management believes that CTO, LLC is eligible for 100% forgiveness of the loan.

**State of New Mexico**  
**Cumbres & Toltec Scenic Railroad Commission**  
**Notes to the Financial Statements**  
**June 30, 2020**

**8) Unearned Revenue**

The Commission defers recognition of revenue for funds that are received in advance for the following activities:

| <i>Business-type activities</i> | <u>CTO, LLC</u>   |
|---------------------------------|-------------------|
| Ticket sales                    | \$ 610,634        |
| Charter deposits                | 5,500             |
| Gift cards                      | 14,457            |
| Engine and fire class deposits  | <u>80,750</u>     |
| Total unearned revenues         | <u>\$ 711,341</u> |

**9) Compensated Absences**

Changes in the Commission's compensated absences balances for the year ended June 30, 2020 were as follows:

|                          | Beginning<br>Balance | Increases        | Decreases          | Ending<br>Balance | Amounts<br>Due Within<br>One Year |
|--------------------------|----------------------|------------------|--------------------|-------------------|-----------------------------------|
| Governmental activities  | \$ 6,046             | \$ 9,071         | \$ (10,323)        | \$ 4,794          | \$ 3,835                          |
| Business-type activities | <u>50,502</u>        | <u>21,884</u>    | <u>(46,812)</u>    | <u>25,574</u>     | <u>20,459</u>                     |
|                          | <u>\$ 56,548</u>     | <u>\$ 30,955</u> | <u>\$ (57,135)</u> | <u>\$ 30,368</u>  | <u>\$ 24,294</u>                  |

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

**10) Transfers and Interfund Receivables/Payables**

The following interfund transfers were made for the year ended June 30, 2020:

| <i>Governmental activities</i>  | Transfers in      | Transfers out       | Net transfers       |
|---------------------------------|-------------------|---------------------|---------------------|
| General fund                    | \$ 222,932        | \$ -                | \$ 222,932          |
| Total governmental activities   | <u>\$ 222,932</u> | <u>\$ -</u>         | <u>\$ 222,932</u>   |
| <i>Business-type activities</i> |                   |                     |                     |
| CTO, LLC                        | \$ -              | \$ (222,932)        | \$ (222,932)        |
| Total business-type activities  | <u>\$ -</u>       | <u>\$ (222,932)</u> | <u>\$ (222,932)</u> |

**State of New Mexico**  
**Cumbres & Toltec Scenic Railroad Commission**  
**Notes to the Financial Statements**  
**June 30, 2020**

10) Transfers and Interfund Receivables/Payables – continued

Transfers made during fiscal year 2020 were made out of CTO, LLC and into the General fund to reimburse the General fund for salaries and benefits paid on behalf of CTO, LLC personnel.

The following interfund receivables/payables are included in the fund financial statements at June 30, 2020:

|                                 | Due from<br>other funds | Due to other<br>funds | Internal<br>balances |
|---------------------------------|-------------------------|-----------------------|----------------------|
| <i>Governmental activities</i>  |                         |                       |                      |
| General fund                    | \$ 282,328              | \$ (47,850)           | \$ 234,478           |
| Capital projects fund           | 24,530                  | (942,262)             | (917,732)            |
| Total governmental activities   | <u>\$ 306,858</u>       | <u>\$ (990,112)</u>   | <u>\$ (683,254)</u>  |
| <i>Business-type activities</i> |                         |                       |                      |
| CTO, LLC                        | \$ 707,784              | \$ (283,813)          | \$ 423,971           |
| HPA, LLC                        | 259,283                 | -                     | 259,283              |
| Total business-type activities  | <u>\$ 967,067</u>       | <u>\$ (283,813)</u>   | <u>\$ 683,254</u>    |

The amounts reported as due to/from 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.

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.

**State of New Mexico**  
**Cumbres & Toltec Scenic Railroad Commission**  
**Notes to the Financial Statements**  
**June 30, 2020**

**12) Related Party Transactions**

The Commission President's spouse provides subcontracted marketing services to the Commission and received direct and indirect payments during the period ending June 30, 2020 totaling \$7,570. At June 30, 2020, \$268 was owed to the Commission President's spouse and is included in the accounts payable balance.

