

NEVADA COMMISSION FOR THE
RECONSTRUCTION OF THE V&T RAILWAY
FINANCIAL STATEMENTS
JUNE 30, 2022

Preliminary Draft

NEVADA COMMISSION FOR THE RECONSTRUCTION OF THE V&T RAILWAY
 FINANCIAL STATEMENTS
 AND SUPPLEMENTARY INFORMATION
 YEAR ENDED JUNE 30, 2022

TABLE OF CONTENTS

	Page No.
INDEPENDENT AUDITOR'S REPORT	1 - 2
MANAGEMENT'S DISCUSSION AND ANALYSIS	3 - 5
Government-Wide Financial Statements	
Statement of Net Position	6
Statement of Revenues, Expenses, and Changes in Net Position	7
Statement of Cash Flows	8
Notes to Financial Statements	9 - 15
REQUIRED SUPPLEMENTARY INFORMATION	
Statement of Revenues, Expenses and Changes in Net Position - Budget to Actual	16
REPORTS ON INTERNAL CONTROL & COMPLIANCE	
Independent Auditor's Report on Internal Control of Financial Reporting and on Compliance and Other Matters Based on and Audit of Financial Statements Performed in Accordance with <i>Government Auditing Standards</i>	17 - 18
Prior Year Schedule of Findings	19
AUDITOR'S COMMENTS	20-21

Preliminary Draft

Casey Neilson, Inc.
Accountants and Advisors

INDEPENDENT AUDITOR'S REPORT

To the Commissioners
Nevada Commission for the Reconstruction of the V&T Railway
Carson City, Nevada

Report on the Audit of the Financial Statements

Opinions

We have audited the accompanying financial statements of the Nevada Commission for the Reconstruction of the V&T Railway (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 Commission, as of June 30, 2022, and the respective changes in financial position and cash flows thereof for the year then ended in accordance with accounting principles generally accepted in the United States of America.

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.

Emphasis of Matter

As discussed in Note 9 to the financial statements, the Commission has been part of two Interlocal Agreements with the County of Storey. The first agreement beginning on May 20, 2010 and the second on May 19, 2020. Based on the interlocal agreements between the Commission and Storey County, certain sales tax amounts approved by the voters of Storey County for the support of the V&T Railway project were retained by Storey County in lieu of Storey County providing the Commission a flat annual dollar amount. The amounts due from Storey County to the Commission under these agreements have not been reconciled between the two organizations since the inception of the first agreement. It is unknown whether the outcome of the reconciliation will result in a material impact to the Commission and no additional funding has been requested. Our opinion is not modified with respect to this matter.

Responsibilities of Management for the Financial Statements

Management is responsible for the preparation and fair presentation of the financial statements in accordance with accounting principles generally accepted in the United States of America, and for 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.

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 Responsibilities 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 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 and budgetary comparison information on pages 3-5 and 18, respectively, be presented to supplement the basic financial statements. Such information is the responsibility of management and, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board, who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. We have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements, and other knowledge we obtained during our audit of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

Other Reporting Required by Government Auditing Standards

In accordance with *Government Auditing Standards*, we have also issued our report dated **Date Pending**, on our consideration of the Nevada Commission for the Reconstruction of the V&T Railway'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 solely to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the effectiveness of the Commission's 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 Nevada Commission for the Reconstruction of the V&T Railway's internal control over financial reporting and compliance

Carson City, Nevada

Date Pending

Nevada Commission for the Reconstruction of the V&T Railway
Management's Discussion & Analysis
June 30, 2022

The Nevada Commission for the Reconstruction of the V&T Railway (the Commission) provides this discussion and analysis of the Commission's Financial Report for readers of the Commission's financial statements. This narrative overview and analysis of the financial activities of the Commission is for the fiscal year ended June 30, 2022.

FINANCIAL HIGHLIGHTS

- The assets of the Commission exceeded its liabilities at the close of the fiscal year ended June 30, 2022, by \$28,713,457 (*net position*). Of this amount, \$28,316,285 related to capital assets.
- The Commission's total net position decreased by \$685,353 in the fiscal year ended June 30, 2022.

OVERVIEW OF THE FINANCIAL STATEMENTS

This discussion and analysis is intended to serve as an introduction and overview of the Commission's annual financial report. The Commission's basic financial statements consist of two parts: Management's Discussion and Analysis, and the Financial Statements including Notes to the Financial Statements. This report also contains Supplemental Information in addition to the basic financial statements.

Fund Financial Statements

The Commission maintains an enterprise fund, which account for the basic programs of the Commission. This fund focuses on economic measurement of resources. This fund is reported using the accrual basis of accounting.

Enterprise Fund

The Enterprise Fund is now used to account for the business operations of the V&T Railway. The business-type fund reports activity using the accrual basis of accounting, wherein revenues are recorded when earned and expenses are recorded when incurred.

