



SJT GROUP LLC
CERTIFIED PUBLIC ACCOUNTANTS



CUMBRES & TOLTEC
SCENIC RAILROAD
COMMISSION

State of New Mexico
Cumbres & Toltec Scenic Railroad Commission

Financial Statements,
Supplementary Information,
and
Independent Auditor's Reports,

June 30, 2021

State of New Mexico Cumbres & Toltec Scenic Railroad Commission

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

Official Roster

Commissioners

Name	Title
Dan Love	Chairman - Colorado
Bill Lock	Vice Chairman - New Mexico
Mark Graybill	Secretary - Colorado
Billy Elbrock	Treasurer - New Mexico

Administrative Officials

Name	Title
John Bush	President (through November 2020)
Scott Gibbs	Interim President
Ed Beaudette	Chief Financial and Planning Officer
Tomas Campos	Business Manager



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, 2021, 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.

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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, 2021, 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 November 1, 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
November 1, 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, 2021

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, 2021. 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, 2021, by \$17.0 million (net position). Of this amount, \$0.9 million (unrestricted net position) may be used to meet the Commission’s ongoing obligations to its citizens and creditors.
- ◆ The Commission’s net position decreased by \$0.8 million in fiscal year 2021.
- ◆ Total revenues of the Commission in fiscal years 2021 and 2020 were \$4.5 million and \$7.1 million, respectively. The Commission's ticket revenue, ridership and average price per rider was as follows for the years ended June 30, 2021 and 2020:

	<u>2021</u>		<u>2020</u>	<u>\$ Change</u>	<u>% Change</u>
Ticket revenue	\$ 2,316,688	\$	4,440,086	\$ (2,123,398)	-48%
Ridership	16,687		38,745	(22,058)	-57%
Average price per rider	\$ 139	\$	115	\$ 24	21%

- ◆ Total expenses of the Commission in fiscal years 2021 and 2020 were \$5.3 million and \$6.4 million, respectively. General fund expenditures in fiscal year 2021 were well within the Commission’s approved budget. However, expenses for Cumbres & Toltec Operating, LLC (CTO) exceeded its approved budget by \$161,341.

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, 2021

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, 2021

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 the 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, 2021 and 2020.

	Governmental Activities		Business-Type Activities		Total	
	2021	2020	2021	2020	2021	2020
Assets						
Current assets	\$ 820,540	\$ 1,263,199	\$ 3,517,814	\$ 2,989,931	\$ 4,338,354	\$ 4,253,130
Capital assets, net	<u>16,094,982</u>	16,260,902	<u>-</u>	<u>-</u>	<u>16,094,982</u>	16,260,902
Total assets	<u>16,915,522</u>	17,524,101	<u>3,517,814</u>	2,989,931	<u>20,433,336</u>	20,514,032
Liabilities						
Current liabilities	214,830	991,360	2,023,688	1,090,670	2,238,518	2,082,030
Refundable advance - PPP loan	-	-	1,121,806	560,900	1,121,806	560,900
Compensated absences	<u>5,441</u>	4,794	<u>50,316</u>	25,574	<u>55,757</u>	30,368
Total liabilities	<u>220,271</u>	996,154	<u>3,195,810</u>	1,677,144	<u>3,416,081</u>	2,673,298
Net Position						
Net investment in capital assets	16,094,982	16,260,902	-	-	16,094,982	16,260,902
Unrestricted	<u>600,269</u>	267,045	<u>322,004</u>	1,312,787	<u>922,273</u>	1,579,832
Total net position	<u>\$ 16,695,251</u>	<u>\$ 16,527,947</u>	<u>\$ 322,004</u>	<u>\$ 1,312,787</u>	<u>\$ 17,017,255</u>	<u>\$ 17,840,734</u>

State of New Mexico
Cumbres & Toltec Scenic Railroad Commission
Management's Discussion and Analysis
For the Year Ended June 30, 2021

The Commission's current assets are made up primarily of cash of \$2.7 million, amounts due from other governmental agencies of \$1.3 million, and inventories of \$0.2 million. The Commission's other significant asset is capital assets, which had a balance of \$16.1 million, net of accumulated depreciation, at June 30, 2021.

The Commission's current liabilities are primarily made up of accounts payable of \$0.4 million, unearned revenues of \$1.6 million, and refundable advances received under the Paycheck Protection Program (PPP) of \$1.2 million. The Commission has received two separate PPP advances, one received in fiscal year 2020 for \$560,900, and the second advance received in fiscal year 2021 for \$560,906. The expectation is that both advances will be 100% forgiven in fiscal year 2022.

Changes in Net Position. The following table summarizes the Commission's change in net position for the years ended June 30, 2021 and 2020.

	Governmental Activities		Business-Type Activities		Total	
	2021	2020	2021	2020	2021	2020
Revenues and Transfers						
Program revenues:						
Charges for services	\$ 29,479	\$ 69,974	\$ 2,522,577	\$ 4,647,506	\$ 2,552,056	\$ 4,717,480
Operating grants and contributions	469,800	501,800	9,475	11,562	479,275	513,362
Capital grants and contributions	1,361,886	1,817,595	-	-	1,361,886	1,817,595
Interest income	544	1,530	2,047	4,079	2,591	5,609
Other	64,521	73,986	-	-	64,521	73,986
Transfers in (out)	273,260	222,932	(273,260)	(222,932)	-	-
Total revenues	<u>2,199,490</u>	<u>2,687,817</u>	<u>2,260,839</u>	<u>4,440,215</u>	<u>4,460,329</u>	<u>7,128,032</u>
Expenses						
General government	2,032,186	1,890,989	-	-	2,032,186	1,890,989
Train operations	-	-	3,139,491	4,365,887	3,139,491	4,365,887
Historic preservation	-	-	112,131	110,882	112,131	110,882
Total expenses	<u>2,032,186</u>	<u>1,890,989</u>	<u>3,251,622</u>	<u>4,476,769</u>	<u>5,283,808</u>	<u>6,367,758</u>
Change in net position	167,304	796,828	(990,783)	(36,554)	(823,479)	760,274
Net position, beginning of year (as restated)	<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>
Net position, end of year	<u>\$ 16,637,397</u>	<u>\$ 16,527,947</u>	<u>\$ 379,858</u>	<u>\$ 1,312,787</u>	<u>\$ 17,017,255</u>	<u>\$ 17,840,734</u>

During fiscal year 2021, net position decreased by \$823,479. The decrease was primarily due to a decrease in the general appropriation received from the State of Colorado, as well as a significant decrease in ticket and retail sales revenue in fiscal year 2021 as a result of the COVID-19 pandemic.

