



SJT GROUP LLC
CERTIFIED PUBLIC ACCOUNTANTS



CUMBRES & TOLTEC
SCENIC RAILROAD
COMMISSION

Cumbres & Toltec Scenic Railroad Commission

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

June 30, 2022

Cumbres & Toltec Scenic Railroad Commission

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Cumbres & Toltec Scenic Railroad Commission

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Cumbres & Toltec Scenic Railroad Commission

Official Roster

Commissioners

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

Administrative Officials

Name	Title
Scott Gibbs	President
Tomas Campos	Business Manager
Alysia Martinez	Finance Manager



Independent Auditor's Report

Board of Commissioners
Cumbres & Toltec Scenic Railroad Commission
and
Mr. Joseph M. Maestas, PE, New Mexico State Auditor

Report on the Financial Statements

Opinions

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 Cumbres & Toltec Scenic Railroad Commission (the "Commission"), as of and for the year ended June 30, 2022, and the related notes to the financial statements, which collectively comprise the Commission's basic financial statements as listed in the table of contents.

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, 2022, and the respective changes in financial position and, where applicable, cash flows thereof, 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.

Basis for Opinions

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. Our responsibilities under those standards are further described in the Auditor's Responsibilities for the Audit of the Financial Statements section of our report. We are required to be independent of the Commission and to meet our other ethical responsibilities, in accordance with the relevant ethical requirements relating to our audit. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinions.

Responsibilities of Management 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.

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In preparing the financial statements, management is required to evaluate whether there are conditions or events, considered in the aggregate, that raise substantial doubt about the Commission's ability to continue as a going concern for twelve months beyond the financial statement date, including any currently known information that may raise substantial doubt shortly thereafter.

Auditor's Responsibility for the Audit of the Financial Statements

Our objectives are to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinions. Reasonable assurance is a high level of assurance but is not absolute assurance and therefore is not a guarantee that an audit conducted in accordance with generally accepted auditing standards and *Government Auditing Standards* will always detect a material misstatement when it exists. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control. Misstatements are considered material if there is a substantial likelihood that, individually or in the aggregate, they would influence the judgment made by a reasonable user based on the financial statements.

In performing an audit in accordance with generally accepted auditing standards and *Government Auditing Standards*, we:

- ◆ Exercise professional judgment and maintain professional skepticism throughout the audit.
- ◆ Identify and assess the risks of material misstatement of the financial statements, whether due to fraud or error, and design and perform audit procedures responsive to those risks. Such procedures include examining, on a test basis, evidence regarding the amounts and disclosures in the financial statements.
- ◆ Obtain an understanding of internal control relevant to the audit 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, no such opinion is expressed.
- ◆ Evaluate the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluate the overall presentation of the financial statements.
- ◆ Conclude whether, in our judgment, there are conditions or events, considered in the aggregate, that raise substantial doubt about the Commission's ability to continue as a going concern for a reasonable period of time.

We are required to communicate with those charged with governance regarding, among other matters, the planned scope and timing of the audit, significant audit findings, and certain internal control-related matters that we identified during the audit.

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.

Supplementary Information

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the Commission's basic financial statements. The 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 May 4, 2023, 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
May 4, 2023

Management's Discussion and Analysis

Cumbres & Toltec Scenic Railroad Commission

Management's Discussion and Analysis

For the Year Ended June 30, 2022

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, 2022. 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, 2022, by \$20.5 million (net position). Of this amount, \$2.2 million (unrestricted net position) may be used to meet the Commission's ongoing obligations to its citizens and creditors.
- ◆ The Commission's net position increased by \$3.5 million in fiscal year 2022.
- ◆ Total revenues of the Commission in fiscal years 2022 and 2021 were \$10.7 million and \$4.5 million, respectively. The Commission's ticket revenue, ridership and average price per rider was as follows for the years ended June 30, 2022 and 2021:

	2022	2021	\$ Change	% Change
Ticket revenue	\$ 4,456,309	\$ 2,316,688	\$ 2,139,621	92%
Ridership	25,697	16,687	9,010	54%
Average price per rider	\$ 173	\$ 139	\$ 34	24%

- ◆ Total expenses of the Commission in fiscal years 2022 and 2021 were \$7.1 million and \$5.3 million, respectively. General fund and CTO, LLC expenditures in fiscal year 2022 were well within the Commission's approved budgets.

Overview of the Financial Report

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

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

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).

Cumbres & Toltec Scenic Railroad Commission

Management's Discussion and Analysis

For the Year Ended June 30, 2022

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. The Commission uses fund accounting to ensure and demonstrate compliance with finance-related 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.

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.

Cumbres & Toltec Scenic Railroad Commission

Management's Discussion and Analysis

For the Year Ended June 30, 2022

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 in more detail. The Commission maintains two types of proprietary funds, known as 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, 2022 and 2021.

	Governmental Activities		Business-Type Activities		Total	
	2022	2021	2022	2021	2022	2021
Assets						
Current assets	\$ 5,189,199	\$ 820,540	\$ 3,286,589	\$ 3,517,814	\$ 8,475,788	\$ 4,338,354
Right-to-use assets, net	-	-	16,180	-	16,180	-
Capital assets, net	<u>18,305,408</u>	16,094,982	-	-	<u>18,305,408</u>	16,094,982
Total assets	<u>23,494,607</u>	<u>16,915,522</u>	<u>3,302,769</u>	<u>3,517,814</u>	<u>26,797,376</u>	<u>20,433,336</u>
Liabilities						
Current liabilities	4,227,888	214,830	1,936,377	2,023,688	6,164,265	2,238,518
Refundable advance - PPP loan	-	-	-	1,121,806	-	1,121,806
Compensated absences	9,791	5,441	63,510	50,316	73,301	55,757
Leases payable	-	-	16,203	-	16,203	-
Total liabilities	<u>4,237,679</u>	<u>220,271</u>	<u>2,016,090</u>	<u>3,195,810</u>	<u>6,253,769</u>	<u>3,416,081</u>
Net Position						
Net investment in capital assets	18,305,408	16,094,982	-	-	18,305,408	16,094,982
Unrestricted	<u>951,520</u>	600,269	<u>1,286,679</u>	322,004	<u>2,238,199</u>	922,273
Total net position	<u>\$ 19,256,928</u>	<u>\$ 16,695,251</u>	<u>\$ 1,286,679</u>	<u>\$ 322,004</u>	<u>\$ 20,543,607</u>	<u>\$ 17,017,255</u>

The Commission's current assets are made up primarily of cash of \$4.9 million and receivables of \$3.3 million. The Commission's other significant asset is capital assets, which had a balance of \$18.3 million, net of accumulated depreciation, at June 30, 2022.

The Commission's current liabilities are primarily made up of accounts payable of \$1.6 million, and unearned revenues of \$4.4 million. Accounts payable balances increased by \$1.2 million at June 30, 2022 as compared to the balance at June 30, 2021, primarily due to outstanding invoices from contractors for the restoration of the Osier station after a fire occurred in 2022.

Cumbres & Toltec Scenic Railroad Commission

Management's Discussion and Analysis

For the Year Ended June 30, 2022

Unearned grant revenues also increased by \$3 million in 2022 due to the advance payment of a special appropriation from the State of New Mexico for use in fiscal years 2023 – 2025. This is reported as deferred inflows of resources in the statement of net position at June 30, 2022.

The Commission received two separate Paycheck Protection Program (PPP) loans, one received in fiscal year 2020 for \$560,900, and one received in fiscal year 2021 for \$560,906. Both PPP loans were fully forgiven in fiscal year 2022, which caused a decrease in noncurrent liabilities in 2022.

Changes in Net Position. The following table summarizes the Commission's change in net position for the years ended June 30, 2022 and 2021.