During the year, the Commission occasionally incurs costs from Fina's Diner, an entity owned by one of the Commissioner's spouses. Total costs incurred during the period ending June 30, 2020 were \$6,219. No amounts were owed to Fina's Diner at June 30, 2020.

During the year, the Commission reimburses certain expenditures and pays certain fees to the Friends of the Cumbres & Toltec Scenic Railroad, Inc., a non-profit organization that manages the preservation, interpretation, museum and restoration efforts of the Railroad. Total costs incurred during the period ending June 30, 2020 were \$51,838. At June 30, 2020, \$113,665 was owed to the Friends of the Cumbres & Toltec Scenic Railroad, Inc. and is included in the accounts payable balance of HPA, LLC.

**13) Simple IRA Plan**

In August 2017, the Commission adopted a Simple IRA plan which covers all eligible employees, as defined in the plan document. The Commission's obligation under this plan is to make matching contribution equal to the employee's elective deferral up to 3 percent of their compensation. For the year ended June 30, 2020 employer matching contributions to this plan totaled \$22,244. Employees are 100% vested in employer matching contribution.

**14) Commitments and Contingencies**

Debt Limit

The amount of debt that can be incurred by the Commission is limited by resolution. At June 30, 2020, the Commission had not entered into any debt agreements, although CTO, LLC issued a PPP loan as more fully described in Note 7.

Tabor Amendment

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.

**State of New Mexico**  
**Cumbres & Toltec Scenic Railroad Commission**  
**Notes to the Financial Statements**  
**June 30, 2020**

**15) Fund Deficit**

The Capital Projects fund reports a fund deficit of \$212,188 at June 30, 2020. This deficit will be eliminated through future transfers from other funds.

**16) COVID-19 Outbreak**

The Commission's operations in fiscal years 2020 and 2021 have been affected by the recent and ongoing outbreak of the coronavirus disease 2019 (COVID-19) which has been declared a pandemic by the World Health Organization. The ultimate disruption which may be caused by the outbreak is uncertain; however, it may result in a material adverse impact on the Commission's operations and cash flows. However, as discussed in Note 7, the Commission has received funding from the federal government to assist in responding to the COVID-19 pandemic.

The extent to which the COVID-19 outbreak impacts the Commission will depend on future developments, which are highly uncertain and cannot be predicted, including the duration, spread, severity and impact of the COVID-19 outbreak, the effects of the outbreak on the Commission's customers and employees, and the remedial actions and stimulus measures adopted by local and federal governments, and to what extent normal economic and operating conditions can resume.

## Other Supplementary Information

**State of New Mexico**  
**Cumbres & Toltec Scenic Railroad Commission**  
**Schedule of Special, Deficiency, Specific, and Capital Outlay Appropriations**  
**For the Year Ended June 30, 2020**

| Description                             | Appropriation Code | Appropriation Period  | Appropriation<br>Amount | Amount<br>expended<br>through<br>June 30, 2019 | Appropriation<br>Balance<br>June 30, 2019 | Fiscal year<br>2020<br>expenditures | Appropriation<br>Balance<br>June 30, 2020 |
|-----------------------------------------|--------------------|-----------------------|-------------------------|------------------------------------------------|-------------------------------------------|-------------------------------------|-------------------------------------------|
| Laws 2016, Chapter 81, Section 9.2      | A2036              | 6/23/2016 - 6/30/2020 | \$ 315,000              | \$ 315,000                                     | \$ -                                      | \$ -                                | \$ -                                      |
| Laws 2018, Chapter 80, Section 10       | C2052              | 6/28/2018 - 6/30/2022 | 750,000                 | 550,876                                        | 199,124                                   | 191,005                             | 8,119                                     |
| Laws 2019, Chapter 277, Section 10      | D2126              | 7/1/2019 - 6/30/2023  | 1,000,000               | -                                              | 1,000,000                                 | 166,102                             | 833,898                                   |
| Laws 2020, Chapter 81, Section 11       | E2029              | 6/29/2020 - 6/30/2024 | 1,000,000               | -                                              | 1,000,000                                 | -                                   | 1,000,000                                 |
| Total New Mexico special appropriations |                    |                       | <u>\$ 3,065,000</u>     | <u>\$ 865,876</u>                              | <u>\$ 2,199,124</u>                       | <u>\$ 357,107</u>                   | <u>\$ 1,842,017</u>                       |