Expenses totaled \$5.3 million and \$6.4 million during fiscal years 2021 and 2020, respectively. The Commission's expenses were incurred primarily in the area of general government and train operations, comprising 98% and 98% of total expenses during fiscal years 2021 and 2020, respectively.

State of New Mexico
Cumbres & Toltec Scenic Railroad Commission
Management's Discussion and Analysis
For the Year Ended June 30, 2021

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, 2021:

	Fund Balances (Deficits) at June 30, 2020 (as restated)	Net Changes in Fund Balances	Fund Balances (Deficits) at June 30, 2021
General fund	\$ 426,173	\$ 283,397	\$ 709,570
Capital Projects fund	(154,334)	50,474	(103,860)
Total fund balances (as restated)	<u>\$ 271,839</u>	<u>\$ 333,871</u>	<u>\$ 605,710</u>

During fiscal year 2021, the Commission identified that capital expenditures in previous years, which were funded by the Capital Projects fund, should have been paid for HPA. This amounted to \$57,854, which the Commission reported as a prior period adjustment to the Capital Projects fund.

The Commission's governmental funds reported combined ending fund balances of \$605,710 as of June 30, 2021, which represents an increase of \$333,871, or 123% from fiscal year 2020. Of the total fund balances of governmental funds, \$69,315 is committed for Osier station improvements and another \$6,700 is considered nonspendable due to prepaid expenses. The remaining amount of \$529,695 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, 2021

The table below summarizes the net changes in net position and ending net positions of the Commission's proprietary funds at June 30, 2021:

	Net Position at June 30, 2020 (as restated)	Change in Net Position	Net Position (Deficit) at June 30, 2021
Cumbres & Toltec Operating LLC	\$ 385,393	\$ (1,013,332)	\$ (627,939)
Cumbres & Toltec Historic Preservation Association LLC	<u>927,394</u>	<u>22,549</u>	<u>949,943</u>
Total net position (as restated)	<u>\$ 1,312,787</u>	<u>\$ (990,783)</u>	<u>\$ 322,004</u>

The net position for the proprietary funds decreased by \$990,783, or 75%, for the year ended June 30, 2021. The increase in net position for the year ended June 30, 2020 was \$21,300. The decrease when compared to fiscal year 2020 is primarily due to the impact of the COVID-19 pandemic on train and retail operations during fiscal year 2021. This negatively impacted both train ticket sales and retail sales during fiscal year 2021.

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 2021.

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	\$ 493,600	\$ 493,600	\$ 480,971	\$ 12,629
CTO	\$ 2,819,060	\$ 2,978,150	\$ 3,139,491	\$ (161,341)

Capital Assets

The Commission's capital assets as of June 30, 2021 amount to \$16.1 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
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Management's Discussion and Analysis
For the Year Ended June 30, 2021

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 2021 and 2020, the Commission had refundable advances under the Paycheck Protection Program (PPP) of \$1,121,806 and \$560,900, respectively, outstanding and not yet forgiven by the SBA. See Note 7 to the basic financial statements for more details on these PPP advances.

At June 30, 2021, the Commission also reported a compensated absences liability of \$55,757. 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

During the 2020 operating year the Cumbres and Toltec railroad experienced a very difficult year due to COVID. The regular staffing pattern was changed and people were asked to stay home as the season was cut short.

The railroad did apply for and receive two Paycheck Protection Program loans which we have and are applying to the Small Business administration for forgiveness. We fully expect both loans to be forgiven.

During this time frame, because of the lack of employees we also fell behind in maintaining our locomotives and our track. We are currently implementing an accelerated schedule in an attempt to catch up in our maintenance efforts.

In the year 2021 we have recovered financially, having a better than average year. We are now in the process of planning our winter work and next year's train schedule which we hope we flow smoother and be a better experience for our riders. We hope to increase ridership and expect the effects of COVID to be less of an impact.

We have implemented a 7.5% in ticket price to offset the current effects of the increased inflation. Due to COVID we are also facing and anticipating a delay receiving goods from our specialized vendors. We are also noticing a shortage of supplies due to vendors having a shortage in personnel and supplies.

We have initiated an economic impact study in order to confirm the trains effect on the local communities it serves. We are also reviewing purchases in an effort to invest further in our local communities.

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Management's Discussion and Analysis
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We had one major setback which was the loss of the use of our kitchen facility in Osier due to a kitchen fire on September 23. This affected the railroad in three ways. The first being staff had to scramble and expend funds to set up a temporary eating area at Osier. The second was the lack of a traditional train meal which is what part of our branding, did cause discontent among our ridership. The third is an unexpected expense which is the \$50,000.00-dollar deductible and other improvements we feel are necessary. The Osier facility is planned to be operational by the beginning of our 2022 season.

