

TOWN OF PAGOSA SPRINGS, COLORADO
REPORT OF EXAMINATION AND FINANCIAL STATEMENTS
YEAR ENDED DECEMBER 31, 2011

TOWN OF PAGOSA SPRINGS, COLORADO
YEAR ENDED DECEMBER 31, 2011
Table of Contents

	Page No.
Independent Auditor's Report	1
Management's Discussion and Analysis	2-12
Basis Financial Statements:	
Statement of Net Assets	13
Statement of Activities	14
Balance Sheet all Governmental Funds	15
Reconciliation of the Governmental Funds Balance Sheet to the Statement of Net Assets	16
Statement of Revenue, Expenditures and Changes in Fund Balances Governmental Funds	17
Reconciliation of the Statement of Revenues, Expenditures and Changes in Fund Balances of Governmental Funds to the Statement of Activities	18
Statement of Revenue, Expenditures and Changes in Fund Balances Budget and Actual General Fund	19
Statement of Revenue, Expenditures and Changes in Fund Balance Budget and Actual Capital Improvement Fund	20
Statement of Revenue, Expenditures and Changes in Fund Balance Budget and Actual Conservation Trust	21
Proprietary Funds, Statement of Net Assets	22
Proprietary Funds Statement of Revenues, Expenses and Changes in Fund Net Assets	23
Proprietary Funds Statement of Cash Flows	24
Proprietary Funds, Combining Statement of Cash Flows	25
Notes to Financial Statements	26-40
Supplemental Information:	
Statement of Revenue, Expenses and Changes in Net Assets Budget and Actual (Non-GAAP) Proprietary Fund	41-42
Other Information	
Supporting Schedule of Counties, Cities and Towns Annual Statement of Receipts and Expenditures for Roads, Bridges and Streets	
Local Highway Finance Report	43-44

INDEPENDENT AUDITOR'S REPORT

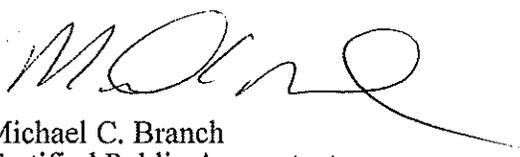
I have audited the accompanying financial statements of the governmental activities, the business-type activities, and each major fund of the Town of Pagosa Springs, Colorado as of and for the year ended December 31, 2011, which collectively comprise the Town's basic financial statements as listed in the table of contents. These financial statements are the responsibility of the Town's management. My responsibility is to express opinions on these financial statements based on my audit.

I conducted my audit in accordance with auditing standards generally accepted in the United States of America. Those standards require that I plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe our audit a reasonable basis for our opinions.

In my opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, the business type activities and each major fund, of the Town of Pagosa Springs, Colorado, as of December 31, 2011, and the respective changes in financial position and cash flows, where applicable, thereof, and the respective budgetary comparison for the General Fund and the Major Special Revenue Funds, for the year then ended in conformity with accounting principles generally accepted in the United States of America.

The management's discussion and analysis beginning on page 2 is not a required part of the basic financial statements but is supplementary information required by accounting principles generally accepted in the United States of America. I have applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of the required supplementary information. However, I did not audit the information and express no opinion on it.

My audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the Town's basic financial statements. The Local Highway Finance Report and other supplemental schedules consisting of budgetary comparison schedule for the Sanitation Fund and Geothermal Fund are presented for the purposes of additional analysis and are not a required part of the basic financial statements. Such information has been subjected to the auditing procedures applied in the audit of the basic financial statements and, in my opinion, are fairly stated in all material respects in relation to the basic financial statements taken as a whole.



Michael C. Branch
Certified Public Accountant
February 17, 2012

TOWN OF PAGOSA SPRINGS

MANAGEMENT DISCUSSION AND ANALYSIS

This section of the Town of Pagosa Springs' annual financial report presents our discussion and analysis of the Town's financial performance during the fiscal year, which ends December 31, 2011. Please read it in conjunction with the Town's financial statements, which follows this section.

Background

During 2011, the national economy appears to have bottomed and begun to show signs of gradual improvement. The US Bureau of Labor Statistics in December of 2011 reported the unemployment rate is as follows: nation-wide, 8.5% (9.4% in 2010 and 9.9% in 2009); Colorado, 7.9% (8.8% in 2010 and 7.3% in 2009); and Archuleta County, 9.5% (10.9% in 2010 and 8.3% in 2009). Note: the true unemployment rate is much higher if people exhausting unemployment benefits and people no longer seeking employment are included. Economic instability in Europe and the national unemployment rate continue to adversely affect national, state and local economic stability. However, other national leading indicators suggest that the economy is expanding very slowly. Consumer spending and the nation's stock market continued to rebound in 2011.

In an effort to respond quickly should the local economy experience a downturn, the Town Council continued its policy requiring Town expenditures to be reduced in direct proportion to the reduction in sales tax revenues and that expenditure reductions should take into account the relative value of specific programs or services provided to the community. This policy is reflected in Resolution 2011-16.

The Town Council budgeted for \$2,958,944 in 2012 sales tax revenue (same as 2010 actual sales tax revenue). This budgeted amount was split equally between the General Fund and Capital Fund. For every five percent (5%) reduction in expenditures, \$147,947 must be trimmed from the budget (\$73,975 from the General Fund and \$73,975 from the Capital Improvement Fund).

Resolution 2011-16 also requires the Town staff to: 1) Monitor the Town's revenues on a monthly basis and report fluctuations from prior months and prior year revenues to the Town Council; 2) Deploy a financial stability plan, reducing Town expenditures upon the advent of lower sales tax revenue over two consecutive months (or two of three consecutive months) as compared to the averaged sales tax revenue levels of 2010, and 2011. The plan excludes the 2010 and 2011 Department of Revenue Audit payments. The policy to abate fifty percent (50%) of the Town's normal planning/development and building permit fees for 2011 was not extended into 2012.

Modification to expenditures may occur as early as mid-March 2012. For example, February's expenditure level will be based on the average of January and February 2012 revenue (or the average of December of 2011 and January and February 2012 revenue). Using this method, the Town will not delay its response to changes in the revenue stream.

The Town's 2012 financial stability plan controls expenditures in the following manner: whenever the percentage of sales tax revenues collected falls more than five percent (5%) below the average revenues collected for the same period in the preceding two fiscal years and the percentage of sales tax revenues collected in the previous month (or previous two months) falls five percent (5%) below the average revenues collected for the same periods in the preceding two fiscal years, the Town manager shall implement a seven percent (7%) reduction in sales tax related expenditures.

2011 Budget Performance

If audit related extraordinary sales tax revenue (+\$108,210) is excluded, the Town's 2011 sales tax revenues increased one and six tenths percent (+1.64%) or +\$48,566 compared to 2010. Accordingly, the 2012 budget holds expenditures levels down to ensure the Town's economic stability. Town expenditure reductions flowing from Resolution 2011-16 will be directly proportional to the reduction in revenues and the criterion for expenditure reductions will take into account the relative value of specific programs or services provided to the community.

The 2011 budget approved by the Town Council in December of 2010 estimated decreasing the end of year General Fund reserves by \$344,640. At the end of 2011 the Town estimates increased General Fund reserves by \$51,958 compared to 2010 estimates. The same approved budget estimated that the Town would decrease Capital Fund Reserves by \$431,178. At the end of 2011 the Town actually increased Capital Fund reserves by \$425,402 (including \$54,105 in Department of Revenue audit payments).