	Governmental Activities		Business-Type Activities		Total	
	2022	2021	2022	2021	2022	2021
Revenues and Transfers						
Program revenues:						
Charges for services	\$ 93,588	\$ 29,479	\$ 4,650,035	\$ 2,522,577	\$ 4,743,623	\$ 2,552,056
Operating grants and contributions	584,750	469,800	98,449	9,475	683,199	479,275
Capital grants and contributions	2,025,449	1,361,886	-	-	2,025,449	1,361,886
Interest income	555	544	1,395	2,047	1,950	2,591
Other income	41,627	64,521	-	-	41,627	64,521
Gain from disposal of assets	1,723,402	-	-	-	1,723,402	-
Employee retention tax credits	-	-	316,146	-	316,146	-
PPP loan forgiveness	-	-	1,121,806	-	1,121,806	-
Transfers in (out)	444,137	273,260	(444,137)	(273,260)	-	-
Total revenues	<u>4,913,508</u>	<u>2,199,490</u>	<u>5,743,694</u>	<u>2,260,839</u>	<u>10,657,202</u>	<u>4,460,329</u>
Expenses						
General government	2,351,831	2,032,186	-	-	2,351,831	2,032,186
Train operations	-	-	4,662,688	3,139,491	4,662,688	3,139,491
Historic preservation	-	-	116,331	112,131	116,331	112,131
Total expenses	<u>2,351,831</u>	<u>2,032,186</u>	<u>4,779,019</u>	<u>3,251,622</u>	<u>7,130,850</u>	<u>5,283,808</u>
Change in net position	2,561,677	167,304	964,675	(990,783)	3,526,352	(823,479)
Net position, beginning of year	<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>
Net position, end of year	<u>\$ 19,256,928</u>	<u>\$ 16,695,251</u>	<u>\$ 1,286,679</u>	<u>\$ 322,004</u>	<u>\$ 20,543,607</u>	<u>\$ 17,017,255</u>

During fiscal year 2022, net position increased by \$3.5 million. The increase was primarily due to the PPP loan forgiveness in 2022 of \$1.1 million and Employee Retention Tax Credits received of \$0.3 million. Additionally, the Commission received insurance recoveries of \$1.7 million due to the losses incurred from the fire at the Osier station during 2022. These insurance recoveries are reported as a gain on the disposal of capital assets in 2022.

Expenses totaled \$7.1 million and \$5.3 million during fiscal years 2022 and 2021, respectively. The Commission's expenses were incurred primarily in the area of general government and train operations, comprising 98% of total expenses during fiscal years 2022 and 2021.

Cumbres & Toltec Scenic Railroad Commission

Management's Discussion and Analysis

For the Year Ended June 30, 2022

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, 2022:

	Fund Balances		
	(Deficits) at	Net Changes in	Fund Balances
	June 30, 2021	Fund Balances	at June 30, 2022
	<u> </u>	<u> </u>	<u> </u>
General fund	\$ 709,570	\$ 226,028	\$ 935,598
Capital Projects fund	(103,860)	129,573	25,713
Total fund balances	<u>\$ 605,710</u>	<u>\$ 355,601</u>	<u>\$ 961,311</u>

The Commission's governmental funds reported combined ending fund balances of \$961,311 as of June 30, 2022, which represents an increase of \$355,601, or 59%, from fiscal year 2021. Of the total fund balances of governmental funds, \$85,907 is committed for Osier station improvements and another \$7,280 is considered nonspendable due to prepaid expenses. The remaining amount of \$868,124 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. The table below summarizes the net changes in net position and ending net positions of the Commission's proprietary funds at June 30, 2022:

	Net Position		
	(Deficit) at June	Change in Net	Net Position at
	30, 2021	Position	June 30, 2022
	<u> </u>	<u> </u>	<u> </u>
Cumbres & Toltec Operating LLC	\$ (627,939)	\$ 807,766	\$ 179,827
Cumbres & Toltec Historic Preservation Association LLC	949,943	156,909	1,106,852
Total net position	<u>\$ 322,004</u>	<u>\$ 964,675</u>	<u>\$ 1,286,679</u>

Cumbres & Toltec Scenic Railroad Commission

Management's Discussion and Analysis

For the Year Ended June 30, 2022

The net position for the proprietary funds increased by \$964,675, or 300%, for the year ended June 30, 2022. The increase when compared to fiscal year 2021 is primarily due to PPP loan forgiveness of \$1.1 million and Employee Retention Tax Credits received of \$0.3 million.

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 2022.

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:

	<u>Original budget</u>	<u>Final budget</u>	<u>Actual</u>	<u>Variance</u>
General fund	\$ 497,052	\$ 597,052	\$ 591,288	\$ 5,764
CTO LLC	\$ 5,886,629	\$ 5,986,629	\$ 4,662,688	\$ 1,323,941

Capital Assets

The Commission's capital assets as of June 30, 2022 amount to \$18.3 million (net of accumulated depreciation). Capital assets include land, water rights, construction in progress, buildings and railyards, track line and track line improvements, steam engines, furniture and equipment, and vehicles.

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 5 to the basic financial statements for more details regarding capital assets.

Right-to-Use Assets and Leases Payable

During fiscal year 2022, the Commission implemented the provisions of GASB Statement No. 87, *Leases*, resulting in the reporting of right-to-use assets and leases payable at June 30, 2022. See Note 5 to the basic financial statements for right-to-use assets activity and Note 9 for leases payable activity.

Long-Term Liabilities

At the end of fiscal year 2021, CTO, LLC had refundable advances under the PPP of \$1,121,806 outstanding and not yet forgiven by the SBA. These loans were fully forgiven during the year ended June 30, 2022. See Note 7 to the basic financial statements for more details on these PPP advances.

Cumbres & Toltec Scenic Railroad Commission

Management's Discussion and Analysis

For the Year Ended June 30, 2022

At June 30, 2022, the Commission also reported a compensated absences liability of \$73,301. See Note 8 to the basic financial statements for more details about the Commission's compensated absences activity.

Economic Outlook and the Commission's Future

The last normal operating year for the Commission was 2019. During the 2020 operating season, the Commission experienced a very difficult year due to COVID. Our ridership and staffing patterns changed as people were asked to stay home and the season was cut short. The maintenance work season was truncated as shop staff were sent home. The impact of the lost time on the maintenance work is still being realized in 2023.

CTO, LLC did apply for and receive two PPP loans which have been forgiven by the Small Business Administration. CTO, LLC also received relief under the CARES Act for Employee Retention Tax Credits.

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, the Commission has improved financially, having a better than average year in spite of the ongoing COVID restrictions that limited options for some of our trips. In 2022, the opening day for the railroad season was delayed until July 1, 2022 due to the extreme fire danger and the wildland fires in New Mexico. We estimated the lost revenue from this delay to be approximately \$750,000 due to the cancelation of trains in June of 2022. The Village of Chama water issues also impacted ridership in July of 2022. In spite of these challenges, we had a very strong fall color season and hosted 26,597 guests between July 1 and October 23, 2022.

We have made significant progress on the locomotive fleet and expect to have four locomotives in operation on opening day with two additional large engines becoming available during the operating season. Two locomotives will have been converted to burn waste lubricating oil in place of coal. We also completed a 1,472-service day inspection for the Durango Railroad Historical Society (DRHS) on locomotive 315. The 315 has been on the Commission's property since 2016 and will remain until 2025. The work on the 315 was reimbursed by DRHS. All of the passenger cars used on our regular passenger trains were also repainted this winter.

We implemented a 7.5% ticket price increase in 2021 to help offset the effects of inflation and increased costs. We have not increased ticket prices for the 2022 operating season. Like many other businesses we are also facing 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. Some specialty metals used in locomotive maintenance are in very short supply with long lead times.

Cumbres & Toltec Scenic Railroad Commission
Management's Discussion and Analysis
For the Year Ended June 30, 2022

We have completed an economic impact study in order to confirm the railroad's impact on the local communities we serve. The study concluded that we have a \$17.8 million impact on the 5-county region. We are also reviewing purchases in an effort to purchase locally and invest in our local communities.