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, 2021

	Governmental Activities	Business-Type Activities	Total
Assets			
Current assets			
Cash and cash equivalents	\$ 244,347	\$ 2,500,007	\$ 2,744,354
Accounts receivable	-	9,322	9,322
Due from governmental agencies	1,342,094	-	1,342,094
Prepaid expenses	6,700	20,431	27,131
Inventories	-	215,453	215,453
Internal balances	(772,601)	772,601	-
Total current assets	820,540	3,517,814	4,338,354
Capital assets, net	16,094,982	-	16,094,982
Total assets	<u>16,915,522</u>	<u>3,517,814</u>	<u>20,433,336</u>
Liabilities			
Current liabilities			
Accounts payable	128,172	302,442	430,614
Accrued payroll liabilities	15,802	109,668	125,470
Unearned revenues	-	1,611,578	1,611,578
Refundable advance - PPP loans	-	1,121,806	1,121,806
Compensated absences	5,441	50,316	55,757
Total liabilities	<u>149,415</u>	<u>3,195,810</u>	<u>3,345,225</u>
Deferred Inflows of Resources			
Unearned grant revenue	70,856	-	70,856
Net Position			
Net investment in capital assets	16,094,982	-	16,094,982
Unrestricted	600,269	322,004	922,273
Total net position	<u>\$ 16,695,251</u>	<u>\$ 322,004</u>	<u>\$ 17,017,255</u>

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, 2021

Functions/Programs	Program Revenues				Net (Expense) Revenue and Changes in Net Position		
	Expenses	Charges for Services	Operating Grants and Contributions	Capital Grants and Contributions	Governmental Activities	Business-Type Activities	Total
Governmental activities:							
General government	\$ (2,032,186)	\$ 29,479	\$ 469,800	\$ 1,361,886	\$ (171,021)	\$ -	\$ (171,021)
Total governmental activities	<u>(2,032,186)</u>	<u>29,479</u>	<u>469,800</u>	<u>1,361,886</u>	<u>(171,021)</u>	<u>-</u>	<u>(171,021)</u>
Business-type activities:							
Train operations	\$ (3,139,491)	\$ 2,389,731	\$ 9,475	\$ -	\$ -	\$ (740,285)	\$ (740,285)
Historic preservation	<u>(112,131)</u>	<u>132,846</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>20,715</u>	<u>20,715</u>
Total business-type activities	<u>(3,251,622)</u>	<u>2,522,577</u>	<u>9,475</u>	<u>-</u>	<u>-</u>	<u>(719,570)</u>	<u>(719,570)</u>
Total primary government	<u>\$ (5,283,808)</u>	<u>\$ 2,552,056</u>	<u>\$ 479,275</u>	<u>\$ 1,361,886</u>	<u>(171,021)</u>	<u>(719,570)</u>	<u>(890,591)</u>
General revenues and transfers:							
Interest income					544	2,047	2,591
Other					64,521	-	64,521
Transfers in (out)					<u>273,260</u>	<u>(273,260)</u>	<u>-</u>
Total general revenues and transfers					<u>338,325</u>	<u>(271,213)</u>	<u>67,112</u>
Change in net position					<u>167,304</u>	<u>(990,783)</u>	<u>(823,479)</u>
Net position, beginning of year					16,470,093	1,370,641	17,840,734
Restatement, see Note 11					<u>57,854</u>	<u>(57,854)</u>	<u>-</u>
Net position, beginning of year, as restated					<u>16,527,947</u>	<u>1,312,787</u>	<u>17,840,734</u>
Net position, end of year					<u>\$ 16,695,251</u>	<u>\$ 322,004</u>	<u>\$ 17,017,255</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, 2021

	General Fund	Capital Projects Fund	Total Governmental Funds
Assets			
Cash and cash equivalents	\$ 70,534	\$ 173,813	\$ 244,347
Due from government agencies	218,500	1,123,594	1,342,094
Prepaid expenses	6,700	-	6,700
Due from other funds	478,888	142,066	620,954
Total assets	<u>\$ 774,622</u>	<u>\$ 1,439,473</u>	<u>\$ 2,214,095</u>
Liabilities, Deferred Inflows of Resources, and Fund Balances (Deficits)			
Liabilities			
Accounts payable	\$ 6,567	\$ 121,605	\$ 128,172
Accrued payroll liabilities	6,657	9,145	15,802
Due to other funds	51,828	1,341,727	1,393,555
Total liabilities	<u>65,052</u>	<u>1,472,477</u>	<u>1,537,529</u>
Deferred inflows of resources			
Unearned grant revenue	<u>-</u>	<u>70,856</u>	<u>70,856</u>
Fund balances (deficits)			
Nonspendable	6,700	-	6,700
Committed for Osier improvements	-	69,315	69,315
Unassigned	702,870	(173,175)	529,695
Total fund balances (deficits)	<u>709,570</u>	<u>(103,860)</u>	<u>605,710</u>
Total liabilities, deferred inflows of resources, and fund balances (deficits)	<u>\$ 774,622</u>	<u>\$ 1,439,473</u>	<u>\$ 2,214,095</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, 2021

Total fund balance - governmental funds		\$ 605,710
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	42,293,986	
Less accumulated depreciation	<u>(26,199,004)</u>	
		16,094,982
Long-term liabilities are not due and payable in the current period and, therefore, are not reported in the governmental funds.		
Compensated absences	<u>(5,441)</u>	
		<u>(5,441)</u>
Net position - governmental activities		<u><u>\$ 16,695,251</u></u>

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

State of New Mexico
Cumbres & Toltec Scenic Railroad Commission
Statement of Revenues, Expenditures, and
Changes in Fund Balance – Governmental Funds
For the Year Ended June 30, 2021

	General Fund	Capital Projects Fund	Total Governmental Funds
Revenues			
Appropriations - State of Colorado	\$ 218,500	\$ 515,725	\$ 734,225
Appropriations - State of New Mexico	251,300	833,898	1,085,198
Grants and contributions	-	12,263	12,263
Charges for services	-	29,479	29,479
Investment income	47	497	544
Other	21,261	43,260	64,521
Total revenues	<u>491,108</u>	<u>1,435,122</u>	<u>1,926,230</u>
Expenditures			
Current			
General government	480,971	-	480,971
Capital outlay	-	1,384,648	1,384,648
Total expenditures	<u>480,971</u>	<u>1,384,648</u>	<u>1,865,619</u>
Excess (deficiency) of revenues over expenditures	<u>10,137</u>	<u>50,474</u>	<u>60,611</u>
Other Financing Sources (Uses)			
Transfers in	273,260	-	273,260
Total other financing sources (uses)	<u>273,260</u>	<u>-</u>	<u>273,260</u>
Net change in fund balances	<u>283,397</u>	<u>50,474</u>	<u>333,871</u>
Fund balances (deficits), beginning of year	426,173	(212,188)	213,985
Restatement, see Note 11	-	57,854	57,854
Fund balances (deficits), beginning of year, as restated	<u>426,173</u>	<u>(154,334)</u>	<u>271,839</u>
Fund balances (deficits), end of year	<u><u>\$ 709,570</u></u>	<u><u>\$ (103,860)</u></u>	<u><u>\$ 605,710</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, 2021