2011 Grants Acquired

To ensure financial stability, during 2011, the Town staff was diligent to reduce expenditures and accessed additional grant funding: \$158,814 for a new dust-reduction street sweeper; \$240,000 for sidewalks along Highway 160 between the library and grade school; \$17,500 for a Masters student intern; and \$124,358 for the Yamaguchi Park restrooms. As a result of staff diligence, a Department of Revenue audit payment of \$108,210 and sales tax revenue exceeding the Town Council budgeted amount by \$48,566, at the end of 2011 the Town was able to acquire badly needed capital equipment.

2011 End Of Year Equipment Purchases

Acquired capital equipment included the purchase of a streets department pickup truck with snow blade; a parks and recreation department pickup truck; and an administration department 4wheel drive vehicle.

Operating Reserves

The established standard for public sector agencies is three to six months operating cash on hand. The Town currently has \$2.94 million cash on hand between the general and capital funds, or a full eleven months cash reserve (assuming zero sales tax income) and a full twenty-two months reserve (assuming sales tax income drops by 50%). However, if all of the projects presented in the proposed 2012 budget are implemented, the General Fund reserves will be drawn down to 4.37 months and Capital Fund reserves will be drawn down to 3.84 months.

2012 Budget

The Town Council continues to focus on investing in community infrastructure and economic growth with emphasis on the following: 1. Reservoir Hill; 2. San Juan River enhancements; 3. Wayfinding plan; 4. Riverwalk and trails; 5. Downtown improvements; 5. Park improvements; 6. Heritage tourism; 6. Athletic facilities; and 7. Growth incentives.

2012 Budget Assumptions

Sales tax revenue in 2012 will be the same as 2010 actual = \$2,958,944 (does not include the \$1,001,738 received in 2010 as a result of the Colorado Department of Revenue sales tax audit receipts).

Lodgers tax revenue in 2012 shall increase 2.5% over the 2011 year end estimate = \$410,000.

Development and building fees will remain increase from 2011 levels = \$5,000.

New projects eligible for grant funding total \$6,533,000. Breakdown of funding as follows:

New state/federal grant revenue is estimated at approximately \$5,630,000 in 2012.

New Town grant matching funds is estimated at approximately \$903,000 in 2012.

It is unlikely that the Town will acquire all of the grants for which it has applied. In the event we are successful, financing options are available to facilitate executing all of the projects at once.

Service Organizations shall receive 3% of total 2012 budgeted Town revenues = \$57,224.

Economic Development related initiatives are to be budgeted at \$137,500 in 2012.

Staffing pattern will increase by moving one employee at the Ross Aragón Community Center from part-time to full-time status. Note: changes in the 2011 budget included: two maintenance personnel to full time; two additional seasonal employees (streets and parks); police sergeant and patrol officer vacancy filled.

Health insurance budgeted cost will increase 3.9 percent (\$12,491) over 2011.

In a \$2,155,207 financial transaction in 2011, both the Lewis Street construction loan (\$1,500,000) and the balance of the Ross Aragón Community Center loan (\$655,207) are collateralized by Town Hall. The Community Center is now free and clear of indebtedness.

The \$1,500,000 Lewis Street construction project is financed over ten years at \$179,635 per year, the community center loan will be paid off in July 2014. Payments to begin in 2012.

The WayFinding Plan implementation will be budgeted at \$20,000 in 2012, with the Town Tourism Committee matching with an additional \$40,000. These funds will be utilized to match state/federal grant funds.

Reservoir Hill is budgeted at \$4,395,000 (\$4,045,000 in grant or private funds and \$350,000 in Town matching funds).

Town will continue to accelerate asset development in 2012, 2013 and 2014:

Parks Department to complete three new kayaking features and reconstructed/new fishing habitat in the winter of 2011/2012.

Parks and Recreation Department to deploy additional Yamaguchi Park improvements to including: picnic tables, benches and trash receptacles.

Parks and Recreation Department to deploy additional Riverwalk improvements to including: picnic tables, benches and trash receptacles.

The Parks and Recreation Commission shall deploy the Town Council approved forest thinning and preservation plan for Reservoir Hill.

The Town Tourism Committee shall deploy the Town Council approved development plan to enhance Reservoir Hill with amenities such as an observation tower, amphitheater, and chairlift.

Parks and Recreation Department will develop and deploy a new parks maintenance plan, taking into account the expanded parks facilities.

Capital Improvement Plan to be updated with engineering costs and additional construction elements (expanded San Juan Riverwalk and kayaking/tubing features, fish habitat, Reservoir Hill development, sidewalk replacement, etc.).

As approved by the Town Council, the Town shall continue conducting educational audits and accounting audits on lodging establishments (lodgers tax).

2012 Budget Narrative

During the budget development process, the Town Council utilized a 2011 sales tax revenue target of \$2,958,944, (same as 2010 actual sales tax revenue).

The 2012 budget projects a \$2,933,845 (General and Capital) carryover of funds from 2011 (includes the unexpected revenues of \$108,210 from the Department of Revenue sales tax audit). The \$327,762 growth is a result of increased revenues and reduced expenditures in the General and Capital Funds.

The approved 2012 budget estimates year-end cash reserves of \$1,001,543 in the General Fund and \$701,237 in the Capital Improvement Fund. The proposed 2012 budget expenditures will create a year-end unrestricted reserve of \$1,702,780.

In calendar year 2011 sales tax revenue increased by one and six tenths percent (+1.646%) or +\$48,566 compared to 2010 (this amount excludes extraordinary sales tax revenue of \$108,210).

Actual sales tax revenue received in 2011 total \$3,115,718 (includes a one-time \$108,210 Department of Revenue audit).

To be fully prepared, the department heads have identified expenditures at the five percent (7%), ten percent (12%), fifteen percent (17%) and twenty percent (22%) reduction levels.

In 2010, the Town's sales tax revenue analysis shifted to one based on year-to-date sales tax receipts (a cash basis analysis, rather than an accrual basis analysis). This method continues in 2012

Lodgers Tax Revenue

In 2011, the Town's 4.9% lodger's tax generated revenues increased by +6.07% (\$23,294) compared to the same period last year. In calendar year 2010, lodgers tax revenue was up +8.48% (+\$26,872) over 2009. In 2009 revenue was up +9.20% (\$29,684), compared to 2008. The Town lodging tax resulted in \$315,941 in 2006; \$334,149 in 2007; \$322,666 in 2008; and \$352,376 in 2009. The preliminary figures for 2011 indicate that lodging tax revenues will total approximately \$407,214 compared to \$381,658 in 2010. Expenditure of Lodgers Tax revenue is restricted to tourism related marketing or tourism related capital improvements and are reflected in the Town Tourism Committee budget which is reviewed and approved by the Town Council annually.

Capital Improvements

Through the election process in 2008, the voters renewed a measure that allocates 1% local sales tax to the Town of Pagosa Springs for capital improvements and the maintenance thereof. To respect the decision of the voters, the Town has divided its budget into general operations and capital improvement sections.