Notes to Financial Statements

Notes to financial statements are included to provide information that is crucial to the full and complete understanding of the data provided in the fund financial statements.

Government-wide Financial Analysis

As noted earlier, net position may serve over time as a useful indicator of a government's financial position. The Commission's net position totaled \$28,713,457 at June 30, 2022, compared with \$29,398,810 at the end of the previous year.

Nevada Commission for the Reconstruction of the V&T Railway
Management's Discussion & Analysis
June 30, 2022

The condensed Statement of Net Position is as follows:

Summary of Net Position

	Business-Type Activities	
	6/30/2022	6/30/2021
Current assets	\$ 1,034,625	\$ 704,953
Capital assets	28,316,285	29,094,489
Noncurrent assets	52,400	229,689
Total assets	<u>29,403,310</u>	<u>30,029,131</u>
Current liabilities	432,372	380,321
Non current liabilities	250,000	250,000
Total liabilities	<u>682,372</u>	<u>630,321</u>
Deferred inflows from resources	<u>7,481</u>	-
Net assets:		
related debt	28,316,285	29,094,489
Unrestricted	397,172	304,321
Total net position	<u>\$ 28,713,457</u>	<u>\$ 29,398,810</u>

The condensed Statement of Revenues, Expenses, and Changes in Net Position is as follows:

Summary of Revenues, Expenses, and Changes in Net Position

	Business-Type Activities	
	6/30/2022	6/30/2021
Revenues:		
Charges for services	\$ 829,369	\$ 295,381
General revenue	366,047	362,844
Total revenues	<u>1,195,416</u>	<u>658,225</u>
Expenditures		
V&T Railway	1,880,769	1,218,235
Total expenditures	<u>1,880,769</u>	<u>1,218,235</u>
Change in Net Position	(685,353)	(560,010)
Beginning Net Position	29,398,810	29,958,820
Ending Net Position	<u>\$ 28,713,457</u>	<u>\$ 29,398,810</u>

The net position decreased by \$685,353 during the current fiscal year. Depreciation expense was \$787,912, which is the largest cause of the decrease in net position.

Nevada Commission for the Reconstruction of the V&T Railway
Management's Discussion & Analysis
June 30, 2022

Financial Analysis of the Commission's Funds

Enterprise Fund operating revenue increased \$533,988 from the prior year. This was due to the increased operating activities as a result of ease of COVID-19 restrictions. Contributions from governments in the amount of \$315,000 were same as the prior year. Enterprise fund expenses increased by \$662,534 from the prior year. This was directly related to the increase in operating activities.

Capital Assets

The Commission's capital assets amounted to \$37,848,784, with accumulated depreciation of \$9,542,207, leaving net book value of \$28,316,285. An additional \$9,708 in work in process for ongoing repairs to the #18 train engine was incurred during the year. Engine #18 was put in service during FY 21, transferring \$544,510 of work in process to capital assets being depreciated. See Note 5 to the financial statements for further information.

Long-Term Debt

The Commission's long-term debt is a payable due to Storey County with an outstanding balance of \$250,000 at June 30, 2022. This liability relates to a request made by Storey County during the year ended June 30, 2010 for a \$250,000 grant for their Virginia City Freight Depot. See Note 7 to the financial statements for further information.

Economic Condition and Outlook

State mandated COVID-19 related restrictions have relaxed gradually during the year ended June 30, 2022. The Commission had an unpredictable 2022 train season and had submitted an augmented budget. Uncertainties linger and forecasting revenue for the upcoming fiscal year remains difficult at this time. In addition, the Commission will seek additional funding from its current resources and through the addition of new revenue opportunities as they arise.

Requests for Information

This financial report is designed to provide a general overview of the Nevada Commission for the Reconstruction of the V&T Railway's finances. Questions concerning any of the information provided in this report or requests for additional information should be addressed to: Allyson Bolton, General Manager, PO Box 1711, Carson City, Nevada 89702.

Nevada Commission for the Reconstruction of the V&T Railway
Statement of Net Position
June 30, 2022

ASSETS	
Current Assets	
Cash	\$ 786,023
Accounts receivable	2,129
Interest receivable	2,862
Lease receivable	8,591
Due from other governments	66,083
Inventory	15,207
Note receivable - current portion	153,730
Total Current Assets	<u>1,034,625</u>
Property, plant & equipment, net	
Note receivable	28,316,285
Total Non-Current Assets	<u>52,400</u>
	<u>28,368,685</u>
Total Assets	<u>29,403,310</u>
LIABILITIES	
Current Liabilities	
Due to other governments	319,363
Accounts payable	67,343
Ticket sales received in advance	45,666
Total Current Liabilities	<u>432,372</u>
Non current liabilities	
Storey County payable	<u>250,000</u>
Total Liabilities	<u>682,372</u>
DEFERRED INFLOWS OF RESOURCES	
Lease transactions	7,481
	<u>7,481</u>
NET POSITION	
Invested in capital assets, net of debt	28,316,285
Unrestricted	<u>397,172</u>
Total Net Position	<u>\$ 28,713,457</u>