Net change in fund balances - governmental funds		\$ 333,871
<p>Amounts reported for governmental activities in the statement of activities are different because:</p> <p>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:</p>		
Capital outlay	1,374,832	
Depreciation expense	<u>(1,540,752)</u>	
		(165,920)
<p>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.</p>		
Net change in compensated absences		<u>(647)</u>
Change in net position - governmental activities		<u><u>\$ 167,304</u></u>

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

State of New Mexico
Cumbres & Toltec Scenic Railroad Commission
Statement of Revenues and Expenditures – Budget and Actual
(Budgetary Basis) – General Fund
For the Year Ended June 30, 2021

	Budgeted Amounts		Actual Amounts (Budgetary Basis)	Variance with Final Budget Positive (Negative)
	Original	Final		
Revenues				
Appropriations - State of Colorado	\$ 208,000	\$ 208,000	\$ 218,500	\$ 10,500
Appropriations - State of New Mexico	261,800	261,800	251,300	(10,500)
Investment income	-	-	47	47
Other	12,000	12,000	21,261	9,261
Total revenues	<u>481,800</u>	<u>481,800</u>	<u>491,108</u>	<u>9,308</u>
Expenses				
Current				
General government	493,600	493,600	480,971	12,629
Total expenses	<u>493,600</u>	<u>493,600</u>	<u>480,971</u>	<u>12,629</u>
Excess (deficiency) of revenues over expenditures	<u>(11,800)</u>	<u>(11,800)</u>	<u>10,137</u>	<u>21,937</u>
Other Financing Sources (Uses)				
Transfers in	-	-	273,260	273,260
Total other financing sources (uses)	-	-	273,260	273,260
Net change in fund balance	(11,800)	(11,800)	<u>\$ 283,397</u>	<u>\$ 295,197</u>
Budgeted cash carry forward	11,800	11,800		
Total	<u>\$ -</u>	<u>\$ -</u>		

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, 2021

	Cumbres & Toltec Operating LLC	Cumbres & Toltec Historic Preservation Association LLC	Total
Assets			
Current assets			
Cash and cash equivalents	\$ 1,659,211	\$ 840,796	\$ 2,500,007
Accounts receivable	9,322	-	9,322
Prepaid expenses	19,741	690	20,431
Due from other funds	916,040	392,130	1,308,170
Inventory	215,453	-	215,453
Total assets	<u>2,819,767</u>	<u>1,233,616</u>	<u>4,053,383</u>
Liabilities			
Current liabilities			
Accounts payable	162,208	140,234	302,442
Accrued payroll liabilities	109,668	-	109,668
Unearned revenue	1,611,578	-	1,611,578
Due to other funds	392,130	143,439	535,569
Refundable advance - PPP loans	1,121,806	-	1,121,806
Compensated absences	50,316	-	50,316
Total liabilities	<u>3,447,706</u>	<u>283,673</u>	<u>3,731,379</u>
Net Position (Deficit)			
Unrestricted (deficit)	<u>(627,939)</u>	<u>949,943</u>	<u>322,004</u>
Total net position (deficit)	<u>\$ (627,939)</u>	<u>\$ 949,943</u>	<u>\$ 322,004</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, 2021

	Cumbres & Toltec Operating LLC	Cumbres & Toltec Historic Preservation Association LLC	Total
Operating Revenues			
Ticket sales	\$ 2,183,842	\$ 132,846	\$ 2,316,688
Retail sales	198,950	-	198,950
Other	87,726	-	87,726
Less: Cost of merchandise	<u>(80,787)</u>	<u>-</u>	<u>(80,787)</u>
Total operating revenues	<u>2,389,731</u>	<u>132,846</u>	<u>2,522,577</u>
Operating Expenses			
Payroll, benefits, and taxes	1,531,271	-	1,531,271
Insurance	122,540	1,357	123,897
Operations	390,052	-	390,052
Other miscellaneous service cost	1,307	-	1,307
Supplies and service	208,382	110,774	319,156
Professional fees	108,843	-	108,843
General and administrative	171,259	-	171,259
Advertising and marketing	435,633	-	435,633
Utilities	146,357	-	146,357
Travel and meetings	17,894	-	17,894
Other	<u>5,953</u>	<u>-</u>	<u>5,953</u>
Total operating expenses	<u>3,139,491</u>	<u>112,131</u>	<u>3,251,622</u>
Operating income (loss)	<u>(749,760)</u>	<u>20,715</u>	<u>(729,045)</u>
Nonoperating Revenues (Expenses)			
Interest income	213	1,834	2,047
Donations	<u>9,475</u>	<u>-</u>	<u>9,475</u>
Total nonoperating revenues (expenses)	<u>9,688</u>	<u>1,834</u>	<u>11,522</u>
Income (loss) before transfers	<u>(740,072)</u>	<u>22,549</u>	<u>(717,523)</u>
Transfers			
Transfers out	<u>(273,260)</u>	<u>-</u>	<u>(273,260)</u>
Total transfers	<u>(273,260)</u>	<u>-</u>	<u>(273,260)</u>
Change in net position	<u>(1,013,332)</u>	<u>22,549</u>	<u>(990,783)</u>
Net position, beginning of year	385,393	985,248	1,370,641
Restatement, see Note 11	<u>-</u>	<u>(57,854)</u>	<u>(57,854)</u>
Net position, beginning of year, as restated	<u>385,393</u>	<u>927,394</u>	<u>1,312,787</u>
Net position (deficit), end of year	<u>\$ (627,939)</u>	<u>\$ 949,943</u>	<u>\$ 322,004</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, 2021