The Town Council's allocation of capital improvement revenues for 2012 continues to place increased emphasis on improving the Town's street infrastructure. Payment of debt service of Town facilities also remains a high priority. The Town Council strikes a balance between maintaining adequate reserves and funding new facility/infrastructure projects, while also considering the cost of facilities maintenance. Therefore, the structure of the proposed capital improvement budget reflects expenditures in maintenance and debt service first, then new projects. Major 2012 capital projects include: completion of Lewis Street paving; sidewalk replacement in downtown; expanding the community's fiber optics and wireless communication capabilities; development of Reservoir Hill; development of new river kayaking/tubing features; development of new fish habitat; and extension of the San Juan River walk.

The capital fund received an additional \$179,300 in 2011 from the County's 1A funding audit. The Town will receive \$97,000 in 2012 from the same source.

Note: In addition to major projects (roads, bridges, buildings, etc.), capital improvements in government agencies typically include items purchased for \$2,500 (technology items as low as \$1,000), or more, and having a useful life of five years or more (e.g.: computers, vehicles, etc.).

Riverwalk Extension And New Pedestrian Bridge

In its 2012 budget, the Town Council allocated funds (\$1.5 million) for the San Juan Riverwalk extension and new 6th Street pedestrian bridge. The Town is one of 17 communities, out of 62 applicants, that have been invited to apply for a large GOCO River Corridor Improvement Grant.

The preliminary application will be submitted to GOCO prior to February 24th, with final grant application submission due by March 16, 2012. Awards will be announced by June 22, 2012. Engineering and design continues for these project elements in preparation for construction as early as we are able under the requirements of the GOCO grant.

The Army Corps of Engineers has approved our wetland delineation which allows us to proceed with submitting the 404 permit with the Corps. The Town will follow-up with pre-construction notification and Army Corps 404 nationwide permit in preparation for constructing the river walk extension and pedestrian bridge.

Lewis Street Improvement

On December 15, 2009, the Town Council approved the Capital Improvement Decision Matrix as a general guide for identifying and prioritizing capital improvement projects. As part of the Town's capital improvement plan, SGM Engineers and the Street's Department Director drafted a five year plan to improve the Town's streets. The Council then refined the street improvement five-year plan by moving the reconstruction of Lewis Street between North 3rd Street and North 4th Street from 2012 to 2010.

During 2010, in addition to filling pot-holes throughout Town, the Town's Streets Department staff replaced sidewalk, curb and gutter at the Hwy 160 and Hot Springs Blvd. pocket park. Reconstruction of the Trinity Lane and Eagle Drive intersection and Village Drive between Eaton Drive and Talisman Drive and the Hwy 160 and 7th Street entrance was completed in October. In September, chip and seal work was completed on 6th Street, Eagle Drive and Village Drive.

Cost estimates for the reconstruction of Lewis Street between 1st Street and 4th Street were submitted to the Town Council. The Town submitted a grant application to CDOT for the construction of a sidewalk on the south side of Lewis Street. Unfortunately, the application was not approved. The Town Council elected to fund the sidewalk construction as part of the Lewis Street project.

Engineering for Lewis Street was completed in preparation for 2011 construction. The need to changed lender (due to non-performance) slowed the acquisition of financing for the Lewis Street project. As a result construction did not begin until late in the 2011 construction season. This project should be completed in 2012.

Assessed Valuation & Mill Levies

The Town of Pagosa Springs assessed valuation for 2012 is \$55,623,358 (a decrease of \$14,790,451 from 2011). The Town Council set the Town Mill Levy be set at 1.557 Mills, generating \$86,606, plus an additional .026 mills of refunds/abatements will generate \$1,446. Property tax assessments decreased by 25%, reducing 2012 revenue by \$23,140.

Special Funds Summary

Beginning in 2009 and continuing in 2012, the format of the budget changed, reflecting separate fund accounts for all Town resources that are restricted to specific projects. These funds include the Capital Improvement Fund, Lodger's Tax Fund, Conservation Trust Fund, and Impact Fee/Trust Fund. The General Fund and Geothermal Enterprise Fund previously existed.

General Fund

In 2009, the General Fund was split into several different funds. The 2012 Budget shows General Fund beginning reserves of \$1,747,166 and projects 2012 revenues at \$1,906,227 with expenses of \$2,651,851 creating a year-end balance of \$1,001,543.

Capital Improvement Fund

The creation of a Capital Fund was required to ensure full accountability in response to the November 2008 ballot initiative in which sales tax collection requires the expenditure of 50% of the town's Sales Tax Revenue to be spent on capital projects and maintenance. The 2012 Budget estimates Capital Fund beginning reserves of \$1,186,679, projected revenues of \$9,575,243, expenses of \$10,060,686, creating a year-end balance of \$701,237.

Conservation Trust Fund

These revenues result from an IGA with the State of Colorado and Archuleta County for the receipt of Town and County lottery dollars. These funds can be used specifically for capital improvements and maintenance related to parks, recreation and trails. This fund anticipates 2012 revenues of \$45,500 and expenditures of \$50,000 for a budgeted fund balance of \$54,719.

Lodgers Tax Fund

The Town Tourism Committee is the entity designated by the town to budget revenues and expenditures of Lodgers Tax dollars. The town budget reflects the TTC general income and detailed expenditures. The 2012 budget reflects a continued increase in TTC expenditures for capital construction projects. The 2012 Budget estimates beginning reserves of \$63,739, projected revenues of \$436,000, expenses of \$436,000, creating a year-end balance of \$63,739

Impact Fee/Trust Fund

This fund has been established to improve the administration of these earmarked funds. The town collects impact fee funds for roads, regional public buildings, regional recreation facilities, parks and trails. The town also collects impact fees for the Upper San Juan Fire District (Emergency Service Provider). The 50 JT School District, as an in-lieu dedication, has also been added to this fund, as the impact fee dollars are passed through to this taxing district. During the 3rd quarter of 2008, the town initiated collection of a 2% administration fee for the pass-through collections to Emergency Management and School District. In 2009, the Town Council abated development fees at a 100% rate and in 2010 and 2011 the fees were abated at 50%. The Town Council voted to reinstitute normal fee structures for 2012.

The Town also collects funds for the Pinon Lake Fountain, the Fourth of July Fireworks, Whitewater Features and the Yamaguchi Park skate park. The 2012 budget reflects revenues of \$32,540 and expenditures of \$31,510 for a total year-end fund balance of \$60,764.

Geothermal Enterprise Fund

The Geothermal Enterprise Fund includes the full costs of operating this utility. As a result of aging infrastructure, the Town is assessing alternative approaches to utilizing its geothermal waters for heating purposes. In 2010, the National Renewable Energy Laboratory conducted a study and provided the Town options for more effectively utilizing our geothermal resources, along with recommended grant sources. After comprehensive research on the community's geothermal resources, the Town will develop a business plan for heating all of downtown with its current geothermal water rights and prepare grant application for submission to the U. S. Department of Energy.

During 2011, the Town of Pagosa Springs began working closely with the Governor's Energy Office's Geothermal Working Group. Of the 101 people participating in the State of Colorado's Geothermal Working Group meeting in Denver, 9 were from Pagosa Springs. In response to our community's strong participation, the Governor's Energy Office (GEO) funded 125 hours of research and analysis by the Colorado Renewable Energy Development Team (REDT). The resulting Report addresses the Town's Geothermal District Heating System.