See Accompanying Accountant's Audit Report Notes to Financial Statements

Nevada Commission for the Reconstruction of the V&T Railway
Statement of Revenues, Expenses, and Changes in Net Position
For the Year Ended June 30, 2022

OPERATING REVENUES	
Train and rail bike tickets	\$ 801,244
Photo sales	6,879
Merchandise, net	20,496
Grant revenues	<u>750</u>
Total Operating Revenues	<u>829,369</u>
OPERATING EXPENSES	
Marketing	39,351
Operating agreements	206,958
Professional services	341,957
Repairs and maintenance	397,802
Insurance	10,583
Utilities	20,436
Office expense	22,114
Miscellaneous expense	53,656
Depreciation	<u>787,912</u>
Total Operating Expenses	<u>1,880,769</u>
Net Operating Loss	(1,051,400)
Non-Operating Revenues	
Investment income	14,013
Government contributions	315,000
License plate revenues	24,736
Miscellaneous	<u>12,298</u>
Total Non-Operating Revenues	<u>366,047</u>
Change in Net Position	(685,353)
NET POSITION, June 30, 2021	<u>29,398,810</u>
NET POSITION, June 30, 2022	<u><u>\$ 28,713,457</u></u>

See Accompanying Accountant's Audit Report Notes to Financial Statements

Nevada Commission for the Reconstruction of the V&T Railway
Statement of Cash Flows
June 30, 2022

CASH FLOW FROM OPERATING ACTIVITIES	
Cash received from customers	\$ 864,613
Other cash paid	(504,591)
Cash paid to suppliers	<u>(546,612)</u>
Net cash used by operating activities	<u>(186,590)</u>
CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES	
Acquisition and construction of capital assets	<u>(9,708)</u>
CASH FLOWS FROM INVESTING ACTIVITIES	
Principal paid on notes receivable	23,559
Deposit in Escrow	200,000
Governmental contributions	314,774
Interest and other income	<u>55,317</u>
Net cash provided by investing activities	<u>593,650</u>
NET INCREASE IN CASH AND CASH EQUIVALENTS	397,352
CASH AND CASH EQUIVALENTS, June 30, 2021	<u>388,671</u>
CASH AND CASH EQUIVALENTS, June 30, 2022	<u><u>\$ 786,023</u></u>
RECONCILIATION OF OPERATING LOSS TO NET CASH USED BY OPERATING ACTIVITIES	
Operating loss	\$ (1,051,400)
Non-cash adjustment	
Depreciation	787,912
Adjustments to reconcile operating loss to net cash used by operating activities	
Increase (decrease) in cash from changes in:	
Accounts receivable	17,026
Prepaid expenses	7,611
Inventory	210
Accounts payable	33,833
Ticket sales received in advance	<u>18,218</u>
Net cash used by operating activitie:	<u><u>\$ (186,590)</u></u>

See Accompanying Accountant's Audit Report Notes to Financial Statements

Nevada Commission for the Reconstruction of the V&T Railway
Notes to Financial Statements
June 30, 2021

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The accompanying financial statements of the Commission have been prepared in conformity with accounting principles generally accepted in the United States of America (GAAP) as prescribed by the Governmental Accounting Standards Board (GASB). A summary of the more significant accounting policies applied in the preparation of the accompanying basic financial statements follows:

Reporting Entity

Nevada Commission for the Reconstruction of the V&T Railway (the Commission) is a body corporate and politic, the geographical jurisdiction of which is Carson City and Storey counties. The Commission was created June 1, 1993, received its initial funding July 1995, and is composed of five commissioners appointed as follows:

1. One member who is a member of the Board of Supervisors of Carson City appointed from among its members or who is a designee of the Board of Supervisors of Carson City;
2. One member appointed by the Board of County Commissioners of Storey County from among its members or who is a designee of the board of County commissioners of Storey County;
3. One member appointed by the Board of the Carson City Culture and Tourism Authority from among its members or who is a designee of the Board;
4. One member appointed by the Virginia City Tourism Commission from among its members or who is a designee of the Commission; and
5. One member appointed by the Governor.

The Commission operates as a business-like Enterprise Fund.

Enterprise Fund: Effective January 1, 2013, the Commission created an Enterprise Fund. This fund is used to account for the operations of the train. Enterprise funds are used to account for those operations that are financed and operated in a manner similar to private business enterprises where the Board has decided that the determination of revenue earned, costs incurred, or net income is necessary or useful for management accountability. Effective June 30, 2018, the Commission eliminated the General Fund and transferred all assets, liabilities and fund equities to the Enterprise Fund.