	Cumbres & Toltec Operating LLC	Cumbres & Toltec Historic Preservation Association LLC	Total
Cash flows from operating activities			
Cash received from customers	\$ 3,291,299	\$ 132,846	\$ 3,424,145
Other cash received	87,726	-	87,726
Cash paid to employees	(1,447,052)	-	(1,447,052)
Cash paid to suppliers	(1,743,561)	(132,846)	(1,876,407)
Net cash provided by operating activities	<u>188,412</u>	<u>-</u>	<u>188,412</u>
Cash flows from noncapital financing activities			
Cash transfers paid to other funds	(273,260)	-	(273,260)
Donations received	9,475	-	9,475
Proceeds from issuance of PPP loan	560,906	-	560,906
Net cash provided by noncapital financing activities	<u>297,121</u>	<u>-</u>	<u>297,121</u>
Cash flows from investing activities			
Interest earnings received	213	1,834	2,047
Net cash provided by investing activities	<u>213</u>	<u>1,834</u>	<u>2,047</u>
Net increase in cash and cash equivalents	485,746	1,834	487,580
Cash and cash equivalents, beginning of year	1,173,465	838,962	2,012,427
Cash and cash equivalents, end of year	<u>\$ 1,659,211</u>	<u>\$ 840,796</u>	<u>\$ 2,500,007</u>
Reconciliation of operating income (loss) to net cash provided by operating activities			
Operating income (loss)	\$ (749,760)	\$ 20,715	\$ (729,045)
Adjustments to reconcile operating income (loss) to net cash provided by operating activities			
Changes in operating assets and liabilities:			
Decrease (increase) in accounts receivable	8,270	-	8,270
Decrease (increase) in prepaid expenses	12,921	(22)	12,899
Decrease (increase) in due from other funds	(208,256)	(190,701)	(398,957)
Decrease (increase) in inventory	27,875	-	27,875
Increase (decrease) in accounts payable	4,589	26,569	31,158
Increase (decrease) in accrued payroll liabilities	59,477	-	59,477
Increase (decrease) in unearned revenue	900,237	-	900,237
Increase (decrease) in due to other funds	108,317	143,439	251,756
Increase (decrease) in compensated absences	24,742	-	24,742
Net cash provided by operating activities	<u>\$ 188,412</u>	<u>\$ -</u>	<u>\$ 188,412</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, 2021

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, 2021

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, 2021

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, 2021

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, 2021

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, 2021

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. 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, 2021

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, 2021, 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, 2021

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, 2021.

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 grant revenues received in advance in the Capital Projects fund of \$70,856.

State of New Mexico
Cumbres & Toltec Scenic Railroad Commission
Notes to the Financial Statements
June 30, 2021

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, 2021

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, 2021, committed fund balance in the Capital Projects fund of \$69,315 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, 2021

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.

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.

State of New Mexico
Cumbres & Toltec Scenic Railroad Commission
Notes to the Financial Statements
June 30, 2021

3) Cash and Cash Equivalents – continued

At June 30, 2021, the carrying amount of the Commission’s cash and cash equivalents was comprised of the following:

Carrying amount of deposits	\$ 2,740,884
Cash on hand	<u>3,470</u>
Total cash and cash equivalents	<u>\$ 2,744,354</u>
Statement of net position - cash and cash equivalents	<u>\$ 2,744,354</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, 2021

3) Cash and Cash Equivalents – continued

At June 30, 2021, the bank balances of the Commission were exposed to custodial credit risk as follows:

	Alamosa State Bank	Community Banks of Colorado	First Southwest Bank	New Mexico Bank and Trust	Washington Federal
Bank balance of deposits	\$ 840,796	\$ 242,411	\$ 52,067	\$ 1,287,790	\$ 393,825
Less: FDIC insurance coverage	<u>(250,000)</u>	<u>(242,411)</u>	<u>(52,067)</u>	<u>(250,000)</u>	<u>(368,239)</u>
Total uninsured deposits	590,796	-	-	1,037,790	25,586
Less: Pledged collateral at fair value	<u>(590,796)</u>	<u>-</u>	<u>-</u>	<u>(666,673)</u>	<u>(45,645)</u>
Total uninsured/uncollateralized deposits	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 371,117</u>	<u>\$ (20,059)</u>
Collateral requirement (50%)	\$ 420,398	\$ 121,206	\$ 26,034	\$ 643,895	\$ 196,913
FDIC insurance coverage and pledged collateral	<u>840,796</u>	<u>242,411</u>	<u>52,067</u>	<u>916,673</u>	<u>413,884</u>
Over (under) collateralized	<u>\$ 420,398</u>	<u>\$ 121,205</u>	<u>\$ 26,033</u>	<u>\$ 272,778</u>	<u>\$ 216,971</u>

4) **Accounts Receivable**

Accounts receivable of the Commission are as follows as of June 30, 2021:

<i>Business-type activities</i>	<u>CTO, LLC</u>
Caterer advance	<u>\$ 9,322</u>
Total accounts receivable	<u>\$ 9,322</u>

5) **Due from Government Agencies**

The Commission has the following amounts due from government agencies as of June 30, 2021:

<i>Governmental activities</i>	<u>General Fund</u>	<u>Capital Projects Fund</u>
State of Colorado - capital grants and appropriations	\$ -	\$ 711,825
State of Colorado - operating appropriation	218,500	-
State of New Mexico - capital grants and appropriations	<u>-</u>	<u>411,769</u>
Total due from government agencies	<u>\$ 218,500</u>	<u>\$ 1,123,594</u>