# State of New Mexico

## Cumbres & Toltec Scenic Railroad Commission

### Statement of Revenues and Expenditures – Budget and Actual (Budgetary Basis) – Cumbres & Toltec Operating, LLC For the Year Ended June 30, 2020

|                                                   | Budgeted Amounts  |                   | Actual<br>Amounts<br>(Budgetary<br>Basis) | Variance with<br>Final Budget<br>Positive<br>(Negative) |
|---------------------------------------------------|-------------------|-------------------|-------------------------------------------|---------------------------------------------------------|
|                                                   | Original          | Final             |                                           |                                                         |
| <b>Revenues</b>                                   |                   |                   |                                           |                                                         |
| Ticket sales                                      | \$ 4,943,636      | \$ 4,943,636      | \$ 4,180,803                              | \$ (762,833)                                            |
| Retail sales                                      | 509,000           | 509,000           | 386,352                                   | (122,648)                                               |
| Less: Cost of merchandise                         | (225,000)         | (225,000)         | (178,932)                                 | 46,068                                                  |
| Investment income                                 | -                 | -                 | 852                                       | 852                                                     |
| Donations                                         | -                 | -                 | 11,562                                    | 11,562                                                  |
| Other                                             | 38,500            | 38,500            | -                                         | (38,500)                                                |
| Total revenues                                    | <u>5,266,136</u>  | <u>5,266,136</u>  | <u>4,400,637</u>                          | <u>(865,499)</u>                                        |
| <b>Expenses</b>                                   |                   |                   |                                           |                                                         |
| Payroll, benefits, and taxes                      | 1,718,191         | 1,718,191         | 1,727,372                                 | (9,181)                                                 |
| Insurance                                         | 133,500           | 133,500           | 147,809                                   | (14,309)                                                |
| Operations                                        | 1,246,977         | 1,246,977         | 1,163,271                                 | 83,706                                                  |
| Other miscellaneous service cost                  | 300               | 300               | 2,914                                     | (2,614)                                                 |
| Supplies and service                              | 280,210           | 280,210           | 299,675                                   | (19,465)                                                |
| Professional fees                                 | 7,500             | 7,500             | 14,719                                    | (7,219)                                                 |
| General and administrative                        | 202,890           | 202,890           | 239,198                                   | (36,308)                                                |
| Advertising and marketing                         | 761,900           | 761,900           | 605,808                                   | 156,092                                                 |
| Utilities                                         | 151,800           | 151,800           | 144,350                                   | 7,450                                                   |
| Travel and meetings                               | 19,057            | 19,057            | 19,582                                    | (525)                                                   |
| Other                                             | -                 | -                 | 1,189                                     | (1,189)                                                 |
| Total expenses                                    | <u>4,522,325</u>  | <u>4,522,325</u>  | <u>4,365,887</u>                          | <u>156,438</u>                                          |
| Excess (deficiency) of revenues over expenditures | <u>743,811</u>    | <u>743,811</u>    | <u>34,750</u>                             | <u>(709,061)</u>                                        |
| <b>Other Financing Sources (Uses)</b>             |                   |                   |                                           |                                                         |
| Transfers out                                     | -                 | -                 | (222,932)                                 | (222,932)                                               |
| Total other financing sources (uses)              | -                 | -                 | (222,932)                                 | (222,932)                                               |
| Net change in fund balance                        | <u>\$ 743,811</u> | <u>\$ 743,811</u> | <u>\$ (188,182)</u>                       | <u>\$ (931,993)</u>                                     |