Federal and state grants and investment earnings associated with the current fiscal period are all considered to be susceptible to accrual and so have been recognized as revenues of the current fiscal period.

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

Nevada Commission for the Reconstruction of the V&T Railway
Notes to Financial Statements
June 30, 2021

NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Budget and Budgetary Accounting

The Commission adheres to the Local Government Budget and Finance Act incorporated within the statutes of the State of Nevada, which includes the following major procedures to establish the budgetary data, which is reflected in the financial statements:

1. On or before April 15, the members of the Commission file a tentative budget with the Nevada Department of Taxation.
2. Public hearings on the tentative budget are held on the third Thursday in May.
3. Prior to June 1, at a public hearing, the Commission indicates changes, if any, to be made to the tentative budget and adopts a final budget by the favorable vote of a majority of the members of the Commission
4. Formal budgetary integration in the financial records of all funds is employed to enhance management control during the year.
5. The budget for the fund is adopted on a basis consistent with U.S. generally accepted accounting principles (GAAP). Appropriations lapse at year end.
6. Budget augmentations in excess of original budgetary amounts may not be made without prior approval of the Commission.

Due from Other Governments

No allowance for doubtful accounts has been established since management does not anticipate any material collection loss with respect to the balance receivable from other governments. These amounts are deemed fully collectible.

Inventory

Management of the Commission has elected to consider expenditures for supplies held for consumption as charges against appropriations at the time of purchase. Any inventories of such supplies at June 30, 2022, are not material and accordingly, are not recognized in the financial statements. The Commission contracts out the running of a gift shop, however they maintain inventory held specifically for sale during the Polar Express season. The inventory is stated at the lower of cost or market, with cost determined on a First-In, First-Out (FIFO) basis.

Capital Assets

Capital assets, include land, buildings, and machinery and equipment. Capital assets are defined by the Commission as assets with a unit cost of more than \$2,000 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. Depreciation of capital assets is calculated using the straight-line method using the following lives:

Building	39 years
Machinery and equipment	5 years

Tickets Received in Advance

Tickets received in advance consist of advance sales of tickets for the next fiscal year's train operations.

Nevada Commission for the Reconstruction of the V&T Railway
Notes to Financial Statements
June 30, 2021

NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Deferred Inflows of Resources

In addition to liabilities, a separate section is reported for deferred inflows of resources. This separate financial statement element, deferred inflows of resources, represents an acquisition of net position that applies to a future period and will not be recognized as an inflow of resources (revenue) until that time. Differences between expected and actual experience and between projected and actual investment earnings on leases qualify for reporting in this category.

Net Position

Net position is classified as follows:

Invested in capital assets, net – consists of capital assets, net of accumulated depreciation and long-term obligations related to these capital assets.

Restricted net position – consists of net position with constraints placed on their use either by (1) external groups such as creditors, grantors, contributors, or laws and regulations of other governments; or (2) law through constitutional provisions or enabling legislation. The Commission has no items that are considered to be restricted net position.

Unrestricted net position – represents resources that are not generally subject to externally imposed restrictions and may be used to meet current expense for any purpose.

Operating and Non-operating Revenues and Expenses

Revenues and expenses are classified as operating if they result from providing services and producing and delivering goods. They also include other events that are not defined as capital and related financing, noncapital financing, or investing activities. Grants and contracts representing non-exchange transactions are considered operating revenues.

Revenues and expenses are classified as non-operating if they result from capital and related financing, noncapital financing, or investing activities. Appropriations received to finance operating deficits are classified as noncapital financing activities; therefore, they are reported as non-operating revenues. Grants and contracts representing non-exchange transactions are treated as non-operating revenues.

Use of Estimates

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

New Accounting Pronouncements

In June 2017, the GASB issued Statement No. 87, Leases. The primary objective is to better meet the information needs of financial statement users by improving accounting and financial reporting for leases by governments. This statement is effective for fiscal years beginning after December 15, 2019. The anticipated impact of this pronouncement is uncertain at this time. In May 2020, the GASB issued Statement No. 95, Postponement of the Effective Dates of Certain Authoritative Guidance. This statement is effective immediately and postpones the implementation of GASB No. 87 by eighteen months, making it effective for fiscal years beginning after June 15, 2021. Accordingly, the Commission implemented the standard for the earliest period presented.