The Town of Pagosa Springs, Archuleta County, the Geothermal Greenhouse Partnership, the Pagosa Springs Community Development Corporation and private donors joined together to fund (\$36,000) a Geothermal Research Study (the next step beyond the NREL study of 2010). This is a joint research effort with community well owners. Geothermal Management Company, Inc, is expecting to install the monitoring equipment the first week in February 2012. Collection of base-line data will occur between February and May 2012. During May and June more rigorous aquifer testing will occur.

In October 2011, a team from the Colorado School of Mines Geophysical Department visited Pagosa Springs to meet with the Town, County and Geothermal Greenhouse Partnership to discuss the merits of the School holding its summer Geo work camp here in Pagosa Springs. By the end of 2011, the Geophysical Department informed the Town that the School will bring 50 students, 20 professors and high-tech equipment to Pagosa Springs the last two weeks in May of 2012. Their research will be invaluable to our area and to the goals of understanding what we have. In preparation for the research trip, the School of Mines will continue to build on the resource data for the region.

The 2012 budget shows an estimated beginning fund balance of \$161,693, operational revenues of \$42,500, expenditures of \$100,393, resulting in a year-end fund balance of \$103,393.

Organizational Changes

Organizational changes reflected in the 2009, 2010 and 2011 budgets will continue in 2012. These include an increased level of detail and separation of multiple line items to improve tracking of expenditures. To improve accountability, a number of line items that were formally a direct charge against the general fund have been moved into the department budgets.

For example, the cost of legal services and economic development has been moved into the Town Manager's budget and the Combined Dispatch Center and the Humane Society of Pagosa Springs have been move into the Police Department budget. General copy costs are accumulated within the Town Clerk's budget. However, cell phones were redistributed from the Clerk's Department to each individual department. The cemetery revenues were repositioned to the capital fund along with the associated expenses. Amortization schedules for the town's existing debt service have been included as attachments to the budget.

Staffing

After several years of declines in Town staffing, in 2011, the Town increased staffing by 3 full time equivalent positions, including: a police sergeant; seasonal parks maintenance; seasonal streets maintenance; and two janitorial staff will move from part-time to full-time. In 2012, one employee at the Ross Aragón Community Center has been moved from part-time to full-time status.

As in 2011, Town staff will not receive any cost of living or merit salary increases in 2012. The last Salary Survey was completed in 2004. The Town Council has approved hiring a consultant to conduct a 2012 salary survey.

Audit Of Town Revenues And Expenditures

As soon as it is completed, the audit of the Town's 2011 expenditures will be available for public review.

OVERVIEW OF THE FINANCIAL STATEMENTS

This annual report consists of two parts — management's discussion and analysis (this section), and the basic financial statements. The basic financial statements include two kinds of statements that present different views of the Town's:

The first two statements are *government-wide financial statements* that provide both *long-term and short-term* information about the Town's overall financial status.

The remaining statements are *fund financial statements* that focus on *individual parts* of the government, reporting the Town's operations in more detail than the government-wide statements.

The governmental funds statements tell how general government services were financed in the short term as well as what remains for future spending. Governmental funds include the General and Conservation Trust Fund.

The financial statements also include notes that explain some of the information in the financial statements and provide more detailed data.

Town-wide Statements

The Town-wide statements report information about the Town as a whole using accounting methods similar to those used by private companies. The statement of net assets includes all of the Town's assets and liabilities. All of the current year's revenues and expenses are accounted for in the statement of activities regardless of when cash is received or paid.

The two Town-wide statements report the Town's net assets and how they have changed. Net assets, the difference between the Town's assets and liabilities are one way to measure the Town's financial health or position.

Over time, increases or decreases in the Town's net assets are an indicator of whether its financial health is improving or deteriorating, respectively.

To assess the overall health of the Town, one needs to consider additional non-financial factors such as changes in the Town's tax base, and the condition of the Town buildings along with major capital improvements.

The Town-wide financial statements of the Town include all of the *Governmental activities*. Most of the Town's basic services are included here. Sales taxes finance most of these activities.

Fund Financial Statements

The fund financial statements provide more detailed information about the Town's most significant *fund* — not the Town as a whole. Funds are accounting devices that the District uses to keep track of specific sources of funding and spending for particular purposes.

Some funds are required by State law and by bond covenants.

The Board of Trustees establishes other funds to control and manage money for particular purposes or to show that it is properly using certain taxes and grants.

The Town has the following funds:

Governmental funds — All of the Town's basic services are included in governmental funds, which focus on (1) how *cash and other financial assets* that can readily be converted to cash flow in and out and (2) the balances left at year-end that are available for spending. Consequently, the governmental fund statements provide a detailed *short-term* view that helps you determine whether there are more or fewer financial resources that can be spent in the near future to finance the Town's programs.

FINANCIAL ANALYSIS OF THE TOWN AS A WHOLE

Total net assets increased by \$700,548. Cash increased \$2,026,509.

The Town's total governmental revenues were \$5,035,405. Over 63% of the Town's revenues came from sales taxes.

Governmental Activities

Property tax revenues remain about the same as the previous year, due to this was not an assessment year.

General Fund Budgetary Highlights

Actual expenditures were \$362,363 below budget amounts. Actual revenues were less than budgeted amounts, by \$51,742.

CAPITAL ASSETS

At the end of 2011, the Town had invested in a broad range of capital assets, including land, equipment and buildings.

Town's Capital Assets	
Land	\$ 1,121,550
Streets	9,533,266
Buildings	2,632,034
Equipment	1,162,768
Geothermal	1,184,673
Sanitation	<u>3,602,363</u>
Totals	19,236,654
Less Accumulated Depreciation	<u>(3,965,087)</u>
Net Capital Assets	\$ 15,271,567

CONTACTING THE TOWN'S FINANCIAL MANAGEMENT

This financial report is designed to provide our citizens, taxpayers, customers, and creditors with a general overview of the Town's finances and to demonstrate the Town's accountability for the money it receives. If you have questions about this report or need additional financial information, contact the Town's Management.

Basis Financial Statements

TOWN OF PAGOSA SPRINGS
 Statements of Net Assets
 December 31, 2011

	Primary Government		
	Governmental Activities	Business Type Activities	Total
ASSETS			
Current assets			
Cash	\$ 4,894,884	\$ 1,279,149	\$ 6,174,033
Restricted cash		2,000,000	2,000,000
Cash held by County	2,614	1,656	4,270
Receivables	785,741	91,334	877,075
Tax receivables	88,052	91,250	179,302
Other	28,155		28,155
Total Current Assets	<u>5,799,446</u>	<u>3,463,389</u>	<u>9,262,835</u>
Capital Assets			
Fixed assets net of depreciation	12,516,017	2,755,550	15,271,567
Total Assets	<u>\$ 18,315,463</u>	<u>\$ 6,218,939</u>	<u>\$ 24,534,402</u>
LIABILITIES			
Current liabilities			
Accounts Payable and Accrued	\$ 325,559	\$ 8,543	\$ 334,102
Deferred revenue	88,052	91,250	179,302
Current portion of long term debt	352,619	128,300	480,919
Impact fees	140,661		140,661
Total Current Liabilities	<u>906,891</u>	<u>228,093</u>	<u>1,134,984</u>
Long term liabilities			
Debt payable (net of current)	<u>1,854,905</u>		<u>1,854,905</u>
Total Liabilities	<u>\$ 2,761,796</u>	<u>\$ 228,093</u>	<u>\$ 2,989,889</u>
Net Assets			
Non spendable	\$ 10,308,493	\$ 2,531,823	\$ 12,840,316
Restricted	220,254		220,254
Committed	1,539,778		1,539,778
Unassigned	<u>3,485,142</u>	<u>1,449,426</u>	<u>4,934,568</u>
Total Net Assets	<u>\$ 15,553,667</u>	<u>\$ 3,981,249</u>	<u>\$ 19,534,916</u>