**State of New Mexico**  
**Cumbres & Toltec Scenic Railroad Commission**  
**Schedule of Deposits by Financial Institution**  
**June 30, 2020**

| Name/Account Type                      | Bank Balance        | Deposits in<br>Transit | Outstanding<br>Checks | Book Balance        |
|----------------------------------------|---------------------|------------------------|-----------------------|---------------------|
| <i>Alamosa State Bank</i>              |                     |                        |                       |                     |
| Checking account - HPA                 | \$ 728,926          | \$ -                   | \$ -                  | \$ 728,926          |
| Money market deposit account - HPA     | 110,036             | -                      | -                     | 110,036             |
| <i>Community Banks of Colorado</i>     |                     |                        |                       |                     |
| Checking account - capital             | 531,116             | -                      | (4,516)               | 526,600             |
| Money market deposit account - capital | 124,419             | -                      | -                     | 124,419             |
| <i>First Southwest Bank</i>            |                     |                        |                       |                     |
| Checking account - general             | 187,724             | -                      | (2,500)               | 185,224             |
| Checking account - CTO                 | 10,016              | -                      | -                     | 10,016              |
| Savings account - general              | 13,898              | 209                    | -                     | 14,107              |
| <i>New Mexico Bank and Trust</i>       |                     |                        |                       |                     |
| Checking account - ticket revenue      | 201,630             | 9,622                  | (577)                 | 210,675             |
| Checking account - accounts payable    | 357,456             | 1,000                  | (53,738)              | 304,718             |
| Checking account - debit card          | 1,673               | -                      | (154)                 | 1,519               |
| Money market deposit account - capital | 80,689              | -                      | -                     | 80,689              |
| <i>Washington Federal</i>              |                     |                        |                       |                     |
| Checking account - CTO ticket revenue  | 223,974             | 15,896                 | (17,388)              | 222,482             |
| Checking account - CTO retail          | 339,122             | 1,077                  | (33)                  | 340,166             |
| Petty cash                             | -                   | -                      | -                     | 3,400               |
| Total cash and cash equivalents        | <u>\$ 2,910,679</u> | <u>\$ 27,804</u>       | <u>\$ (78,906)</u>    | <u>\$ 2,862,977</u> |

**State of New Mexico**  
**Cumbres & Toltec Scenic Railroad Commission**  
**Schedule of Collateral by Financial Institution**  
**June 30, 2020**

| Name/Collateral description                             | CUSIP     | Current<br>Market Value |
|---------------------------------------------------------|-----------|-------------------------|
| <i>New Mexico Bank and Trust</i>                        |           |                         |
| Freddie Mac Series 2018-3 HA, 3%,<br>maturity 8/25/2057 | 35563PGB9 | \$ 841,229              |
| <i>Washington Federal</i>                               |           |                         |
| FNMA PL# BC2636, 3%, maturity 11/1/2016                 | 3140EW4W2 | 186,194                 |

## Compliance Section



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  
State of New Mexico, Cumbres & Toltec Scenic Railroad Commission  
and  
Mr. Brian S. Colón, Esq., New Mexico State Auditor

We have audited, in accordance with the auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States, the financial statements of the governmental activities, business-type activities, each major fund, and the budgetary comparison for the general fund of the State of New Mexico, Cumbres & Toltec Scenic Railroad Commission (the "Commission") as of and for the year ended June 30, 2020, and the related notes to the financial statements, which collectively comprise the Commission's basic financial statements and have issued our report thereon dated March 5, 2021.

### **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.

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. 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.

Our consideration of internal control was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control that might be material weaknesses or significant deficiencies and therefore, material weaknesses or significant deficiencies may exist that have not been identified. We did identify certain deficiencies in internal control, described in the accompanying schedule of findings and questioned costs as items 2020-001 and 2020-002, that we consider to be material weaknesses.