State of New Mexico
Cumbres & Toltec Scenic Railroad Commission
Notes to the Financial Statements
June 30, 2021

6) Capital Assets

Capital assets activity for the year ended June 30, 2021 was as follows:

<i>Governmental activities</i>	Beginning Balance	Additions	Transfers	Ending Balance
<i>Capital assets not being depreciated</i>				
Land	\$ 118,048	\$ -	\$ -	\$ 118,048
Water rights	30,000	-	-	30,000
Construction in progress	1,505,787	331,397	(1,093,135)	744,049
Copyright	5,000	-	-	5,000
Total capital assets not being depreciated	<u>1,658,835</u>	<u>331,397</u>	<u>(1,093,135)</u>	<u>897,097</u>
<i>Capital assets being depreciated</i>				
Buildings and railyards	6,520,876	31,512	216,510	6,768,898
Track line and track line improvements	17,572,468	250,175	-	17,822,643
Steam engines, rolling stock and equipment	13,775,285	715,087	755,603	15,245,975
Vehicles, furniture and equipment	1,391,690	46,661	121,022	1,559,373
Total capital assets being depreciated	<u>39,260,319</u>	<u>1,043,435</u>	<u>1,093,135</u>	<u>41,396,889</u>
<i>Less accumulated depreciation</i>				
Buildings and railyards	(4,559,639)	(144,335)	-	(4,703,974)
Track line and track line improvements	(10,378,591)	(752,503)	-	(11,131,094)
Steam engines, rolling stock and equipment	(8,481,450)	(592,552)	-	(9,074,002)
Vehicles, furniture and equipment	(1,238,572)	(51,362)	-	(1,289,934)
Total accumulated depreciation	<u>(24,658,252)</u>	<u>(1,540,752)</u>	<u>-</u>	<u>(26,199,004)</u>
Capital assets being depreciated, net	<u>14,602,067</u>	<u>(497,317)</u>	<u>1,093,135</u>	<u>15,197,885</u>
Total capital assets, net	<u>\$ 16,260,902</u>	<u>\$ (165,920)</u>	<u>\$ -</u>	<u>\$ 16,094,982</u>

Depreciation expense for the year ended June 30, 2021 was charged to the general government function of the Commission's governmental activities.

7) Refundable Advance – Paycheck Protection Program (PPP) Loans

During fiscal year 2020, 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 fully guaranteed by the Federal government. During fiscal year 2021, CTO, LLC was granted a second PPP loan of \$560,906. This second PPP loan is also uncollateralized and fully guaranteed by the Federal government. CTO, LLC is eligible for loan forgiveness of up to 100% of the loans, upon meeting certain requirements.

State of New Mexico
Cumbres & Toltec Scenic Railroad Commission
Notes to the Financial Statements
June 30, 2021

7) Refundable Advance – Paycheck Protection Program (PPP) Loans – continued

CTO, LLC has initially recorded these loans as refundable advances and will record the forgiveness in accordance with guidance included in GASB Statement No. 70. Proceeds from the loans 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 both PPP loans.

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>	CTO, LLC
Ticket sales	\$ 1,409,561
Charter deposits	26,552
Gift cards	38,740
Engine and fire class deposits	136,725
Total unearned revenues	\$ 1,611,578

9) **Compensated Absences**

Changes in the Commission’s compensated absences balances for the year ended June 30, 2021 were as follows:

	Beginning Balance	Increases	Decreases	Ending Balance	Amounts Due Within One Year
Governmental activities	\$ 4,794	\$ 12,007	\$ (11,360)	\$ 5,441	\$ 5,441
Business-type activities	25,574	100,651	(75,909)	50,316	50,316
	\$ 30,368	\$ 112,658	\$ (87,269)	\$ 55,757	\$ 55,757

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.

State of New Mexico
Cumbres & Toltec Scenic Railroad Commission
Notes to the Financial Statements
June 30, 2021

10) Transfers and Interfund Receivables/Payables

The following interfund transfers were made for the year ended June 30, 2021:

<i>Governmental activities</i>	<u>Transfers in</u>	<u>Transfers out</u>	<u>Net transfers</u>
General fund	\$ 273,260	\$ -	\$ 273,260
Total governmental activities	<u>\$ 273,260</u>	<u>\$ -</u>	<u>\$ 273,260</u>
 <i>Business-type activities</i>			
CTO, LLC	\$ -	\$ (273,260)	\$ (273,260)
Total business-type activities	<u>\$ -</u>	<u>\$ (273,260)</u>	<u>\$ (273,260)</u>

Transfers made during fiscal year 2021 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, 2021:

<i>Governmental activities</i>	<u>Due from other funds</u>	<u>Due to other funds</u>	<u>Internal balances</u>
General fund	\$ 478,888	\$ (51,828)	\$ 427,060
Capital projects fund	142,066	(1,341,727)	(1,199,661)
Total governmental activities	<u>\$ 620,954</u>	<u>\$ (1,393,555)</u>	<u>\$ (772,601)</u>
 <i>Business-type activities</i>			
CTO, LLC	\$ 916,040	\$ (392,130)	\$ 523,910
HPA, LLC	392,130	(143,439)	248,691
Total business-type activities	<u>\$ 1,308,170</u>	<u>\$ (535,569)</u>	<u>\$ 772,601</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.

State of New Mexico
Cumbres & Toltec Scenic Railroad Commission
Notes to the Financial Statements
June 30, 2021

11) Restatement of Previously Reported Amounts

During fiscal year 2021, the Commission identified that capital expenditures in previous years, which were funded by the Capital Projects fund, should have been funded by HPA, LLC. The amount of these expenditures totaled \$57,854, which the Commission has reported as a restatement of amounts previously reported in the Capital Projects fund (resulting in an increase of fund balance of \$57,854) and HPA, LLC (resulting in a decrease of net position of \$57,854). The net impact of this restatement on the Commission's overall primary government net position is \$0.

12) 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.

13) Related Party Transactions

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, 2021 were \$341. No amounts were owed to Fina's Diner at June 30, 2021.