See accompanying notes

TOWN OF PAGOSA SPRINGS
Statement of Activities
For the Year Ended December 31, 2011

Functions/Programs	Program Revenues			Net (Expense) Revenues and Changes in Net Assets		
	Expenses	Charges for Services	Misc. Grants	Governmental Activities	Business Type Activities	Total
Governmental Activities:						
General Government	\$ (1,954,398)	\$ 163,238	\$	\$ (1,791,160)	\$	\$ (1,791,160)
Public safety	(883,304)			(883,304)		(883,304)
Public works	(1,542,213)		823,928	(718,285)		(718,285)
Total	(4,379,915)	163,238	823,928	(3,392,749)		(3,392,749)
Business-type Activities:						
Enterprise funds	(662,605)	669,319			6,714	6,714
Total	(662,605)	669,319			6,714	6,714
Governmental and Business Type Activities Total	\$ (5,042,520)	\$ 832,557	\$ 823,928	\$ (3,392,749)	\$ 6,714	\$ (3,386,035)
General revenues:						
Taxes				3,904,127	105,072	4,009,199
Other				139,190	9,309	148,499
Interest income				4,922	4,861	9,783
Plant investment					14,500	14,500
Interest expense				(46,907)	(48,491)	(95,398)
Total General Revenues				4,001,332	85,251	4,086,583
Changes in net assets				608,583	91,965	700,548
Net assets, January 1, 2011				14,945,084	3,889,284	18,834,368
Net assets, December 31, 2011				\$ 15,553,667	\$ 3,981,249	\$ 19,534,916

See accompanying notes

TOWN OF PAGOSA SPRINGS, COLORADO

Balance Sheet
 Governmental Funds
 December 31, 2011

	Governmental Fund Types			Total Governmental Funds
	General	Capital Improvement	Conservation Trust	
ASSETS				
Cash	\$ 2,228,417	\$ 2,606,958	\$ 59,509	\$ 4,894,884
Cash held by County	2,614			2,614
Receivables	320,112	465,629		785,741
Property Taxes	88,052			88,052
Other		28,155		28,155
Total Assets	\$ <u>2,639,195</u>	\$ <u>3,100,742</u>	\$ <u>59,509</u>	\$ <u>5,799,446</u>
LIABILITIES				
Accrued expenses	\$ 101,087	\$ 40,142	\$	\$ 141,229
Account payables	184,330			184,330
Deferred revenue	88,052			88,052
Impact fees	140,661			140,661
Total Liabilities	<u>514,130</u>	<u>40,142</u>		<u>554,272</u>
FUND EQUITY				
Fund Balances:				
Restricted	160,745		59,509	220,254
Committed	327,928	1,211,850		1,539,778
Unassigned	1,636,392	1,848,750		3,485,142
Total Fund Equity	<u>2,125,065</u>	<u>3,060,600</u>	<u>59,509</u>	<u>5,245,174</u>
TOTAL LIABILITIES AND FUND EQUITY	\$ <u>2,639,195</u>	\$ <u>3,100,742</u>	\$ <u>59,509</u>	\$ <u>5,799,446</u>

See accompanying notes

TOWN OF PAGOSA SPRINGS
 Reconciliation of the Governmental Funds Balance Sheet
 To the Statement of Net Assets
 For the Year Ended December 31, 2011

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

Total fund balance - governmental funds	\$	5,245,174
---	----	-----------

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

	\$	14,449,618	
The cost of capital assets is			
Accumulated depreciation is		<u>(1,933,601)</u>	
			12,516,017

Long-term liabilities, including bonds payable, are not due and payable in the current period and therefore are not reported as liabilities in the funds. Long-term liabilities at year end consists of:

		(2,155,207)
Note Payable		
Capital Lease		<u>(52,317)</u>

Total net assets - governmental activities	\$	<u>15,553,667</u>
--	----	-------------------

See accompanying notes

TOWN OF PAGOSA SPRINGS, COLORADO
Statement of Revenue, Expenditures and
Changes in Fund Balances
Governmental Funds
Year Ended December 31, 2011

	General	Capital Improvement	Conservation Trust	Total Governmental Funds
REVENUE				
Taxes	\$ 2,237,090	\$ 1,667,037	\$	\$ 3,904,127
Licenses & permits	38,466			38,466
Intergovernmental and grants	57,971	720,117	45,840	823,928
Charges for services	76,739			76,739
Fines and forfeits	48,033			48,033
Interest	4,922			4,922
Other	85,910	53,280		139,190
Total Revenue	2,549,131	2,440,434	45,840	5,035,405
EXPENDITURES				
General government	982,392			982,392
Public safety and Courts	833,304			833,304
Public works	116,294	663,279		779,573
Tourism	455,486			455,486
Parks and recreation	160,423	239,347	60,000	459,770
Public support	56,750			56,750
Capital outlay and debt service		1,790,897		1,790,897
Total Expenditures	2,604,649	2,693,523	60,000	5,358,172
EXCESS (DEFICIENCY) OF REVENUE OVER EXPENDITURES	(55,518)	(253,089)	(14,160)	(322,767)
OTHER FINANCING SOURCES (USES)				
LOAN PROCEEDS		2,155,207		2,155,207
FUND BALANCE BEGINNING OF YEAR	2,180,583	1,158,482	73,669	3,412,734
FUND BALANCE END OF YEAR	\$ 2,125,065	\$ 3,060,600	\$ 59,509	\$ 5,245,174

See accompanying notes

TOWN OF PAGOSA SPRINGS
 Reconciliation of the Statement of Revenues, Expenditures and Changes
 In Fund Balances of Governmental Funds to the Statement of Activities
 For the Year Ended December 31, 2011

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

Net change in fund balances – total government funds	\$ 1,832,440
--	--------------

Governmental funds report capital outlays as expenditures. However, in the statement of activities the cost of those assets is allocated over their estimated useful lives and reported as depreciation expense. This is the amount by which capital outlays exceeded depreciation in the current period.

The net effect of various miscellaneous transactions involving capital assets (depreciation) is to increase net assets.	67,439
---	--------

The issuance of long-term debt (e.g., bonds, leases) provides current financial resources to governmental funds, while the repayment of the principal of long-term debt consumes the current financial resources of governmental funds. Neither transaction, however, has any effect on net assets. Also, governmental funds report the effect of issuance costs, premiums, discounts and similar items when debt is first issued, whereas these amounts are deferred and amortized in the statement of activities. This amount is the net effect of these differences in the treatment of long-term debt and related items.