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, 2021. The dining hall was operational for the 2022 season. We brought in a mobile kitchen used in the film industry and served 26,597 guests. The Osier dining hall kitchen will be operational by the beginning of our 2023 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

Cumbres & Toltec Scenic Railroad Commission

Statement of Net Position

June 30, 2022

	Governmental Activities	Business-Type Activities	Total
Assets			
Current assets			
Cash and cash equivalents	\$ 3,246,994	\$ 1,616,748	\$ 4,863,742
Grants receivable	2,761,736	30,000	2,791,736
Other receivables	505,378	653	506,031
Prepaid expenses	7,280	150,289	157,569
Inventories	-	156,710	156,710
Internal balances	(1,332,189)	1,332,189	-
Total current assets	5,189,199	3,286,589	8,475,788
Right-to-use assets, net	-	16,180	16,180
Capital assets, net	18,305,408	-	18,305,408
Total assets	23,494,607	3,302,769	26,797,376
Liabilities			
Current liabilities			
Accounts payable	1,215,760	429,954	1,645,714
Accrued payroll liabilities	12,128	126,128	138,256
Unearned revenues	-	1,380,295	1,380,295
Compensated absences	9,791	63,510	73,301
Leases payable, current portion	-	4,370	4,370
Total current liabilities	1,237,679	2,004,257	3,241,936
Leases payable, net of current portion	-	11,833	11,833
Total liabilities	1,237,679	2,016,090	3,253,769
Deferred Inflows of Resources			
Unearned grant revenue	3,000,000	-	3,000,000
Net Position			
Net investment in capital assets	18,305,408	-	18,305,408
Unrestricted	951,520	1,286,679	2,238,199
Total net position	\$ 19,256,928	\$ 1,286,679	\$ 20,543,607

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

Cumbres & Toltec Scenic Railroad Commission

Statement of Activities For the Year Ended June 30, 2022

Functions/Programs	Program Revenues				Net (Expense) Revenue and Changes in Net Position		
	Expenses	Charges for Services	Operating	Capital	Governmental Activities	Business-Type Activities	Total
			Grants and Contributions	Grants and Contributions			
Governmental activities:							
General government	\$ (2,351,831)	\$ 93,588	\$ 584,750	\$ 2,025,449	\$ 351,956	\$ -	\$ 351,956
Total governmental activities	<u>(2,351,831)</u>	<u>93,588</u>	<u>584,750</u>	<u>2,025,449</u>	<u>351,956</u>	<u>-</u>	<u>351,956</u>
Business-type activities:							
Train operations	(4,662,688)	4,377,837	98,449	-	-	(186,402)	(186,402)
Historic preservation	(116,331)	272,198	-	-	-	155,867	155,867
Total business-type activities	<u>(4,779,019)</u>	<u>4,650,035</u>	<u>98,449</u>	<u>-</u>	<u>-</u>	<u>(30,535)</u>	<u>(30,535)</u>
Total primary government	<u>\$ (7,130,850)</u>	<u>\$ 4,743,623</u>	<u>\$ 683,199</u>	<u>\$ 2,025,449</u>	<u>351,956</u>	<u>(30,535)</u>	<u>321,421</u>
General revenues and transfers:							
Interest income					555	1,395	1,950
Other income					41,627	-	41,627
Gain from disposal of assets from Osier station fire					1,723,402	-	1,723,402
Employee retention tax credits					-	316,146	316,146
Paycheck Protection Program (PPP) loan forgiveness					-	1,121,806	1,121,806
Transfers in (out)					444,137	(444,137)	-
Total general revenues and transfers					<u>2,209,721</u>	<u>995,210</u>	<u>3,204,931</u>
Change in net position					2,561,677	964,675	3,526,352
Net position, beginning of year					<u>16,695,251</u>	<u>322,004</u>	<u>17,017,255</u>
Net position, end of year					<u>\$ 19,256,928</u>	<u>\$ 1,286,679</u>	<u>\$ 20,543,607</u>

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

Governmental Funds Financial Statements

Cumbres & Toltec Scenic Railroad Commission

Balance Sheet – Governmental Funds

June 30, 2022

	General Fund	Capital Projects Fund	Total Governmental Funds
Assets			
Cash and cash equivalents	\$ 992,820	\$ 2,254,174	\$ 3,246,994
Grants receivable	-	2,761,736	2,761,736
Other receivables	505,378	-	505,378
Prepaid expenses	7,280	-	7,280
Due from other funds	498,779	247,711	746,490
Total assets	\$ 2,004,257	\$ 5,263,621	\$ 7,267,878
 Liabilities, Deferred Inflows of Resources, and Fund Balances			
Liabilities			
Accounts payable	\$ 999,084	\$ 216,676	\$ 1,215,760
Accrued payroll liabilities	932	11,196	12,128
Due to other funds	68,643	2,010,036	2,078,679
Total liabilities	1,068,659	2,237,908	3,306,567
 Deferred inflows of resources			
Unearned grant revenue	-	3,000,000	3,000,000
 Fund balances			
Nonspendable	7,280	-	7,280
Committed for Osier improvements	-	85,907	85,907
Unassigned	928,318	(60,194)	868,124
Total fund balances	935,598	25,713	961,311
Total liabilities, deferred inflows of resources, and fund balances	\$ 2,004,257	\$ 5,263,621	\$ 7,267,878

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

Cumbres & Toltec Scenic Railroad Commission

Reconciliation of the Governmental Funds Balance Sheet to the Statement of Net Position June 30, 2022

Total fund balance - governmental funds		\$ 961,311
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	46,090,176	
Less accumulated depreciation	<u>(27,784,768)</u>	
		18,305,408
Long-term liabilities are not due and payable in the current period and, therefore, are not reported in the governmental funds.		
Compensated absences	<u>(9,791)</u>	
		<u>(9,791)</u>
Net position - governmental activities		<u>\$ 19,256,928</u>

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

Cumbres & Toltec Scenic Railroad Commission

Statement of Revenues, Expenditures, and Changes in Fund Balance – Governmental Funds For the Year Ended June 30, 2022

	General Fund	Capital Projects Fund	Total Governmental Funds
Revenues			
Appropriations - State of Colorado	\$ 240,000	\$ 1,222,372	\$ 1,462,372
Appropriations - State of New Mexico	339,700	653,077	992,777
Grants and contributions	-	155,050	155,050
Charges for services	-	93,588	93,588
Investment income	145	410	555
Other	32,158	9,469	41,627
Total revenues	612,003	2,133,966	2,745,969
Expenditures			
Current			
General government	591,288	-	591,288
Capital outlay	-	3,968,217	3,968,217
Total expenditures	591,288	3,968,217	4,559,505
Excess (deficiency) of revenues over expenditures	20,715	(1,834,251)	(1,813,536)
Other Financing Sources (Uses)			
Transfers in	261,057	2,529,824	2,790,881
Transfers out	(1,780,744)	(566,000)	(2,346,744)
Insurance recoveries	1,725,000	-	1,725,000
Total other financing sources (uses)	205,313	1,963,824	2,169,137
Net change in fund balances	226,028	129,573	355,601
Fund balances (deficits), beginning of year	709,570	(103,860)	605,710
Fund balances, end of year	\$ 935,598	\$ 25,713	\$ 961,311

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

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, 2022

Net change in fund balances - governmental funds	\$ 355,601
Amounts reported for governmental activities in the statement of activities are different because:	
Capital asset additions are reported in the governmental funds as part of capital outlay expenditures, however, in the statement of activities, the cost of these assets is allocated over their estimated useful lives as depreciation expense. In the current period, these amounts are:	
Capital outlay	3,868,807
Depreciation expense	<u>(1,656,783)</u>
	2,212,024
In the statement of activities, the gain on disposal of capital assets is reported, whereas in the governmental funds, only the proceeds from insurance recoveries is recorded as a financial resource. Thus, the change in net position differs from the change in fund balances by the cost of the assets disposed.	(1,598)
Compensated absences reported in the statement of activities do not require the use of current financial resources and, therefore, are not reported as expenditures in the governmental funds.	
Net change in compensated absences	<u>(4,350)</u>
Change in net position - governmental activities	<u>\$ 2,561,677</u>