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, 2021 were \$26,569. At June 30, 2021, \$140,234 was owed to the Friends of the Cumbres & Toltec Scenic Railroad, Inc. and is included in the accounts payable balance of HPA, LLC.

14) 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 contributions equal to the employee's elective deferral up to 3% of their compensation. For the year ended June 30, 2021 employer matching contributions to this plan totaled \$14,473. Employees are 100% vested in employer matching contributions.

State of New Mexico
Cumbres & Toltec Scenic Railroad Commission
Notes to the Financial Statements
June 30, 2021

15) Commitments and Contingencies

Debt Limit

The amount of debt that can be incurred by the Commission is limited by resolution. At June 30, 2021, the Commission had not entered into any debt agreements, although CTO, LLC has issued PPP loans 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.

15) Fund Deficits

The Capital Projects fund reports a fund deficit of \$114,360 at June 30, 2021. This deficit will be eliminated through future transfers from other funds.

CTO, LLC reports deficit net position of \$627,939 at June 30, 2021. This deficit will be eliminated through income from operations and the forgiveness of PPP loans in future reporting periods.

16) COVID-19 Outbreak

The Commission's operations in fiscal years 2021 and 2022 have been affected by the recent and ongoing outbreak of the coronavirus disease 2020 (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, 2021

Description	Appropriation Code	Appropriation Period	Appropriation Amount	Amount expended through June 30, 2020	Appropriation Balance June 30, 2020	Fiscal year 2021 expenditures	Appropriation Balance June 30, 2021
Laws 2018, Chapter 80, Section 10	C2052	6/28/2018 - 6/30/2022	\$ 750,000	\$ 741,881	\$ 8,119	\$ -	\$ 8,119
Laws 2019, Chapter 277, Section 10	D2126	7/1/2019 - 6/30/2023	1,000,000	166,102	833,898	833,898	-
Laws 2020, Chapter 81, Section 11	E2029	6/29/2020 - 6/30/2024	1,000,000	191,005	808,995	-	808,995
Laws 2020, Chapter 81, Section 11	F2097	6/22/2021 - 6/30/2025	1,000,000	-	1,000,000	-	1,000,000
Total New Mexico special appropriations			<u>\$ 3,750,000</u>	<u>\$ 1,098,988</u>	<u>\$ 2,651,012</u>	<u>\$ 833,898</u>	<u>\$ 1,817,114</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, 2021

	Budgeted Amounts		Actual Amounts (Budgetary Basis)	Variance with Final Budget Positive (Negative)
	Original	Final		
Revenues				
Ticket sales	\$ 1,143,200	\$ 1,575,000	\$ 2,183,842	\$ 608,842
Retail sales	143,150	143,150	198,950	55,800
Other	15,300	76,498	87,726	11,228
Less: Cost of merchandise	(60,580)	(60,580)	(80,787)	(20,207)
Investment income	-	-	213	213
Donations	6,000	10,175	9,475	(700)
Total revenues	<u>1,247,070</u>	<u>1,744,243</u>	<u>2,399,419</u>	<u>655,176</u>
Expenses				
Payroll, benefits, and taxes	999,350	1,254,000	1,531,271	(277,271)
Insurance	134,400	134,400	122,540	11,860
Operations	588,025	400,000	390,052	9,948
Other miscellaneous service cost	2,700	2,700	1,307	1,393
Supplies and service	209,875	209,875	208,382	1,493
Professional fees	21,000	105,000	108,843	(3,843)
General and administrative	146,825	146,825	171,259	(24,434)
Advertising and marketing	556,550	556,550	435,633	120,917
Utilities	136,435	144,900	146,357	(1,457)
Travel and meetings	18,900	18,900	17,894	1,006
Other	5,000	5,000	5,953	(953)
Total expenses	<u>2,819,060</u>	<u>2,978,150</u>	<u>3,139,491</u>	<u>(161,341)</u>
Excess (deficiency) of revenues over expenditures	<u>(1,571,990)</u>	<u>(1,233,907)</u>	<u>(740,072)</u>	<u>493,835</u>
Other Financing Sources (Uses)				
Transfers out	-	-	(273,260)	(273,260)
Total other financing sources (uses)	-	-	(273,260)	(273,260)
Net change in fund balance	(1,571,990)	(1,233,907)	<u>\$ (1,013,332)</u>	<u>\$ 220,575</u>
Budgeted cash carry forward	<u>1,173,465</u>	<u>1,173,465</u>		
Total	<u>\$ (398,525)</u>	<u>\$ (60,442)</u>		

State of New Mexico
Cumbres & Toltec Scenic Railroad Commission
Schedule of Deposits by Financial Institution
June 30, 2021

Name/Account Type	Bank Balance	Deposits in Transit	Outstanding Checks	Book Balance
<i>Alamosa State Bank</i>				
Checking account - HPA	\$ 730,760	\$ -	\$ -	\$ 730,760
Money market deposit account - HPA	110,036	-	-	110,036
<i>Community Banks of Colorado</i>				
Checking account - capital	68,598	-	(68,598)	-
Money market deposit account - capital	173,813	-	-	173,813
<i>First Southwest Bank</i>				
Checking account - general	28,144	38,500	(10,222)	56,422
Checking account - CTO	10,011	-	-	10,011
Savings account - general	13,912	-	-	13,912
<i>New Mexico Bank and Trust</i>				
Checking account - ticket revenue	1,173,512	34,476	-	1,207,988
Checking account - accounts payable	94,789	-	(94,789)	-
Checking account - debit card	3,796	-	-	3,796
Money market deposit account - capital	15,693	-	-	15,693
<i>Washington Federal</i>				
Checking account - CTO ticket revenue	275,586	21,975	(729)	296,832
Checking account - CTO retail	118,239	3,382	-	121,621
Petty cash	-	-	-	3,470
Total cash and cash equivalents	<u>\$ 2,816,889</u>	<u>\$ 98,333</u>	<u>\$ (174,338)</u>	<u>\$ 2,744,354</u>

State of New Mexico
Cumbres & Toltec Scenic Railroad Commission
Schedule of Pledged Collateral by Financial Institution
June 30, 2021

Name/Collateral description	CUSIP	Current Market Value
<i>New Mexico Bank and Trust</i>		
Freddie Mac Series 2018-3 HA, 3%, maturity 8/25/2057	35563PGB9	\$ 666,673
<i>Washington Federal</i>		
FNMA PL# BC2636, 3%, maturity 11/1/2046	3140EW4W2	45,645

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, 2021, and the related notes to the financial statements, which collectively comprise the Commission's basic financial statements and have issued our report thereon dated November 1, 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. Given these limitations, during our audit we did not identify any deficiencies in internal control that we consider to be material weaknesses. However, material weaknesses may exist that have not been identified.