### **Compliance and Other Matters**

As part of obtaining reasonable assurance about whether the Commission's financial statements are free from material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit, and accordingly, we do not express such an opinion. The results of our tests disclosed instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards* and which are described in the accompanying schedule of findings and responses as items 2020-003 and 2020-004.

### **The Commission's Response 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.

*SJT Group LLC*

Albuquerque, New Mexico  
March 5, 2021

**State of New Mexico**  
**Cumbres & Toltec Scenic Railroad Commission**  
**Schedule of Findings and Responses**  
**For the Year Ended June 30, 2020**

**Section I — Summary of Auditor's Results**

**Financial Statements**

|                                                                                                                    |            |
|--------------------------------------------------------------------------------------------------------------------|------------|
| Type of auditor's report issued on whether the financial statements audited were prepared in accordance with GAAP: | Unmodified |
|--------------------------------------------------------------------------------------------------------------------|------------|

Internal control over financial reporting:

|                                 |     |
|---------------------------------|-----|
| Material weaknesses identified? | Yes |
|---------------------------------|-----|

|                                      |    |
|--------------------------------------|----|
| Significant deficiencies identified? | No |
|--------------------------------------|----|

|                                                       |    |
|-------------------------------------------------------|----|
| Noncompliance material to financial statements noted? | No |
|-------------------------------------------------------|----|

|                                                                         |     |
|-------------------------------------------------------------------------|-----|
| Other findings required to be reported under Section 12-6-5, NMSA 1978? | Yes |
|-------------------------------------------------------------------------|-----|

**State of New Mexico**  
**Cumbres & Toltec Scenic Railroad Commission**  
**Schedule of Findings and Responses – continued**  
**For the Year Ended June 30, 2020**

**Section II—Financial Statement Findings**

**2020-001 [2018-007]– Reconciliation of Financial Accounting Records (Material Weakness)**

---

*Criteria:* Internal controls over financial reporting include the ability to timely reconcile general ledger accounts and produce accurate and timely financial statements in accordance with generally accepted accounting principles (GAAP) to ensure that useful information is available to management and those charged with governance.

*Condition:* Significant adjusting journal entries were required after the accounting records were closed at year-end as follows:

- ◆ To remove old deposit-in-transit reconciling items from the bank reconciliations at June 30, 2020 - \$362,471
- ◆ To increase the balances of accounts receivable and due from government agencies at June 30, 2020 - \$350,493
- ◆ To increase the balance of capital assets at June 30, 2020 - \$236,071
- ◆ To remove duplicated revenue from a donation received in fiscal year 2020 - \$74,000

*Fiscal Year 2020 Update:* The Commission contracted with an external CPA firm to assist with year-end account reconciliations and made significant progress toward resolving this finding in fiscal year 2020. Management expects this finding to be fully resolved in fiscal year 2021.

*Cause:* Accounting transactions were not fully analyzed and accurately recorded, and monthly reconciliations were not performed for significant general ledger accounts.

*Effect:* Without fully analyzing and accurately recording transactions and without monthly account reconciliations, information provided to management may not be accurate. Also, the probability that errors will occur and go undetected is greatly increased. Finally, when accounts have not been reviewed and reconciled during the year, the accounting department becomes overburdened with year-end account analyses, potentially resulting in a time-consuming and costly process.

*Auditor's Recommendation:* Each transaction should be fully analyzed to ensure that the transaction is recorded in the general ledger correctly and is properly recognized in accordance with GAAP. Implement effective internal control that ensures all significant general ledger account balances are reconciled to supporting accounting records or subsidiary accounting ledgers.

**State of New Mexico**  
**Cumbres & Toltec Scenic Railroad Commission**  
**Schedule of Findings and Responses – continued**  
**For the Year Ended June 30, 2020**

Section II—Financial Statement Findings—continued

2020-001 [2018-007] – Reconciliation of Financial Accounting Records (Material Weakness) – continued

---

*Management's Response:* The Commission has contracted with an external CPA firm to assist with year-end account reconciliations. This finding is expected to be fully resolved in fiscal year 2021. Responsible party – CFO and Accounting Manager.