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

Cumbres & Toltec Scenic Railroad Commission

Statement of Revenues and Expenditures – Budget and Actual

(Budgetary Basis) – General Fund

For the Year Ended June 30, 2022

	Budgeted Amounts		Actual	Variance with
	Original	Final	Amounts (Budgetary Basis)	Final Budget Positive (Negative)
Revenues				
Appropriations - State of Colorado	\$ 240,000	\$ 240,000	\$ 240,000	\$ -
Appropriations - State of New Mexico	339,700	339,700	339,700	-
Investment income	-	-	145	145
Other	12,000	112,000	32,158	(79,842)
Total revenues	<u>591,700</u>	<u>691,700</u>	<u>612,003</u>	<u>(79,697)</u>
Expenses				
Current				
General government	497,052	597,052	591,288	5,764
Total expenses	<u>497,052</u>	<u>597,052</u>	<u>591,288</u>	<u>5,764</u>
Excess (deficiency) of revenues over expenditures	<u>94,648</u>	<u>94,648</u>	<u>20,715</u>	<u>(73,933)</u>
Other Financing Sources (Uses)				
Transfers in	-	-	261,057	261,057
Transfers out	(101,000)	(101,000)	(1,780,744)	(1,679,744)
Insurance recoveries	-	-	1,725,000	1,725,000
Total other financing sources (uses)	<u>(101,000)</u>	<u>(101,000)</u>	<u>205,313</u>	<u>306,313</u>
Net change in fund balance	(6,352)	(6,352)	<u>\$ 226,028</u>	<u>\$ 232,380</u>
Budgeted cash carry forward	70,534	70,534		
Total	<u>\$ 64,182</u>	<u>\$ 64,182</u>		

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

Proprietary Funds Financial Statements

Cumbres & Toltec Scenic Railroad Commission

Statement of Net Position – Proprietary Funds

June 30, 2022

	Cumbres & Toltec Operating LLC	Cumbres & Toltec Historic Preservation Association LLC	Total
Assets			
Current assets			
Cash and cash equivalents	\$ 1,120,260	\$ 496,488	\$ 1,616,748
Grants receivable	30,000	-	30,000
Other receivables	653	-	653
Prepaid expenses	148,381	1,908	150,289
Due from other funds	1,521,130	724,523	2,245,653
Inventories	156,710	-	156,710
Total current assets	2,977,134	1,222,919	4,200,053
Right-to-use assets, net	16,180	-	16,180
Total assets	2,993,314	1,222,919	4,216,233
Liabilities			
Current liabilities			
Accounts payable	315,319	114,635	429,954
Accrued payroll liabilities	126,128	-	126,128
Unearned revenue	1,380,295	-	1,380,295
Due to other funds	912,032	1,432	913,464
Compensated absences	63,510	-	63,510
Leases payable, current portion	4,370	-	4,370
Total current liabilities	2,801,654	116,067	2,917,721
Leases payable, net of current portion	11,833	-	11,833
Total liabilities	2,813,487	116,067	2,929,554
Net Position			
Unrestricted	179,827	1,106,852	1,286,679
Total net position	\$ 179,827	\$ 1,106,852	\$ 1,286,679

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

Cumbres & Toltec Scenic Railroad Commission
Statement of Revenues, Expenses and Changes in Net Position – Proprietary Funds
For the Year Ended June 30, 2022

	Cumbres & Toltec Operating LLC	Cumbres & Toltec Historic Preservation Association LLC	Total
Operating Revenues			
Ticket sales	\$ 4,184,111	\$ 272,198	\$ 4,456,309
Retail sales	361,612	-	361,612
Other	36,493	-	36,493
Less: Cost of merchandise	(204,379)	-	(204,379)
Total operating revenues	<u>4,377,837</u>	<u>272,198</u>	<u>4,650,035</u>
Operating Expenses			
Payroll, benefits, and taxes	2,033,879	-	2,033,879
Operations	1,076,495	-	1,076,495
Supplies and service	351,911	114,634	466,545
Advertising and marketing	455,144	-	455,144
General and administrative	305,613	-	305,613
Utilities	164,724	-	164,724
Insurance	134,345	1,697	136,042
Other miscellaneous service cost	59,118	-	59,118
Professional fees	48,048	-	48,048
Other	17,111	-	17,111
Travel and meetings	13,406	-	13,406
Amortization of right-to-use assets	2,894	-	2,894
Total operating expenses	<u>4,662,688</u>	<u>116,331</u>	<u>4,779,019</u>
Operating income (loss)	<u>(284,851)</u>	<u>155,867</u>	<u>(128,984)</u>
Nonoperating Revenues (Expenses)			
Interest income	353	1,042	1,395
Employee retention tax credits	316,146	-	316,146
Paycheck Protection Program (PPP) loan forgiveness	1,121,806	-	1,121,806
Donations	98,449	-	98,449
Total nonoperating revenues (expenses)	<u>1,536,754</u>	<u>1,042</u>	<u>1,537,796</u>
Income before transfers	<u>1,251,903</u>	<u>156,909</u>	<u>1,408,812</u>
Transfers			
Transfers in	566,000	-	566,000
Transfers out	(1,010,137)	-	(1,010,137)
Total transfers	<u>(444,137)</u>	<u>-</u>	<u>(444,137)</u>
Change in net position	<u>807,766</u>	<u>156,909</u>	<u>964,675</u>
Net position (deficit), beginning of year	<u>(627,939)</u>	<u>949,943</u>	<u>322,004</u>
Net position, end of year	<u>\$ 179,827</u>	<u>\$ 1,106,852</u>	<u>\$ 1,286,679</u>

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

Cumbres & Toltec Scenic Railroad Commission

Statement of Cash Flows – Proprietary Funds

For the Year Ended June 30, 2022

	Cumbres & Toltec Operating LLC	Cumbres & Toltec Historic Preservation Association LLC	Total
Cash flows from operating activities			
Cash received from customers	\$ 4,293,109	\$ 272,198	\$ 4,565,307
Other cash received	36,493	-	36,493
Cash paid to employees	(2,004,225)	-	(2,004,225)
Cash paid to suppliers	<u>(2,747,080)</u>	<u>(143,148)</u>	<u>(2,890,228)</u>
Net cash provided (used) by operating activities	<u>(421,703)</u>	<u>129,050</u>	<u>(292,653)</u>
Cash flows from noncapital financing activities			
Cash transfers paid to other funds	(529,325)	(474,400)	(1,003,725)
Donations received	98,449	-	98,449
Employee retention tax credits received	316,146	-	316,146
Net cash used by noncapital financing activities	<u>(114,730)</u>	<u>(474,400)</u>	<u>(589,130)</u>
Cash flows from capital and related financing activities			
Principal payments on leases payable	<u>(2,871)</u>	-	<u>(2,871)</u>
Net cash used by capital and related financing activities	<u>(2,871)</u>	<u>-</u>	<u>(2,871)</u>
Cash flows from investing activities			
Interest earnings received	<u>353</u>	<u>1,042</u>	<u>1,395</u>
Net cash provided by investing activities	<u>353</u>	<u>1,042</u>	<u>1,395</u>
Net change in cash and cash equivalents	(538,951)	(344,308)	(883,259)
Cash and cash equivalents, beginning of year	<u>1,659,211</u>	<u>840,796</u>	<u>2,500,007</u>
Cash and cash equivalents, end of year	<u><u>\$ 1,120,260</u></u>	<u><u>\$ 496,488</u></u>	<u><u>\$ 1,616,748</u></u>
Supplemental schedule of noncash activities			
PPP loan forgiveness	<u><u>\$ 1,121,806</u></u>	<u><u>\$ -</u></u>	<u><u>\$ 1,121,806</u></u>