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 2021-001 and 2021-002.

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
November 1, 2021

State of New Mexico
Cumbres & Toltec Scenic Railroad Commission
Schedule of Findings and Responses
For the Year Ended June 30, 2021

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? No

Significant deficiencies identified? None reported

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, 2021

Section II—Financial Statement Findings

None.

State of New Mexico
Cumbres & Toltec Scenic Railroad Commission
Schedule of Findings and Responses – continued
For the Year Ended June 30, 2021

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

2021-001 – Local Government Budget Compliance (Other Noncompliance)

Criteria: According to Section 6-6-11 NMSA 1978, “it is unlawful for any board of county commissioners, municipal governing body or any local school board, for any purpose whatever to become indebted or contract any debts of any kind or nature whatsoever during any current year which, at the end of such current year, is not and cannot then be paid out of the money actually collected and belonging to that current year. Additionally, according to Section 6-6-6 NMSA 1978, “when any budget for a local public body has been approved and received by a local public body, it is binding upon all officials and governing authorities, and no governing authority or official shall allow or approve claims in excess thereof...”

Condition: During fiscal year 2021, the following instances of non-compliance were noted:

- ◆ Budgeted expenses exceeded budgeted revenues for Cumbres & Toltec Operating, LLC (CTO, LLC) by \$1,233,907, and CTO, LLC did not have sufficient cash at the beginning of the year to cover this budgeted deficit.
- ◆ Actual expenses for CTO, LLC exceeded budgeted expenses by \$161,341.

Cause: The Commission budgeted a deficit for CTO, LLC and budget adjustment requests were not approved to correct this deficit or any over-expenditures of budgeted amounts.

Effect: The Commission is not in compliance with Sections 6-6-6 and 6-6-11 NMSA 1978.

Auditor’s Recommendation: The Commission should ensure that budgeted revenues at least equal budgeted expenses in all funds at the start of each year in compliance with Section 6-6-11 NMSA 1978. Additionally, when the Commission identifies that actual expenses will exceed the original approved budget, the Commission should prepare budget adjustment requests for approval by the Board of Commissioners.

Management’s Response: The Accounting Officer will review the budget at the beginning of each fiscal year for compliance with the statute, in particular that any budgeted deficit will have sufficient cash to cover said deficit. In addition, the Accounting Officer will review the actual expenses on a monthly basis to ensure that budget adjustments are done timely for any over-expenditures noted. This finding is expected to be fully resolved in fiscal year 2022.

State of New Mexico
Cumbres & Toltec Scenic Railroad Commission
Schedule of Findings and Responses – continued
For the Year Ended June 30, 2021

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

2021-002 – Public Money Act (Other Noncompliance)

Criteria: In general, the “24-hour deposit rule” requires all public money received by any state official or agency, “unless otherwise specified by statutory exception,” be deposited into the state treasury before the close of the next succeeding business day after the receipt of the money (NMSA 1978, Section 6-10-3).

Condition: During fiscal year 2021, one of sixteen deposits tested was deposited more than two months past the date of the check included in the deposit. The amount of this deposit was \$2,117.

Cause: The check was received by the former President of the Commission and was not remitted to the accounting department for deposit until more than two months after original receipt of the check.

Effect: The Commission is not in compliance with the Public Money Act.

Auditor’s Recommendation: The Commission should update its policies and procedures to ensure that all cash is received in the accounting department and deposited timely in compliance with the Public Money Act.

Management’s Response: The General Manager and the Accounting Officer will ensure that all monies received, to include all checks and cash, are deposited timely. The Commission considers this instance to be a one-time occurrence by the former President of the Commission, who is no longer with the Commission. This finding is expected to be fully resolved in fiscal year 2022.

State of New Mexico
Cumbres & Toltec Scenic Railroad Commission
Summary Schedule of Prior Year Audit Findings
For the Year Ended June 30, 2021

2020-001 — Reconciliation of Financial Accounting Records

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, 2021 - \$362,471
- ◆ To increase the balances of accounts receivable and due from government agencies at June 30, 2021 - \$350,493
- ◆ To increase the balance of capital assets at June 30, 2021 - \$236,071
- ◆ To remove duplicated revenue from a donation received in fiscal year 2021 - \$74,000

Current Status: Resolved, corrective action was taken.

2020-002 — Enterprise Funds Revenue Reconciliation

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.

Current Status: Resolved, corrective action was taken.

2020-003 — Information Technology Policies and Procedures

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

Current Status: Resolved, corrective action was taken.

2020-004 — Late Audit Report

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.

Current Status: Resolved, corrective action was taken.

State of New Mexico
Cumbres & Toltec Scenic Railroad Commission
Exit Conference
For the Year Ended June 30, 2021

An exit conference was held in a closed session on October 29, 2021. Present at the exit conference were:

For the Cumbres & Toltec Scenic Railroad Commission:

Scott Gibbs, Colorado Commissioner and Interim President

Bill Lock, New Mexico Commissioner

Mark Graybill, Colorado Commissioner

Ed Beaudette, Chief Financial & Planning Officer

Tomas Campos, General Manager

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.