Change in net assets of governmental activities	<u>\$ 608,583</u>
---	-------------------

TOWN OF PAGOSA SPRINGS, COLORADO
Statement of Revenue, Expenditures and Changes in
Fund Balance Budget and Actual
General Fund
Year Ended December 31, 2011

	General Fund			
	Budgeted Amounts		Actual	Variance Favorable (Unfavorable)
	Original	Final		
REVENUE				
Taxes	\$ 2,077,573	\$ 2,077,573	\$ 2,237,090	\$ 159,517
Licenses & permits	21,500	21,500	38,466	16,966
Intergovernmental	63,700	63,700	57,971	(5,729)
Charges for services	76,000	76,000	76,739	739
Fines and forfeits	47,200	47,200	48,033	833
Interest	15,000	15,000	4,922	(10,078)
Other	299,900	299,900	85,910	(213,990)
Total Revenue	2,600,873	2,600,873	2,549,131	(51,742)
EXPENDITURES				
General government	1,036,470	1,036,470	982,392	54,078
Public safety and Courts	875,795	875,795	833,304	42,491
Tourism	714,900	714,900	455,486	259,414
Parks and recreation	167,614	167,614	160,423	7,191
Public support	61,250	61,250	56,750	4,500
Public works	110,983	110,983	116,294	(5,311)
Total Expenditures	2,967,012	2,967,012	2,604,649	362,363
EXCESS (DEFICIENCY) OF REVENUE OVER EXPENDITURES	(366,139)	(366,139)	(55,518)	310,621
FUND BALANCE BEGINNING OF YEAR	2,180,583	2,180,583	2,180,583	
FUND BALANCE END OF YEAR OF YEAR	\$ 1,814,444	\$ 1,814,444	\$ 2,125,065	\$ 310,621

See accompanying notes

TOWN OF PAGOSA SPRINGS, COLORADO
Statement of Revenue, Expenditures and Changes in
Fund Balance Budget and Actual
Capital Improvement Fund
Year Ended December 31, 2011

	Capital improvement Fund			
	Budgeted Amounts		Actual	Variance Favorable (Unfavorable)
	Original	Final		
REVENUE				
Taxes	\$ 1,504,187	\$ 1,504,187	\$ 1,667,037	\$ 162,850
Intergovernmental and grants	1,358,040	1,358,040	720,117	(637,923)
Other	<u> </u>	<u> </u>	<u>53,280</u>	<u>53,280</u>
Total Revenue	2,862,227	2,862,227	2,440,434	(421,793)
EXPENDITURES				
Public works	1,139,896	1,139,896	663,279	476,617
Parks and recreation	239,314	239,314	239,347	(33)
Capital outlay and debt service	<u>1,914,195</u>	<u>1,914,195</u>	<u>1,790,897</u>	<u>123,298</u>
Total Expenditures	3,293,405	3,293,405	2,693,523	599,882
EXCESS (DEFICIENCY) OF REVENUE OVER EXPENDITURES	<u>(431,178)</u>	<u>(431,178)</u>	<u>(253,089)</u>	<u>178,089</u>
LOAN PROCEEDS			2,155,207	2,155,207
FUND BALANCE BEGINNING OF YEAR	<u>1,158,482</u>	<u>1,158,482</u>	<u>1,158,482</u>	<u> </u>
FUND BALANCE END OF YEAR OF YEAR	<u>\$ 727,304</u>	<u>\$ 727,304</u>	<u>\$ 3,060,600</u>	<u>\$ 2,333,296</u>

See accompanying notes

TOWN OF PAGOSA SPRINGS, COLORADO
Statement of Revenue, Expenditures and Changes in
Fund Balance Budget and Actual
Conservation Trust
For Year Ended December 31, 2011

	Budgeted Amounts		Actual	Variance Favorable (Unfavorable)
	Original	Final		
REVENUE				
Intergovernmental	\$ 45,500	\$ 45,500	45,840	\$ 340
Interest	350	350		(350)
 Total Revenue	 45,850	 45,850	 45,840	 (10)
EXPENDITURES				
Parks	60,000	60,000	60,000	
 Total Expenditures	 60,000	 60,000	 60,000	
 EXCESS (DEFICIENCY) OF REVENUE OVER EXPENDITURES	 (14,150)	 (14,150)	 (14,160)	 (10)
 FUND BALANCE BEGINNING OF YEAR	 73,669	 73,669	 73,669	
 FUND BALANCE END OF YEAR OF YEAR	 \$ 59,519	 \$ 59,519	 \$ 59,509	 \$ (10)

See accompanying notes

TOWN OF PAGOSA SPRINGS, COLORADO
Proprietary Funds
Statement of Net Assets
December 31, 2011

	Business-type Activities Enterprise Funds		
	Sanitation Fund	Geothermal Fund	Totals
ASSETS			
Current Assets			
Cash	\$ 1,100,581	\$ 178,568	\$ 1,279,149
Restricted cash	2,000,000		2,000,000
Account receivables	72,187	19,147	91,334
Taxes receivable	91,250		91,250
Cash with County	1,656		1,656
Total Current Assets	3,265,674	197,715	3,463,389
Capital Assets			
Fixed assets, net	2,271,096	484,454	2,755,550
Total Assets	\$ 5,536,770	\$ 682,169	\$ 6,218,939
LIABILITIES			
Current liabilities			
Leave time	\$ 8,543	\$	\$ 8,543
Deferred revenue	91,250		91,250
Bonds payable, current	128,300		128,300
Total Current Liabilities	228,093		228,093
Note Payable Long Term	2,009,597		2,009,597
Total Liabilities	\$ 2,237,690		\$ 2,237,690
Net Assets			
Non spendable	\$ 2,047,369	\$ 484,454	\$ 2,531,823
Unassigned	1,251,711	197,715	1,449,426
Total Net Assets	\$ 3,299,080	\$ 682,169	\$ 3,981,249

See accompanying notes
22

TOWN OF PAGOSA SPRINGS, COLORADO
Proprietary Funds
Statement of Revenues, Expenses and
Changes in Fund Net Assets
December 31, 2011

	Business-type Activities Enterprise Funds		
	Sanitation Fund	Geothermal Fund	Totals
Operating Revenue:			
Service fees	\$ 634,021	\$ 35,298	\$ 669,319
Total Revenue	634,021	35,298	669,319
Operating Expenses:			
Administrative	37,553	7,807	45,360
Operating system	413,012	54,992	468,004
Contractual	25,000	20,000	45,000
Depreciation	80,593	23,648	104,241
Total Expenses	556,158	106,447	662,605
Income (Loss) From Operations	77,863	(71,149)	6,714
Non-Operating Revenue (Expense)			
Other	9,309		9,309
Property tax	105,072		105,072
Interest expense	(48,491)		(48,491)
Interest income	4,861		4,861
Plant investments	14,500		14,500
Total Non-Operating Revenue	85,251		85,251
Changes in Net Assets	163,114	(71,149)	91,965
Net Assets Beginning of Year	3,135,966	753,318	3,889,284
Net Assets End of Year	\$ 3,299,080	\$ 682,169	\$ 3,981,249

See accompanying notes

TOWN OF PAGOSA SPRINGS, COLORADO
Proprietary Funds
Statement of Cash Flows
For the Year Ended December 31, 2011