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

Cumbres & Toltec Scenic Railroad Commission

Statement of Cash Flows – Proprietary Funds

For the Year Ended June 30, 2022

	Cumbres & Toltec Operating LLC	Cumbres & Toltec Historic Preservation Association LLC	Total
Reconciliation of operating income (loss) to net cash provided (used) by operating activities			
Operating income (loss)	\$ (284,851)	\$ 155,867	\$ (128,984)
Adjustments to reconcile operating income (loss) to net cash provided (used) by operating activities			
Amortization of right-to-use assets	2,894	-	2,894
Changes in operating assets and liabilities:			
Grants receivable	(20,678)	-	(20,678)
Other receivables	(653)	-	(653)
Prepaid expenses	(128,640)	(1,218)	(129,858)
Inventories	58,743	-	58,743
Accounts payable	153,111	(25,599)	127,512
Accrued payroll liabilities	16,460	-	16,460
Unearned revenue	(231,283)	-	(231,283)
Compensated absences	13,194	-	13,194
Net cash provided (used) by operating activities	\$ (421,703)	\$ 129,050	\$ (292,653)

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

Cumbres & Toltec Scenic Railroad Commission

Notes to the Financial Statements

June 30, 2022

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.
- ◆ Establish rates for services provided by the Commission, and revenue-producing projects, including amounts which the governing body determines to be reasonable in the operation of similar facilities.

Cumbres & Toltec Scenic Railroad Commission

Notes to the Financial Statements

June 30, 2022

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.

Cumbres & Toltec Scenic Railroad Commission

Notes to the Financial Statements

June 30, 2022

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.

Cumbres & Toltec Scenic Railroad Commission

Notes to the Financial Statements

June 30, 2022

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.

Cumbres & Toltec Scenic Railroad Commission

Notes to the Financial Statements

June 30, 2022

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.

Cumbres & Toltec Scenic Railroad Commission
Notes to the Financial Statements
June 30, 2022

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.

Cumbres & Toltec Scenic Railroad Commission

Notes to the Financial Statements

June 30, 2022

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.

Grants Receivable

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, 2022, all receivables are considered to be 100% collectible.

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.

Leases

The Commission is a lessee for non-cancellable leases of equipment and recognizes a lease liability and an intangible right-to-use asset in the financial statements. At the commencement of a lease, the Commission initially measures the lease liability at the present value of payments expected to be made during the lease term. Subsequently, the lease liability is reduced by the principal portion of lease payments made. The right-to-use asset is initially measured as the initial amount of the lease liability, adjusted for lease payments made at or before the lease commencement date, plus certain initial direct costs. Subsequently, the lease asset is amortized on a straight-line basis over the lease term of the assets' useful life, whichever is shorter.

Cumbres & Toltec Scenic Railroad Commission
Notes to the Financial Statements
June 30, 2022

2) Summary of Significant Accounting Principles – continued

Key estimates and judgments related to leases include how the Commission determines (1) the discount rate it uses to discount the expected lease payments to present value, (2) lease term, and (3) lease payments.

- ◆ The Commission uses the interest rate charged by the lessor as the discount rate. When the interest rate charged by the lessor is not provided, the Commission’s current borrowing rate is issued as the discount rate for leases.
- ◆ The lease term includes the non-cancellable period of the lease; the term of the lease contract, including options to extend, must be more than 12 months.
- ◆ Lease payments included in the measurement of the lease liability are composed of fixed payments and the purchase option price that the Commission is reasonably certain to exercise.

The Commission monitors changes in circumstances that would require a remeasurement of its leases and will remeasure the right-to-use asset and lease liability if certain changes occur that are expected to significantly affect these amounts.

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

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.

Cumbres & Toltec Scenic Railroad Commission

Notes to the Financial Statements

June 30, 2022

2) Summary of Significant Accounting Principles – continued

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 Inflows of Resources

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 a \$3 million special appropriation from the State of New Mexico received in advance of the appropriation period.

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.

Cumbres & Toltec Scenic Railroad Commission
Notes to the Financial Statements
June 30, 2022

2) Summary of Significant Accounting Principles – continued

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 due 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.
- ◆ *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, 2022, committed fund balance in the Capital Projects fund of \$85,907 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.

Cumbres & Toltec Scenic Railroad Commission

Notes to the Financial Statements

June 30, 2022

2) Summary of Significant Accounting Principles – continued

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.

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 CTO, LLC and the General fund 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.

Cumbres & Toltec Scenic Railroad Commission

Notes to the Financial Statements

June 30, 2022

2) Summary of Significant Accounting Principles – continued

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.

At June 30, 2022, the carrying amount of the Commission's cash and cash equivalents was comprised of the following:

Carrying amount of deposits	\$ 4,861,100
Cash on hand	<u>2,642</u>
Total cash and cash equivalents	<u>\$ 4,863,742</u>
Statement of net position - cash and cash equivalents	<u>\$ 4,863,742</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.

Cumbres & Toltec Scenic Railroad Commission

Notes to the Financial Statements

June 30, 2022

3) Cash and Cash Equivalents – continued

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

At June 30, 2022, 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	\$ 496,488	\$ 2,342,974	\$ 1,023,062	\$ 132,674	\$ 931,676
Less: FDIC insurance coverage	<u>(250,000)</u>	<u>(250,000)</u>	<u>(250,000)</u>	<u>(132,674)</u>	<u>(250,000)</u>
Total uninsured deposits	246,488	2,092,974	773,062	-	681,676
Less: Pledged collateral at fair value	<u>(246,488)</u>	<u>(2,092,974)</u>	<u>(773,062)</u>	<u>(485,758)</u>	<u>(622,051)</u>
Total uninsured/uncollateralized deposits	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ (485,758)</u>	<u>\$ 59,625</u>
Collateral requirement (50%)	\$ 248,244	\$ 1,171,487	\$ 511,531	\$ 66,337	\$ 465,838
FDIC insurance coverage and pledged collateral	<u>496,488</u>	<u>2,342,974</u>	<u>1,023,062</u>	<u>618,432</u>	<u>872,051</u>
Over (under) collateralized	<u>\$ 248,244</u>	<u>\$ 1,171,487</u>	<u>\$ 511,531</u>	<u>\$ 552,095</u>	<u>\$ 406,213</u>

4) Grants Receivable

Grants receivable of the Commission are as follows as of June 30, 2022:

<i>Governmental activities</i>	<u>Capital Projects Fund</u>
State of Colorado - capital grants and appropriations	\$ 1,012,636
State of New Mexico - capital grants and appropriations	1,599,100
Candelaria Fund	<u>150,000</u>
Total grants receivable	<u>\$ 2,761,736</u>
 <i>Business-type activities</i>	 <u>CTO, LLC</u>
Durango Railroad Historical Society	<u>\$ 30,000</u>
Total grants receivable	<u>\$ 30,000</u>

Cumbres & Toltec Scenic Railroad Commission

Notes to the Financial Statements

June 30, 2022

5) Right-to-Use Assets and Capital Assets

Right-to-use asset activity for the year ended June 30, 2022, was as follows:

<i>Business-type activities</i>	Beginning Balance	Additions	Transfers	Ending Balance
<i>Right-to-use assets being amortized</i>				
Leased equipment	\$ -	\$ 19,074	\$ -	\$ 19,074
Total right-to-use assets being amortized	<u>-</u>	<u>19,074</u>	<u>-</u>	<u>19,074</u>
<i>Less accumulated amortization for</i>				
Leased equipment	-	(2,894)	-	(2,894)
Total accumulated amortization	<u>-</u>	<u>(2,894)</u>	<u>-</u>	<u>(2,894)</u>
Right-to-use assets being amortized, net	<u>\$ -</u>	<u>\$ 16,180</u>	<u>\$ -</u>	<u>\$ 16,180</u>

Capital assets activity for the year ended June 30, 2022 was as follows:

<i>Governmental activities</i>	Beginning Balance	Additions	Deletions	Transfers	Ending Balance
<i>Capital assets not being depreciated</i>					
Land	\$ 118,048	\$ -	\$ -	\$ -	\$ 118,048
Water rights	30,000	-	-	-	30,000
Construction in progress	744,049	2,852,159	-	(668,724)	2,927,484
Copyright	5,000	-	-	-	5,000
Total capital assets not being depreciated	<u>897,097</u>	<u>2,852,159</u>	<u>-</u>	<u>(668,724)</u>	<u>3,080,532</u>
<i>Capital assets being depreciated</i>					
Buildings and railyards	6,768,898	34,388	(72,617)	-	6,730,669
Track line and track line improvements	17,822,643	227,533	-	259,283	18,309,459
Steam engines, rolling stock and equipment	15,245,975	664,977	-	409,441	16,320,393
Vehicles, furniture and equipment	1,559,373	89,750	-	-	1,649,123
Total capital assets being depreciated	<u>41,396,889</u>	<u>1,016,648</u>	<u>(72,617)</u>	<u>668,724</u>	<u>43,009,644</u>
<i>Less accumulated depreciation</i>					
Buildings and railyards	(4,703,974)	(154,314)	71,019	-	(4,787,269)
Track line and track line improvements	(11,131,094)	(765,266)	-	-	(11,896,360)
Steam engines, rolling stock and equipment	(9,074,002)	(676,329)	-	-	(9,750,331)
Vehicles, furniture and equipment	(1,289,934)	(60,874)	-	-	(1,350,808)
Total accumulated depreciation	<u>(26,199,004)</u>	<u>(1,656,783)</u>	<u>71,019</u>	<u>-</u>	<u>(27,784,768)</u>
Capital assets being depreciated, net	<u>15,197,885</u>	<u>(640,135)</u>	<u>(1,598)</u>	<u>668,724</u>	<u>15,224,876</u>
Total capital assets, net	<u>\$ 16,094,982</u>	<u>\$ 2,212,024</u>	<u>\$ (1,598)</u>	<u>\$ -</u>	<u>\$ 18,305,408</u>

Depreciation expense for the year ended June 30, 2022 was charged to the general government function of the Commission's governmental activities.

Cumbres & Toltec Scenic Railroad Commission

Notes to the Financial Statements

June 30, 2022

6) 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	\$ 1,209,626
Charter deposits	7,034
Gift cards	23,173
Engine and fire class deposits	140,462
Total unearned revenues	\$ 1,380,295

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

CTO, LLC initially recorded these loans as refundable advances and recorded the forgiveness in accordance with guidance included in GASB Statement No. 70. The Commission was notified that both PPP loans were forgiven during fiscal year 2022. CTO, LLC recorded the forgiveness of the PPP loans as nonoperating revenue of \$1,121,806 for the year ended June 30, 2022.

8) Compensated Absences

Changes in the Commission’s compensated absences balances for the year ended June 30, 2022 were as follows:

	Beginning Balance	Increases	Decreases	Ending Balance	Amounts Due Within One Year
Governmental activities	\$ 5,441	\$ 19,847	\$ (15,497)	\$ 9,791	\$ 9,791
Business-type activities	50,316	79,684	(66,490)	63,510	63,510
	\$ 55,757	\$ 99,531	\$ (81,987)	\$ 73,301	\$ 73,301

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.

Cumbres & Toltec Scenic Railroad Commission

Notes to the Financial Statements

June 30, 2022

9) Leases Payable

The Commission has entered into two separate lease contracts to lease copier machines. The lease contracts, which qualify as leases under GASB Statement No. 87, have been recorded at the present value of the future minimum lease payments at the remaining terms of the agreement using the facts and circumstances available at July 1, 2021.

The lease contracts require 60 and 41 monthly payments of \$217 and \$153, respectively as of July 1, 2021. The lease liability is measured using a discount rate of 6%, which is an estimation made by the Commission of its incremental borrowing rate. Changes in the Commission's lease liabilities for the year ended June 30, 2022, was as follows:

	Beginning Balance	Increases	Decreases	Ending Balance	Amounts Due Within One Year
<i>Business-type activities</i>					
Leased equipment	\$ -	\$ 19,074	\$ (2,871)	\$ 16,203	\$ 4,370
	\$ -	\$ 19,074	\$ (2,871)	\$ 16,203	\$ 4,370

The future maturities of the leases as of June 30, 2022, were as follows:

<i>For the year ended June 30,</i>	Principal	Interest	Total
2023	\$ 4,370	\$ 71	\$ 4,441
2024	4,392	49	4,441
2025	3,339	28	3,367
2026	2,587	15	2,602
2027	1,515	3	1,518
	\$ 16,203	\$ 166	\$ 16,369

10) Transfers and Interfund Receivables/Payables

The following interfund transfers were made for the year ended June 30, 2022:

	Transfers in	Transfers out	Net transfers
<i>Governmental activities</i>			
General fund	\$ 261,057	\$ (1,780,744)	\$ (1,519,687)
Capital projects fund	2,529,824	(566,000)	1,963,824
Total governmental activities	\$ 2,790,881	\$ (2,346,744)	\$ 444,137
<i>Business-type activities</i>			
CTO, LLC	\$ 566,000	\$ (1,010,137)	\$ (444,137)
Total business-type activities	\$ 566,000	\$ (1,010,137)	\$ (444,137)

Cumbres & Toltec Scenic Railroad Commission

Notes to the Financial Statements

June 30, 2022

10) Transfers and Interfund Receivables/Payables – continued

Transfers were made during fiscal year 2022 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. Additionally, transfers were made out of the General fund and into the Capital Projects fund to reimburse the Capital Projects fund for Osier station improvements to be funded with insurance recoveries. Other transfers were made during the year as short-term loans between funds.

The following interfund receivables/payables are included in the fund financial statements at June 30, 2022:

	Due from other funds	Due to other funds	Internal balances
<i>Governmental activities</i>			
General fund	\$ 498,779	\$ (68,643)	\$ 430,136
Capital projects fund	247,711	(2,010,036)	(1,762,325)
Total governmental activities	<u>\$ 746,490</u>	<u>\$ (2,078,679)</u>	<u>\$ (1,332,189)</u>
<i>Business-type activities</i>			
CTO, LLC	\$ 1,521,130	\$ (912,032)	\$ 609,098
HPA, LLC	724,523	(1,432)	723,091
Total business-type activities	<u>\$ 2,245,653</u>	<u>\$ (913,464)</u>	<u>\$ 1,332,189</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 are expected to be collected in the subsequent year.

11) Osier Station Fire

In October 2021, the Osier train station suffered extensive damage as a result of a fire that occurred in the kitchen area. The Commission estimated that capital assets with a net book value of \$1,598 were destroyed because of the fire, including kitchen improvements and equipment.

The Commission received total insurance recoveries of \$1,725,000, which is reported as other financing sources in the General fund for the year ended June 30, 2022. The difference between the net book value of the capital assets destroyed and the insurance recoveries (\$1,723,402) is reported as a gain on disposal of capital assets in the statement of activities.

Cumbres & Toltec Scenic Railroad Commission

Notes to the Financial Statements

June 30, 2022

12) Employee Retention Tax Credits

The Employee Retention Credit (ERC) is a refundable tax credit program created in response to the COVID-19 pandemic that incentivized companies and small businesses to maintain payroll during 2020 and 2021. The credit was available to all employers regardless of size, including tax-exempt organizations. To qualify, CTO, LLC had to experience either full or partial suspension by government order due to the pandemic or have gross receipts fall below certain thresholds as compared to the comparable quarter in 2019. The tax credit was equal to 50% of qualified wages paid to employees during a quarter, capped at \$10,000 of qualified wages per employee through December 31, 2020.