Nevada Commission for the Reconstruction of the V&T Railway
Notes to Financial Statements
June 30, 2021

NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

New Accounting Pronouncements (Continued)

In May 2020, the GASB issued Statement No. 96, Subscription-Based Information Technology Arrangements (SBITAs). The primary objective of this Statement is to provide guidance on the accounting and financial reporting for subscription-based information technology arrangements (SBITAs) for government end users (governments). This statement (1) defines a SBITA; (2) establishes that a SBITA results in a right to- use subscriptions asset – an intangible asset – and a corresponding subscription liability; (3) provides the capitalization criteria for outlays other than subscription payments, including implementation costs of a SBITA; and (4) requires note disclosures regarding a SBITA, GASB Statement No. 96 will be effective for the Commission for fiscal year ending June 30, 2023. The Board is currently evaluating the full effect that the adoption of this standard will have on the financial statements

NOTE 2 – COMPLIANCE WITH NEVADA REVISED STATUTES AND NEVADA ADMINISTRATIVE CODE

The Commission conformed to all significant statutory constraints on its financial administration during the year.

NOTE 3 – CASH

A summary of cash for the Commission at June 30, 2022, is as follows:

	Carrying Amount	Bank Balance
Represented by		
Petty Cash	\$ 50	\$ -
Cash in bank, checking (insured by FDIC)	785,973	799,858
Total cash and investments	\$ 786,023	\$ 799,858

Since all cash of the Commission are deposited in financial institutions and are available upon demand, all cash of the Commission are considered to be cash equivalents.

The Commission maintains its checking account in a commercial bank located in Nevada. Custodial credit risk is the risk that in the event of a bank or brokerage failure, the Commission's deposits may not be returned. The account is insured by the Federal Deposit Insurance Corporation (FDIC) up to \$250,000 in the aggregate per bank for the checking. In addition, the bank balance is collateralized with securities held by the Nevada Pooled Collateral program. Cash and cash equivalents reported in the statement of net position include cash totaling \$786,023.

The Commission participates in the State of Nevada collateralization program to assure that funds deposited are protected.

Nevada Commission for the Reconstruction of the V&T Railway
Notes to Financial Statements
June 30, 2021

NOTE 4 – NOTES RECEIVABLE

In November 2015, the Commission sold surplus land and building for a gain of \$154,418. The sales price of \$785,000 consisted of \$248,415 in cash and a term note of \$485,000. The term note bore interest at 5.0% per annum. Interest and principal payments were due monthly until maturity on December 1, 2020. Subsequently, in January of 2021, the promisor stopped making payments and attempted to enter into a new agreement with the Commission. As of June 30, 2021, the Commission received a one-time payment of \$200,000 from the promisor which is reported as funds in escrow in the statement of net position. On November 30, 2021, the Commission approved a new note receivable effective January 1, 2022 for the outstanding balance and accrued interest of \$245,218 with an interest rate of 5.0% per annum. Interest and principal payments of \$10,758 are due monthly until maturity on December 1, 2023. The note was executed December 7, 2021.

Changes in the note receivable are as follows:

<u>Balance</u> <u>June 30, 2021</u>	<u>Increase</u>	<u>Decrease</u>	<u>Balance</u> <u>June 30, 2022</u>	<u>Due in</u> <u>2022-2023</u>
\$ 229,689	\$ 15,529.00	\$ (36,226)	\$ 206,130	\$ 153,730

NOTE 5 – CAPITAL ASSETS

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

Capital assets being depreciated				
Buildings	\$ 32,020,874	\$ -	\$ -	\$ 32,020,874
Machinery and equipment	702,921	544,510	-	1,247,431
Total depreciable assets	<u>32,723,795</u>	<u>544,510</u>	<u>-</u>	<u>33,268,305</u>
Less accumulated depreciation for:				
Capital assets	(8,754,295)	(787,912)	-	(9,542,207)
Total accumulated depreciation	<u>(8,754,295)</u>	<u>(787,912)</u>	<u>-</u>	<u>(9,542,207)</u>
Total capital assets, being depreciated, net	<u>23,969,500</u>	<u>(243,402)</u>	<u>-</u>	<u>23,726,098</u>
Capital assets not being depreciated				
Work in process	534,802	9,708	(544,510)	-
Land and easements	4,590,187	-	-	4,590,187
Total non-depreciable assets	<u>5,124,989</u>	<u>9,708</u>	<u>(544,510)</u>	<u>4,590,187</u>
Business activities capital assets, net	<u>\$ 29,094,489</u>	<u>\$ (233,694)</u>	<u>\$ (544,510)</u>	<u>\$ 28,316,285</u>

Depreciation expense totaling \$787,912 was charged to the business-type operating expense function.

Nevada Commission for the Reconstruction of the V&T Railway
Notes to Financial Statements
June 30, 2021

NOTE 6 – Long-Term Lease Revenue Transactions

The Commission entered a to lease agreement, dated August 26, 2021, with Virginia and Truckee Railroad, Inc. (Railroad) to lease the #18 steam Baldwin-built 2-8-2 steam locomotive. The Railroad is required to pay annual rent at the rate of \$500 for each day of use up to a maximum of \$20,000 for each year of use.