	Business-type Activities Enterprise Funds		
	Sanitation	Geothermal	Totals
CASH FLOWS FROM OPERATING ACTIVITIES:			
Cash Received from Customers	\$ 654,505	\$ 39,013	\$ 693,518
Cash Paid for Expenses	<u>(476,928)</u>	<u>(82,799)</u>	<u>(559,727)</u>
 NET CASH PROVIDED (USED) BY OPERATING ACTIVITIES	 177,577	 (43,786)	 133,791
 CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES:			
Payment on Bonds	(173,395)		(173,395)
Proceeds from Loans	2,000,000		2,000,000
Tap Fees	14,500		14,500
Interest and Other Income	14,170		14,170
Increase in Restricted Cash	<u>(2,000,000)</u>		<u>(2,000,000)</u>
 CASH FLOWS FROM (USED) IN CAPITAL AND RELATED FINANCING ACTIVITIES	 (144,725)		 (144,725)
 CASH FLOWS FROM NON CAPITAL ACTIVITIES:			
Taxes and other	<u>105,072</u>		<u>105,072</u>
 CASH FLOWS FROM NON CAPITAL ACTIVITIE	 105,072		 105,072
 NET INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS	 137,924	 (43,786)	 94,138
 CASH AND CASH EQUIVALENTS:			
Beginning of Year	<u>962,657</u>	<u>222,354</u>	<u>1,185,011</u>
 End of Year	 <u>\$ 1,100,581</u>	 <u>\$ 178,568</u>	 <u>\$ 1,279,149</u>

See accompanying notes

TOWN OF PAGOSA SPRINGS, COLORADO
Proprietary Funds
Combining Statement of Cash Flows
For The Year Ended December 31, 2011

(continued)

RECONCILIATION OF OPERATING INCOME TO NET CASH
PROVIDED BY OPERATING ACTIVITIES

	<u>Sanitation</u>	<u>Geothermal</u>	<u>Totals</u>
Operating Income (Loss)	\$ 77,863	\$ (71,149)	\$ 6,714
Adjustments to Reconcile Operating Income to Net Cash Provided by Operating Activities:			
Depreciation	80,593	23,648	104,241
Increase in cash held by County	(1,266)		(1,266)
Decrease in Accounts Payable	(97)		(97)
(Increase) Decrease in Accounts Receivable	<u>20,484</u>	<u>3,715</u>	<u>24,199</u>
NET CASH PROVIDED (USED) BY OPERATING ACTIVITIES	<u>\$ 177,577</u>	<u>\$ (43,786)</u>	<u>\$ 133,791</u>

See accompanying notes

Other Information

TOWN OF PAGOSA SPRINGS, COLORADO
Notes to Financial Statements
Year Ended December 31, 2011

NOTE (1) SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The Town of Pagosa Springs, Colorado operates under the statutes governing municipalities of the State of Colorado. The Town operates under a Board form of government and provides the following services as authorized by State statutes: highway and streets, culture-recreation, public improvements, public safety (police), planning and zoning and general administrative services.

The accounting policies of the Town of Pagosa Springs, Colorado conform to generally accepted accounting principles. The following is a summary of such significant policies:

Principles Determining Scope of Reporting Entity

The Town's combined financial statements include the accounts of all Town operations. The criteria for including organizations as component units within the Town's reporting entity, as set forth in Section 2100 of the Governmental Accounting Standards Board's (GASB) Codification of Government Accounting and Financial Reporting Standards, include whether:

the organization is legally separate; the Town holds the corporate powers of the organization; the Town appoints a voting majority of the organization's board; the Town is able to impose its will on the organization; the organization has the potential to impose a financial benefit/burden on the Town; there is fiscal dependency by the organization on the Town. Based on the aforementioned criteria, the Town of Pagosa Springs has no component units.

Fund Accounting

The accounts of the Town are organized on the basis of funds, each of which is considered a separate accounting entity. The operations of each fund are accounted for with a separate set of self-balancing accounts that comprise its assets, liabilities, fund equity, revenue and expenditures or expenses, as appropriate. Government resources are allocated to and accounted for in individual funds based upon the purposes for which they are to be spent and the means by which spending activities are controlled.

They report the following major funds:

General Fund is the Town's primary operating fund. It accounts for all financial resources of the Town except these required legally or by sound financial management to be accounted for in another fund.

Conservation Trust Fund is used to account for lottery revenue received from State.

Measurement Focus, Basis of Accounting, and Financial Statements Presentations

The accounting and financial reporting treatment applied to a fund is determined by its measurement focus. The government-wide financial statements are presented using the economic resources measurements focus and the accrual basis of accounting, as are the proprietary fund statements.

Revenues are recorded when earned and expenses are recorded when a liability is incurred, regardless of the timing of related cash flows. Property taxes are recognized as revenues in the year for which they are levied. Grants and similar items are recognized as revenue as soon as all eligibility requirements imposed by the provider have been met.

TOWN OF PAGOSA SPRINGS, COLORADO
Notes to Financial Statements
December 31, 2011

NOTE (1) SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Measurement Focus, Basis of Accounting, and Financial Statement Presentations
(continued)

As a general rule the effect of Interfund activity has been eliminated from the government-wide financial statements. Exceptions to this general rule are charges between the Town's governmental and business-type activities. Elimination of these charges would distort the direct costs and program revenues reported for the various functions concerned.

Private-sector standards of accounting and financial reporting issued prior to December 1, 1989, generally are followed in both the government-wide and proprietary fund financial statements to the extent that those standards do not conflict with or contradict guidance of the Governmental Accounting Standards Board. Governments also have the option of following subsequent private-sector guidance for their business-type activities and enterprise funds, subject to this same limitation. The Town has elected not to follow subsequent private-sector guidance.

Governmental fund financial statements are reported using the current financial resources measurement focus and the modified accrual basis of accounting. With this measurement focus, operating statements present increases and decreases in net current assets and unreserved fund balance as a measure of available spendable resources. This means that only current liabilities are generally included on their balance sheets.

All governmental fund types used the modified accrual basis of accounting. Revenues are recognized as soon as they are 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 pay liabilities of the current period. Revenues are considered to be available if collected within 60 days after year-end.

Property and specific ownership taxes are reported as receivables and deferred revenue when levied and as revenues when collected in the following year.

Grants and entitlement revenues are recognized when compliance with matching requirements are met. A receivable is established when the related expenditures exceed revenue receipts.

Expenditures are recorded when the related fund liability is incurred with the exception of general obligation and capital lease debt service which is recognized when due and certain sick and retirement pay which are accounted for as expenditures when expected to be liquidated with expendable financial resources.

The proprietary fund types are accounted for on the accrual basis of accounting. Revenues are recognized when earned and expenses are recognized when incurred. The measurement focus in these funds is on the flow of economic resources and emphasizes the determination of net income. All assets and all liabilities associated with their activity are included on their balance sheets. Proprietary fund type operating statements present increases (revenues) and decreases (expenses) in net total assets.

Proprietary funds distinguish operating revenues and expenses from nonoperating items. Operating revenues and expenses generally result from providing goods and services in connection with a proprietary fund's ongoing operations. The principal operating revenues of the District's proprietary funds are charges to customers for sales and services. Operating expenses for enterprise funds include the cost of sales and services, administrative expenses, and depreciation on capital assets. All revenue and expenses not meeting this definition are reported as non-operating revenue and expenses.