Additional relief provisions were passed by the United States government, which extend and slightly expanded the qualified wage caps on these credits through September 30, 2021. Based on these additional provisions, the tax credit in 2021 was equal to 70% of qualified wages paid to employees during a quarter, and the limit on qualified wages per employee was increased to \$10,000 of qualified wages per quarter. CTO, LLC filed amended tax returns and reported revenue of \$316,146 for these tax credits for the year ended June 30, 2022. Additional tax credits of \$664,341 were received in fiscal year 2023, which are reported as revenue when received by CTO, LLC.

13) 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.

14) 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, 2022 were \$1,628. No amounts were owed to Fina's Diner at June 30, 2022.

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 fiscal year 2022 were \$54,550, which is reported as a portion of accounts payable in HPA, LLC at June 30, 2022.

Cumbres & Toltec Scenic Railroad Commission
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June 30, 2022

15) 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, 2022, employer matching contributions to this plan totaled \$25,649. Employees are 100% vested in employer matching contributions.

16) Commitments and Contingencies

Debt Limit

The amount of debt that can be incurred by the Commission is limited by resolution. At June 30, 2022, the Commission had not entered into any debt agreements, although CTO, LLC has received PPP loan forgiveness 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.

Other Supplementary Information

Cumbres & Toltec Scenic Railroad Commission
Schedule of Special, Deficiency, Specific, and Capital Outlay Appropriations
For the Year Ended June 30, 2022

Description	Appropriation Code	Appropriation Period	Appropriation Amount	Amount expended through June 30, 2021	Appropriation Balance June 30, 2021	Fiscal year 2022 expenditures	Appropriation Balance June 30, 2022
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	1,000,000	-	-	-
Laws 2020, Chapter 81, Section 11	E2029	6/29/2020 - 6/30/2024	1,000,000	191,005	808,995	644,958	164,037
Laws 2021, Chapter 138, Section 11	F2097	6/22/2021 - 6/30/2025	1,000,000	-	1,000,000	-	1,000,000
Laws 2022, Chapter 54, Section 1	G1035	7/1/2022 - 6/30/2025	3,000,000	-	-	-	3,000,000
Total New Mexico special appropriations			<u>\$ 6,750,000</u>	<u>\$ 1,932,886</u>	<u>\$ 1,817,114</u>	<u>\$ 653,077</u>	<u>\$ 4,164,037</u>

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, 2022

	Budgeted Amounts		Actual Amounts (Budgetary Basis)	Variance with Final Budget Positive (Negative)
	Original	Final		
Revenues				
Ticket sales	\$ 5,613,120	\$ 5,613,120	\$ 4,184,111	\$(1,429,009)
Retail sales	409,290	409,290	361,612	(47,678)
Other	(175,410)	(175,410)	36,493	211,903
Less: Cost of merchandise	-	-	(204,379)	(204,379)
Investment income	10,000	110,000	353	(109,647)
Donations	10,000	10,000	98,449	88,449
Total revenues	<u>5,867,000</u>	<u>5,967,000</u>	<u>4,476,639</u>	<u>(1,490,361)</u>
Expenses				
Payroll, benefits, and taxes	2,686,341	2,786,341	2,033,879	752,462
Operations	1,226,373	1,226,373	1,076,495	149,878
Supplies and service	525,588	525,588	351,911	173,677
Advertising and marketing	583,987	583,987	455,144	128,843
General and administrative	291,994	291,994	305,613	(13,619)
Utilities	233,594	233,594	164,724	68,870
Insurance	233,595	233,595	134,345	99,250
Other miscellaneous service cost	-	-	59,118	(59,118)
Professional fees	58,399	58,399	48,048	10,351
Other	-	-	17,111	(17,111)
Travel and meetings	46,758	46,758	13,406	33,352
Amortization of right-to-use assets	-	-	2,894	(2,894)
Total expenses	<u>5,886,629</u>	<u>5,986,629</u>	<u>4,662,688</u>	<u>1,323,941</u>
Excess (deficiency) of revenues over expenditures	<u>(19,629)</u>	<u>(19,629)</u>	<u>(186,049)</u>	<u>(166,420)</u>
Other Financing Sources (Uses)				
Employee retention tax credits	-	-	316,146	316,146
PPP loan forgiveness	-	-	1,121,806	1,121,806
Transfers in	-	-	566,000	566,000
Transfers out	-	-	(1,010,137)	(1,010,137)
Total other financing sources (uses)	<u>-</u>	<u>-</u>	<u>993,815</u>	<u>993,815</u>
Net change in fund balance	(19,629)	(19,629)	<u>\$ 807,766</u>	<u>\$ 827,395</u>
Budgeted cash carry forward	1,659,211	1,659,211		
Total	<u>\$ 1,639,582</u>	<u>\$ 1,639,582</u>		

Cumbres & Toltec Scenic Railroad Commission
Schedule of Deposits by Financial Institution
June 30, 2022

Name/Account Type	Bank Balance	Deposits in Transit	Outstanding Checks	Book Balance
<i>Alamosa State Bank</i>				
Checking account - HPA	\$ 48,686	\$ -	\$ -	\$ 48,686
Money market deposit account - HPA	447,802	-	-	447,802
<i>Community Banks of Colorado</i>				
Checking account - capital	204,188	-	(88,800)	115,388
Money market deposit account - capital	2,138,786	-	-	2,138,786
<i>First Southwest Bank</i>				
Checking account - general	1,004,136	-	(20,436)	983,700
Checking account - CTO	10,006	-	-	10,006
Savings account - general	8,920	-	-	8,920
<i>New Mexico Bank and Trust</i>				
Checking account - ticket revenue	113,184	26,591	-	139,775
Checking account - accounts payable	-	482	-	482
Checking account - debit card	3,796	-	-	3,796
Money market deposit account - capital	15,694	-	-	15,694
<i>Washington Federal</i>				
Checking account - CTO ticket revenue	853,302	20,233	(3,980)	869,555
Checking account - CTO retail	78,374	136	-	78,510
Petty cash	-	-	-	2,642
Total cash and cash equivalents	<u>\$ 4,926,874</u>	<u>\$ 47,442</u>	<u>\$ (113,216)</u>	<u>\$ 4,863,742</u>

Cumbres & Toltec Scenic Railroad Commission
Schedule of Pledged Collateral by Financial Institution
June 30, 2022

Name/Collateral description	CUSIP	Current Market Value
<i>New Mexico Bank and Trust</i>		
FNMA Pool # BF0141, 2.62%, maturity 9/1/2056	3140FXEP3	\$ 485,758
<i>Washington Federal</i>		
FNMA PL# AL3899, 4%, maturity 10/1/2042	3138ELKM4	622,051

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. Joseph M. Maestas, PE, 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 Cumbres & Toltec Scenic Railroad Commission (the "Commission") as of and for the year ended June 30, 2022, and the related notes to the financial statements, which collectively comprise the Commission's basic financial statements and have issued our report thereon dated May 4, 2023.

Report on 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) as a basis for designing audit procedures that are appropriate in the circumstances for the purpose of expressing our opinions on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the Commission's internal control. Accordingly, we do not express an opinion on the effectiveness of the Commission's internal control.

Our consideration of internal control was for the limited purpose described in the preceding paragraph and was not designed to identify all deficiencies in internal control that might be material weaknesses or significant deficiencies and therefore, material weaknesses or significant deficiencies may exist that were not identified. However, as described in the accompanying schedule of findings and responses, we identified certain deficiencies in internal control that we consider to be material weaknesses and significant deficiencies.

A *deficiency in internal control* exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct, misstatements on a timely basis. A *material weakness* is a deficiency, or a combination of deficiencies, in internal control such that there is a reasonable possibility that a material misstatement of the entity's financial statements will not be prevented, or detected and corrected, on a timely basis.

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We consider the deficiencies described in the accompanying schedule of findings and responses as items 2022-001 and 2022-002 to be material weaknesses.

A *significant deficiency* is a deficiency, or a combination of deficiencies, in internal control that is less severe than a material weakness, yet important enough to merit attention by those charged with governance. We consider the deficiency described in the accompanying schedule of findings and responses as item 2022-003 to be a significant deficiency.