**State of New Mexico**  
**Cumbres & Toltec Scenic Railroad Commission**  
**Schedule of Findings and Responses – continued**  
**For the Year Ended June 30, 2020**

Section II—Financial Statement Findings—continued

**2020-002 [2018-006] – Enterprise Funds Revenue Reconciliation (Material Weakness)**

---

*Criteria:* Enterprise fund revenues are produced primarily from charges for services, such as ticket sales and historic preservation fees. Charges for services are tracked in a point-of-sale (POS) system on a daily basis. Enterprise fund charges for services revenue should be reconciled to the POS system activity on a daily, monthly, and annual basis.

*Condition:* The Commission's annual ticket sales and unearned revenue reports from the POS system do not agree with charges for services revenue recorded in the enterprise funds as follows:

- ◆ Difference of \$34,887 between the POS system activity report and charges for services revenue for Cumbres & Toltec Operating, LLC.
- ◆ Difference of \$9,154 between the POS system activity report and charges for services revenue for Cumbres & Toltec Historic Preservation Association, LLC.

*Fiscal Year 2020 Update:* The Commission continues to work with its POS system to develop reports to reconcile daily activity to the Commission's accounting system.

*Cause:* The Commission has not implemented controls over recording and reconciling POS system activity to charges for services revenue in the enterprise funds.

*Effect:* Without a daily reconciliation of POS system activity to the enterprise fund charges for services revenue, the likelihood of fraud or errors occurring increases. Additionally, enterprise fund charges for services revenue may require significant adjustments to be accurately reported in accordance with generally accepted accounting principles (GAAP).

*Auditor's Recommendation:* The Commission should implement a daily reconciliation process between the POS system activity report and the daily posting of charges for services revenue in the accounting system. Any variances should be investigated and resolved on a daily basis to ensure that daily, monthly, and annual revenues of the enterprise funds are accurately reported in accordance with GAAP.

*Management's Response:* The Commission continues to develop a system to reconcile deposits to the POS system reports. The Commission also continues to work with the POS vendor to develop reports which accurately reflect the daily transactions. The Commission has contracted with an external CPA firm to assist in reconciling to POS system reports. The Commission expects to have this issue fully resolved in fiscal year 2021. Responsible party – CFO and Accounting Manager.

**State of New Mexico**  
**Cumbres & Toltec Scenic Railroad Commission**  
**Schedule of Findings and Responses – continued**  
**For the Year Ended June 30, 2020**

Section II—Financial Statement Findings—continued

**2020-003 – Information Technology Policies and Procedures (Other Matter)**

---

*Criteria:* Information technology (IT) including systems and infrastructure are essential and integral to the efficiency of the Commission’s operations. IT internal controls are essential to maintain the confidentiality, integrity and availability of data. IT internal controls are as important as the internal controls that surround the input of financial transactions into the Commission’s accounting system.

*Condition:* Several areas of the IT infrastructure were identified as needing enhanced controls. These areas are:

- ◆ Documented IT general policies and procedures
- ◆ Documented disaster recovery policies and procedures
- ◆ User set up and termination policies and procedures

*Cause:* An IT risk assessment has not been performed and formal policies and procedures have not been developed or implemented.

*Effect:* Without strong internal controls over the Commission’s IT infrastructure, there is the potential for the confidentiality, integrity and/or availability of data to be compromised. This compromise could be by an internal user of the system, by an external source (hacker) and could be intentional or unintentional.

*Auditor’s Recommendation:* The Commission should perform a formal IT risk assessment and draft policies and procedures for general IT functions, backup and disaster recovery and user controls. These procedures should then be approved by the Board of Commissioners.

*Management’s Response:* The Commission will perform an IT risk assessment and develop formal policies and procedures. The Commission will also seek out IT vendors to aid in establishing internal controls and disaster recovery policies and procedures. The Commission expects to have this issue fully resolved in fiscal year 2021. Responsible party – CFO and Accounting Manager.