In accordance with GASB 87, Leases, the lease receivable is initially measured at the net present value of the future minimum lease payments expected to be received. As there was no discount rate stated in the lease, the lease was discounted using a 4.75% (prime rate as of the date of implementation). The payments are recognized as a reduction of the lease receivable and interest income isas payments are received. The deferred inflow of resources at the time of implementation is recorded as an amount equal to the initial recording of the lease receivable. The deferred inflow of resources is amortized on a straight line basis over the life of the lease. Following is a schedule of the principal and interest on the lease:

Year Ending June 30	Principal	Interest	Total
2023	\$ 8,592	\$ 408	\$ 9,000
	\$ 8,592	\$ 408	\$ 9,000

NOTE 7 – RISK MANAGEMENT

The Commission, like all governmental entities, is exposed to various risks of loss related to torts; theft of, damage to, and destruction of assets; errors and omissions; and natural disasters. The Commission is covered by commercial insurance purchased from independent third parties. There have been no settlements in excess of insurance coverage for the past three years.

NOTE 8 – COMMITMENTS AND CONTINGENCIES

On May 20, 2010, an Interlocal Agreement was entered into by the Commission and the Board of County Commissioners of Storey County (“Storey County”). In this agreement Storey County set forth that they would present a ballot to extend the ¼ of 1 percent sales tax for the purpose of reconstruction and maintenance of the railroad. The Commission and Storey County agreed that should the Storey County electorate pass the extension, the Commission would continue to refund Storey County, on a monthly basis, such sales tax collected, that was not needed to cover all or a portion of the costs of train operations and track maintenance where the costs exceeded the ticket sales revenues.

On November 2, 2010, the voters voted to extend the ¼ of 1 percent sales tax for the purpose of reconstruction and maintenance of the railroad for the next 30 years.

On May 19, 2020, a new Interlocal Agreement was entered into by the Commission and the County of Storey (“County”). In this agreement, the County will annually attribute \$250,000 to the Commission from the ¼ of 1 percent sales tax collected into the V&T Railway Fund for the operation and maintenance of the railroad within Storey County. In any year in which proceeds from ticket sales and the annual amount provided above are insufficient to cover the costs of the train operation and track maintenance of the railroad, or, in an emergency situation, the Commission may request additional tax revenues to be allocated to cover those expenses.

Based on the interlocal agreements between the Commission and Storey County, certain sales tax amounts approved by the voters of Storey County for the support of the V&T Railway project were retained by Storey County in lieu of Storey County providing the Commission a flat annual dollar amount. The amounts due from Storey County to the Commission under these agreements have not been reconciled between the two organizations since the inception of the first agreement. It is unknown whether the outcome of the reconciliation will result in a material impact to the Commission.

Nevada Commission for the Reconstruction of the V&T Railway
Notes to Financial Statements
June 30, 2021

NOTE 9 – COMMITMENTS AND CONTINGENCIES (CONTINUED)

Also documented in the above referenced interlocal agreement was a one-time grant from the Commission to Storey County in the amount of \$250,000 to assist Storey County with the purchase of the old freight depot in Virginia City. This liability will be included in the reconciliation between the two organizations.

In addition, amounts included in due to other governments as a current liability total \$319,363 and represent expenditures of the Commission paid by Storey County and will be subject to the reconciliation between the two organizations.

NOTE 10 – SUBSEQUENT EVENTS

Management has evaluated the activities and transactions subsequent to June 30, 2022 to determine the need for any adjustments to and disclosure within the financial statements of the year ended June 30, 2022. Management has evaluated subsequent events through **Date Pending** which is the date the financial statements were available for issue.

On July 27, 2022, the Commission approved the payment to Storey County in the amount of \$321,043.33 for invoices paid on the Commission's behalf from July 1st, 2019 to August 19th, 2019. The payment was made on August 26th, 2022.

NOTE 11 – RISK AND UNCERTAINTIES

On March 11, 2020, the World Health Organization (WHO) declared the novel Coronavirus (COVID-19) outbreak a global pandemic, constituting "public health emergency of international concern". The Organization is responding to the recent COVID-19 outbreak with a measured, practical response. While the disruptions are currently expected to be temporary, there is considerable uncertainty about the duration. Therefore, while the Organization expects this matter to negatively impact its operating results, the related financial impact and duration cannot be reasonably estimated.