Report on 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 financial statements. However, providing an opinion on compliance with those provisions was not an objective of our audit, and accordingly, we do not express such an opinion. The results of our tests disclosed an instance of noncompliance or other matters that is required to be reported under *Government Auditing Standards* and which is described in the accompanying schedule of findings and responses as item 2022-004.

The Commission's Response to Findings

Government Auditing Standards requires the auditor to perform limited procedures on the Commission's responses to the findings identified in our audit and described in the accompanying schedule of findings and responses. The Commission's responses were not subjected to the other auditing procedures applied in the audit of the financial statements and, accordingly, we express no opinion on the responses.

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
May 4, 2023

Cumbres & Toltec Scenic Railroad Commission
Schedule of Findings and Responses
For the Year Ended June 30, 2022

Section I — Summary of Auditor’s Results

Financial Statements

Type of auditor’s report issued on whether the financial statements audited were prepared in accordance with GAAP:	Unmodified
Internal control over financial reporting:	
Material weaknesses identified?	Yes
Significant deficiencies reported?	Yes
Noncompliance material to financial statements noted?	No
Other findings required to be reported under Section 12-6-5, NMSA 1978?	Yes

Cumbres & Toltec Scenic Railroad Commission
Schedule of Findings and Responses – continued
For the Year Ended June 30, 2022

Section II—Financial Statement Findings

2022-001 – Account Reconciliations (Material Weakness)

Criteria: Maintenance of the trial balances and financial statements in accordance with generally accepted accounting principles (GAAP) ensures that timely, accurate and useful information is available to management and those charged with governance. Accounting records should include a complete, balanced general ledger that records all transactions, supported by appropriate subsidiary records, to permit the preparation of accurate financial statements on a timely basis. Procedures should be in place to ensure that balance sheet accounts are independently reviewed and reconciled to subsidiary records at least monthly.

Condition: Significant adjusting journal entries were required to correct balances after the accounting records were closed at year-end. Adjustments were needed to correct reported balances of grants receivable (\$1.8 million), accounts receivable (\$505,000) capital assets (\$96,000), interfund receivables/payables (\$261,000), unearned revenues (\$88,000), revenues (\$2 million) and expenses (\$61,000).

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

Effect: When financial statements are not accurately reconciled and timely prepared, there is an increased risk that material errors, whether intentional or unintentional, may occur and go undetected and unresolved. Additionally, the Board of Commissioners or other financial statement users may rely on financial information that may be materially incorrect.

Auditor's Recommendation: Each transaction should be fully analyzed to ensure that the transaction is recorded in the general ledger correctly and is properly recognized in accordance with GAAP. Additionally, implement a month-end management review process of the financial statements, all reconciliations, all subsidiary accounting ledgers and budget-to-actual comparisons for each fund.

Management's Response: The Commission has contracted with an external CPA firm to assist with year-end account reconciliations, purchase reconciliations, and processes and billings. This finding is expected to be fully resolved in fiscal year 2023. Responsible party – CFO and Accounting Manager.

Cumbres & Toltec Scenic Railroad Commission
Schedule of Findings and Responses – continued
For the Year Ended June 30, 2022

Section II—Financial Statement Findings—continued

2022-002 –Appropriation Invoicing (Material Weakness)

Criteria: The Commission is the recipient of many capital and special appropriations from the states of New Mexico and Colorado. Most of these appropriations require the Commission to submit invoices for allowable uses of the appropriations. Policies and procedures should be in place over significant transaction cycles at the Commission, including accounting and reporting for appropriation revenue.

Condition: The Commission did not submit invoices to each state for fiscal year 2022 capital fund expenditures until more than six months after year-end. Additionally, some capital project fund expenditures were not originally invoiced due to uncertainty regarding whether amounts were available under the Commission’s open appropriations. Significant audit adjustments totaling \$1.8 million were required to correct the amount of grants receivable and appropriations revenue, at which time additional invoices were prepared and submitted to each state.

Cause: Capital project fund expenditures were not completely reconciled until several months after year-end, which also caused delays in submitting invoices for reimbursement of capital expenditures. The Commission has not developed policies and procedures for the tracking, invoicing, collection, and reconciliation of grants and appropriations.

Effect: The Commission’s grant receivables and related appropriation revenue was misstated and required adjustments to correct. Additionally, without adequate tracking and invoicing of open appropriations, the appropriation period could pass without all amounts being collected (or having to revert monies back to the states).

Auditor’s Recommendation: The Commission should develop formal policies and procedures for the tracking, invoicing, collection, and reconciliation of grants and appropriations. The Commission should also consider invoicing each state on a quarterly or bi-annual basis to reduce the burden of the year-end invoicing and reconciliation process.

Management’s Response: The Commission has contracted with an external CPA firm to assist with year-end account reconciliations, purchase reconciliations, and processes and billings. This finding is expected to be fully resolved in fiscal year 2023. Responsible party – CFO and Accounting Manager.

Cumbres & Toltec Scenic Railroad Commission
Schedule of Findings and Responses – continued
For the Year Ended June 30, 2022

Section II—Financial Statement Findings—continued

2022-003 – Purchase Orders (Significant Deficiency)

Criteria: Fundamental to a good system of internal controls is properly documented policies and procedures. These should include updated policies and procedures over procurement. According to the Commission’s Policies and Practices Manual and its Internal Accounting Policies and Procedures, the Commission shall use a purchase order system that requires prior approval for any expenditure of \$500 or more.

Condition: One of seven vendors tested were paid for services performed or goods received without an updated contract or purchase order in place. This vendor was paid \$133,405 during fiscal year 2022.

Cause: The Commission is not following its established policies regarding the use of purchase orders and determined that issuing payments under the prior years’ contract with the vendor was acceptable.

Effect: The Commission may be remitting payments to vendors without proper approval or authorization.

Auditor’s Recommendation: The Commission should enforce its current policies regarding the use of purchase orders. The Commission should also update its Policies and Practices Manual and its Internal Accounting Policies and Procedures to reflect its current operations and its desired controls over the procurement of services and goods.

Management’s Response: The Commission has contracted with an external CPA firm to assist with year-end account reconciliations, purchase reconciliations, and processes and billings. The Commission is currently in the process of negotiating the contract with the vendor. This finding is expected to be fully resolved in fiscal year 2023. Responsible party – CFO and Accounting Manager.

Cumbres & Toltec Scenic Railroad Commission
Schedule of Findings and Responses – continued
For the Year Ended June 30, 2022

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

2022-004 – Late Audit Report (Other Noncompliance)

Criteria: According to Section 2.2.2.9 NMAC (State Auditor Rule), the deadline for submission of the Commission’s annual audited financial statements is November 1, 2022.

Condition: The annual audited financial statements of the Commission for fiscal year 2022 were not submitted to the New Mexico Office of the State Auditor by the November 1, 2022 deadline.

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

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

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

Management’s Response: The Commission will ensure that audits are completed and submitted in accordance with State statute. This finding is expected to be fully resolved in fiscal year 2023. Responsible party – CFO and Accounting Manager.

Cumbres & Toltec Scenic Railroad Commission
Summary Schedule of Prior Year Audit Findings
For the Year Ended June 30, 2022

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

Current Status: Resolved, corrective action was taken.

2021-002 — Public Money Act (Other Noncompliance)

Current Status: Resolved, corrective action was taken.

Cumbres & Toltec Scenic Railroad Commission

Exit Conference

For the Year Ended June 30, 2022

An exit conference was held in a closed session on May 2, 2023. Present at the exit conference were:

For the Cumbres & Toltec Scenic Railroad Commission:

Scott Gibbs, Colorado Commissioner and President

Mark Graybill, Colorado Commissioner/Treasurer

Kim Smith-Casford, Chief of Staff

Ed Beaudette, Strategic Programs

Alysia Martinez, Finance Manager

Misty Schuck, Accounting Consultant (Burt & Company CPAs, 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.