**State of New Mexico**  
**Cumbres & Toltec Scenic Railroad Commission**  
**Schedule of Findings and Responses – continued**  
**For the Year Ended June 30, 2020**

**Section III—Other Findings Required to be Reported Under Section 12-6-5, NMSA 1978**

**2020-004 [2019-005] – Late Audit Report (Other Noncompliance)**

---

*Criteria:* According to Section 2.2.2.9 NMAC (State Auditor Rule), the deadline for submission of the Commission’s annual audited financial statements is November 1, 2020.

*Condition:* The annual audited financial statements of the Commission for fiscal year 2020 were not submitted to the Office of the State Auditor by the November 1, 2020 deadline.

*Fiscal Year 2020 Update:* The Commission contracted with an external CPA firm to assist with year-end account reconciliations and made significant progress toward resolving this finding in fiscal year 2020. Management expects this finding to be fully resolved in fiscal year 2021.

*Cause:* Annual account reconciliations were not completed by the Commission timely after year-end, delaying the completion of the annual financial statement audit.

*Effect:* The Commission is not in compliance with 2.2.2.9 NMAC.

*Auditor’s Recommendation:* The Commission should ensure that annual account reconciliations are completed timely after year-end so that the annual audit can be completed prior to the November 1<sup>st</sup> deadline each year.

*Management’s Response:* The Commission will ensure that audits are completed and submitted in accordance with State statute. This finding is expected to be fully resolved in fiscal year 2021. Responsible party – CFO and Accounting Manager.

**State of New Mexico**  
**Cumbres & Toltec Scenic Railroad Commission**  
**Summary Schedule of Prior Year Audit Findings**  
**For the Year Ended June 30, 2020**

**2019-001 — Controls Over Payroll**

*Condition:* Of the 65 employees tested, the Commission had the following deficiencies over payroll:

- ◆ Two of the 65 employees tested had payroll deductions for insurance and retirement contributions that did not match the employee's authorized deductions in the amount of \$845.
- ◆ One of the 65 employees tested had an elected deduction for insurance contributions that was not deducted from the employee's gross pay. Authorized deductions not deducted totaled \$31.

*Current Status:* Resolved, corrective action was taken.

**2019-002 — Controls Over Expenditures**

*Condition:* Controls over expenditures had the following deficiencies:

- ◆ A New Mexico Commissioner was paid \$26 in excess of the approved mileage rate for elected commissioners due to calculations using the incorrect mileage rate. The expenditure was not made in compliance with the Per Diem and Mileage Act.
- ◆ One of the sixty-one expenditures tested in the amount of \$570 was for prior year expenses.

*Current Status:* Resolved, corrective action was taken.

**2019-003 — Reconciliation of Financial Accounting Records**

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

*Current Status:* Unresolved, see repeat finding 2020-001.

**2019-004 — Proprietary Revenue Reconciliation**

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

*Current Status:* Unresolved, see repeat finding 2020-002.

**2019-005 — Late Audit Report**

*Condition:* The audit for the year ended June 30, 2019 was not submitted to the State Auditor's Office by the November 1, 2019 due date.

*Current Status:* Unresolved, see repeat finding 2020-004.

**State of New Mexico**  
**Cumbres & Toltec Scenic Railroad Commission**  
**Exit Conference**  
**For the Year Ended June 30, 2020**

An exit conference was held in a closed session on March 3, 2021. Present at the exit conference were:

For the Cumbres & Toltec Scenic Railroad Commission:

Dan Love, Colorado Commissioner  
Bill Lock, New Mexico Commissioner  
Mark Graybill, Colorado Commissioner  
Eric Mason, Interim Chief Executive Officer  
Ed Beaudette, Chief Financial & Planning Officer  
Alysia Martinez, Accounting Officer  
Misty Schuck, Accounting Consultant (Burt & Company CPA's, LLC)

For the SJT Group LLC:

Joshua Trujillo, Principal

Preparation of the Financial Statements

The accompanying financial statements of the Commission have been prepared by the SJT Group LLC, the Commission's independent auditors, however, the financial statements are the responsibility of management.