REQUIRED SUPPLEMENTARY INFORMATION

Preliminary Draft

Nevada Commission for the Reconstruction of the V&T Railway
Statement of Revenues, Expenses and Changes in Net Position - Budget to Actual
For the Year Ended June 30, 2022

	<u>BUDGETED AMOUNTS</u>		<u>Actual</u>	<u>Variance Favorable (Unfavorable)</u>
	<u>Original</u>	<u>Final</u>		
REVENUES				
Operating revenues				
Train and rail bike tickets	\$ 125,000	\$ 712,600	\$ 801,244	\$ 88,644
Photo revenue	-	10,000	6,879	(3,121)
Merchandise, net	-	50,000	20,496	(29,504)
Grant revenue	6,000	6,000	750	(5,250)
Total operating revenues	<u>131,000</u>	<u>778,600</u>	<u>829,369</u>	<u>50,769</u>
Nonoperating revenues				
Investment income	-	-	14,013	14,013
Interlocal Support	250,000	250,000	315,000	65,000
Licence plate revenue	21,600	21,600	24,736	3,136
Miscellaneous	15,100	15,100	12,298	(2,802)
Sale of property	64,000	233,000	-	(233,000)
Total nonoperating revenues	<u>350,700</u>	<u>519,700</u>	<u>366,047</u>	<u>(153,653)</u>
Total Revenues	<u>481,700</u>	<u>1,298,300</u>	<u>1,195,416</u>	<u>(102,884)</u>
EXPENDITURES				
Current				
Operating expenses				
Marketing	-	41,000	39,351	1,649
Operating agreements	209,000	-	206,958	(206,958)
Professional services	-	205,900	341,957	(136,057)
Repairs and maintenance	117,500	443,300	407,510	35,790
Insurance	-	12,000	10,583	1,417
Utilities	-	27,925	20,436	7,489
Office expenses	-	-	22,114	(22,114)
Miscellaneous expenses	-	369,600	53,656	315,944
Capital outlay	100,000	1,000	-	1,000
Supplies and services	55,200	86,375	-	86,375
Total Expenses	<u>481,700</u>	<u>1,187,100</u>	<u>1,102,565</u>	<u>84,535</u>
Change in Net Position - Budget Basis:	<u>\$ -</u>	<u>\$ 111,200</u>	92,851	<u>\$ (18,349)</u>
Less Depreciation			(787,912)	
Add Engine #18 Repairs			9,708	
Change in Net Position			<u>\$ (685,353)</u>	

Preliminary Draft

REPORTS ON INTERNAL CONTROL & COMPLIANCE

Casey Neilson, Inc.
Accountants and Advisors

**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***

To the Commissioners
Nevada Commission for the Reconstruction of the V&T Railway
Carson City, Nevada

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 Nevada Commission for the Reconstruction of the V&T Railway (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 **Date Pending**.

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.

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

Our consideration of internal control was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control that might be material weaknesses or, significant deficiencies. Given these limitations, during our audit we did not identify any deficiencies in internal control that we consider to be material weaknesses. However, material weaknesses or significant deficiencies may exist that were not identified.

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 no instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards*.

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.

Carson City, Nevada

Date Pending

Preliminary Draft

**NEVADA COMMISSION FOR THE RECONSTRUCTION OF THE V&T RAILWAY
PRIOR YEAR SCHEDULE OF FINDINGS
JUNE 30, 2021**

2021 – 01 Absent or inadequate controls over the safeguarding of assets.

Criteria: Facilitating the negotiation and execution of contracts and agreements to safeguard the Commission’s assets.

Effect: Failure of controls over safeguarding assets can result in loss, damage or misappropriation.

Condition: During our audit we identified that a promissory note had matured and the Commission had yet to receive the final payment as directed. The Commission had engaged in communications with the Borrower to issue a new promissory note but it had not yet been drafted or executed as of June 30, 2021. With a change in Commissioner’s and a Change in Contract Manager, the proposed negotiations with the Borrower ceased. This resulted in a reduction of cash flow of current and future amounts totaling (\$245,218).

Cause: A change in management and oversight occurred in the same fiscal year which resulted in a loss of historical Commission knowledge of the transactions and it’s status.

Recommendation: The status of open items should be maintained on a regular basis and addressed by the Commission and the Board at their scheduled meetings. Upon the exit or change of the Commission and/or management an exit meeting should be held to discuss the status of the open and successfully transfer the historical knowledge necessary to move forward with those transactions.

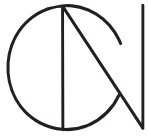
Management Response: Management agrees with the finding and the recommendation to maintain a status of open items for Commission consideration. Going forward, the Chair will request the current contractor include a list of any open items as part of the operations report provided at each meeting.

Should there be a change in the contract management team, an agenda item will be added to a meeting at least 30 days prior to the termination of the current contract to review any open items and insure there is a transfer of historical knowledge to move forward on those items.

Current Year Status: The Commission executed a new note during FY 2022 and has put processes in place to monitor the status of open contracts prior to contract renewal.

AUDITOR'S COMMENTS

Preliminary Draft



CASEY NEILON

Date Pending

To the Commissioners
Nevada Commission for the Reconstruction of the V&T Railway
Carson City, Nevada

We have audited the financial statements of the Nevada Commission for the Reconstruction of the V&T Railway (the Commission) for the year ended June 30, 2022. Professional standards require that we provide you with information about our responsibilities under generally accepted auditing standards and *Government Auditing Standards*, as well as certain information related to the planned scope and timing of our audit. We have communicated such information in our letter to you dated **Date Pending**. Professional standards also require that we communicate to you the following information related to our audit.

Significant Audit Matters

Qualitative Aspects of Accounting Practices

Management is responsible for the selection and use of appropriate accounting policies. The significant accounting policies used by the Commission are described in Note 1 to the financial statements. GASB 87 was adopted during 2022, which is considered a change in accounting principle. We noted no transactions entered into by the Commission during the year for which there is a lack of authoritative guidance or consensus. All significant transactions have been recognized in the financial statements in the proper period.

Accounting estimates are an integral part of the financial statements prepared by management and are based on management's knowledge and experience about past and current events and assumptions about future events. Certain accounting estimates are particularly sensitive because of their significance to the financial statements and because of the possibility that future events affecting them may differ significantly from those expected. The most sensitive estimate affecting the Commission's financial statements was:

Management's determination that all accounts receivables are collectible at year end. We evaluated the key factors and assumptions used to develop the estimate of collectability in determining that it is reasonable in relation to the financial statements taken as a whole.

The financial statement disclosures are neutral, consistent, and clear.

Difficulties Encountered in Performing the Audit

We encountered no significant difficulties in dealing with management in performing and completing our audit.

Corrected and Uncorrected Misstatements

Professional standards require us to accumulate all known and likely misstatements identified during the audit, other than those that are clearly trivial, and communicate them to the appropriate level of management. Management has corrected all such misstatements. All proposed adjustments resulted in the reduction of net income by \$800,418. The following material misstatements detected as a result of audit procedures were corrected by management:

1. Reverse the prior year interest revenue accrual of \$8,242
2. Reverse prior year accrual of interlocal support from of \$65,000
3. Record depreciation expense in the amount of \$787,912
4. Record additional work in process of \$9,708
5. Reclassify work in process to equipment in the amount of \$544,510
6. Reclassify repairs on Engine #18 to capital asset of \$9,708
7. Reverse the prior year accounts payable adjustment of \$5,466

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8. Adjust inventory to current year count \$210
9. Adjust prepaid promotional merchandise balance of \$7,611
10. Adjust ticket sales in the amount of \$42,351
11. Record current year accrual of interlocal support of \$65,000
12. Record deferred revenue from PEX ticket sales in the amount of \$17,032
13. Reverse prior year accrued SLP revenue of \$857
14. Accrue current year accrued SLP revenue of \$1,083
15. Reverse prior year accrued ticket sale revenue of \$19,155
16. Accrue current year accrued ticket sale revenue of \$2,129
17. Reclassify loan payments received in the amount of \$43,140
18. Reclassify escrow deposit received in the amount of \$200,000
19. Record accrued interest on new note receivable of \$15,529
20. Record implementation of GASB 87 of \$1,110

Disagreements with Management

For purposes of this letter, a disagreement with management is a financial accounting, reporting, or auditing matter, whether or not resolved to our satisfaction, that could be significant to the financial statements or the auditor's report. We are pleased to report that no such disagreements arose during the course of our audit.

Management Representations

We have requested certain representations from management that are included in the management representation letter dated [Date of Management Representation Letter].

Management Consultations with Other Independent Accountants

In some cases, management may decide to consult with other accountants about auditing and accounting matters, similar to obtaining a "second opinion" on certain situations. If a consultation involves application of an accounting principle to the Commission's financial statements or a determination of the type of auditor's opinion that may be expressed on those statements, our professional standards require the consulting accountant to check with us to determine that the consultant has all the relevant facts. To our knowledge, there were no such consultations with other accountants.

Other Audit Findings or Issues

We generally discuss a variety of matters, including the application of accounting principles and auditing standards, with management each year prior to retention as the Commission's auditors. However, these discussions occurred in the normal course of our professional relationship and our responses were not a condition to our retention.

Other Matters

We applied certain limited procedures to the management's discussion and analysis and budgetary comparison information, which are required supplementary information (RSI) that supplements the basic financial statements. Our procedures consisted of inquiries of management regarding 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 did not audit the RSI and do not express an opinion or provide any assurance on the RSI.

Restriction on Use

This information is intended solely for the information and use of management and the Commission's Board of Commissioners and is not intended to be, and should not be, used by anyone other than these specified parties.

Very truly yours,

Casey Neilon, Inc.
Date Pending