TOWN OF PAGOSA SPRINGS, COLORADO
Notes to Financial Statements
December 31, 2011

NOTE (1) SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Measurement Focus, Basis of Accounting, and Financial Statement Presentations
(continued)

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

Budgets and Budgetary Accounting

The Town Board follows these procedures in establishing the budgetary data reflected in the financial statements:

- (1) In accordance with the State statutes, prior to September 1, the Town Clerk submits to the Town Board a proposed operating budget for the calendar year commencing the following January 1. The operating budget includes proposed expenditures and the means of financing them for the upcoming year, along with estimates for the current year and actual data for the two preceding years. The State statutes require more detailed line item budgets be submitted in summary form. In addition, more detailed line item budgets are included for administration control. The level of control for the detailed budgets is at the department head function level.
- (2) Public hearings are conducted to obtain taxpayer comment.
- (3) Prior to December 31, the budget is legally adopted through passage of a resolution.
- (4) The Town Clerk is required to present a monthly report to the Town Board explaining any variance from the approved budget.
- (5) Formal budgetary integration is employed as a management control device during the year for all funds of the Town of Pagosa Springs.
- (6) Budgets for the General, Debt Service, Capital Projects, Special Revenue Funds and Fiduciary Funds are adopted on a basis consistent with generally accepted accounting principles (GAPP).
- (7) Colorado State statutes require the adoption of a budget for proprietary funds. The budgets for Sanitation Fund and Geothermal fund are prepared essentially on the modified accrual basis of accounting.
- (8) Appropriations lapse at the end of each calendar year.
- (9) The Town Board may authorize supplemental appropriations during the year.

Joint Ventures

The Town of Pagosa Springs participates in special purpose joint ventures, which are not part of the Town's reporting entity. Additional information regarding the Town's participation in joint ventures is provided in Note One. The following is the joint venture in which the Town participates:

TOWN OF PAGOSA SPRINGS, COLORADO
Notes to Financial Statements
December 31, 2011

NOTE (1) SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Colorado Intergovernmental Risk-Sharing Agency

The Town of Pagosa Springs is one of 98 local governments, which are members of the Colorado Intergovernmental Risk Sharing Agency (CIRSA). CIRSA is an organization created in 1982 by an intergovernmental agreement solely to provide property and casualty coverage to its members. Coverage is provided through polling of self-insured losses and the purchase of stop-loss insurance coverage. In 1987, CIRSA/WC was formed as a separate pool by intergovernmental agreement to provide coverage to its members under the Colorado Workmen's Compensation Act. Both CIRSA and CIRSA/WC are governed by a seven-member board elected by and from its members. The governing board is autonomous as to budgeting and fiscal matters.

Reserves

The Town records reserves to indicate that a portion of the fund balance is legally segregated for a specific future use.

Following is a list of all reserve accounts used by the Town and a description of each:

Reserved for Emergencies – In compliance with the Tabor Amendment to the Constitution of the State of Colorado, General Fund equity is reserved for future emergencies.

Revenue Recognition - Property Taxes

Property taxes attach as an enforceable lien on property as of January 1. Taxes are levied on January 1 and are due and payable February 28 and July 31. All unpaid taxes levied January become delinquent on August 1. Property tax revenues are recognized when they become available. Available includes those property tax receivables expected to be collected within sixty days after year-end. Property taxes levied on December 31 are shown as receivable with an offsetting deferred revenue at December 31. Delinquent taxes are considered fully collectible and therefore no allowance for uncollectible taxes is provided.

Cash Deposits and Cash Equivalents

Cash deposits at December 31, 2011, consisted of certificates of deposit with banks and savings and loans and cash in demand deposit accounts. For purposes of the statements of cash flows, the Water and Garbage Funds consider all such highly liquid deposits with an original maturity of less than three months to be cash equivalents.

NOTE (2) RECONCILIATION OF GOVERNMENT-WIDE AND FUND FINANCIAL STATEMENTS

The governmental funds balance sheet includes a reconciliation between fund balances – total governmental funds and net assets – governmental activities as reported in government-wide statement of net assets. Additionally, the governmental fund statement of revenues, expenditures, and changes in fund balances includes a reconciliation between net change in fund balances – total governmental funds and changes in net assets of governmental activities are reported in the government-wide statement of activities.

These reconciliations detail items that require adjustment to convert from the current resources measurement and modified accrual basis for government fund statements to the economic resources measurement and full accrual basis used for government-wide statements. However, certain items having no effect on measurement and basis of accounting were eliminated from the governmental fund statements during the consolidation of governmental activities.

TOWN OF PAGOSA SPRINGS, COLORADO
Notes To Financial Statements
December 31, 2011

NOTE (3) CAPITAL ASSETS, DEPRECIATION AND AMORTIZATION

The Town's property and equipment with useful lives of more than one year are stated at historical cost and comprehensively reported with government-wide financial statements. Proprietary and component unit capital assets are also reported in their respective fund and combining component units financial statements. Donated assets are stated at fair market value on the date donated. The Town generally capitalized assets with cost of \$1,000 or more as purchase and construction outlays occur. The costs of normal maintenance and repairs that do not add to the asset value or materially extend useful lives are not capitalized. Capital assets including those of component units, are depreciated using the straight-line method. When capital assets are disposed, the cost of applicable accumulated depreciation are removed from the respective accounts, and the resulting gain or loss is recorded in operations.

In 2011, depreciation was \$393, 197 for the General Fund, \$80, 593 for the Sanitation Fund, and \$23,648 in the Geothermal Fund.

Estimated useful lives in years, for depreciable assets are as follows:

Buildings	50
Furniture, machinery and equipment	5-10

	<u>Balance January 1 2011</u>	<u>Additions</u>	<u>Deletions</u>	<u>Balance December 31 2011</u>
Non-depreciable Assets:				
Land	\$ 1,121,550			\$ 1,121,550
Total non-depreciable assets	<u>\$ 1,121,550</u>			<u>\$ 1,121,550</u>
Depreciable Assets:				
Buildings	2,608,438	23,596		2,632,034
Equipment and vehicles	874,457	374,311	(86,000)	1,162,768
Infrastructure	<u>9,470,537</u>	<u>62,729</u>		<u>9,533,266</u>
Total Depreciable Assets	<u>12,953,432</u>	<u>460,636</u>	<u>(86,000)</u>	<u>13,328,068</u>
Less Accumulated Depreciation	<u>(1,626,404)</u>	<u>(393,197)</u>	<u>86,000</u>	<u>(2,019,601)</u>
Total Net Assets	<u>\$12,448,578</u>	<u>\$67,439</u>	<u>\$</u>	<u>\$12,516,017</u>

TOWN OF PAGOSA SPRINGS, COLORADO
Notes To Financial Statements
December 31, 2011

NOTE (3) CAPITAL ASSETS, DEPRECIATION AND AMORTIZATION (continued)

Business-Type Activities

A summary of changes in enterprise funds capital assets is as follows:

	Balance January 1 2011	Additions	Deletions	Balance December 31 2011
Sewer Fund:				
Land	\$16,376			\$16,376
Sewer system	3,457,144			3,457,144
Equipment and vehicles	128,843			128,843
Accumulated Depreciation	<u>(1,250,674)</u>	<u>(80,593)</u>	<u> </u>	<u>(1,331,267)</u>
Total Sewer Fund-net	<u>2,351,689</u>	<u>(80,593)</u>	<u>0</u>	<u>2,271,096</u>

	Balance January 1 2011	Additions	Deletions	Balance December 31 2011
Geothermal Fund:				
Geothermal system	1,182,419			1,182,419
Equipment and vehicles	2,254			2,254
Accumulated Depreciation	<u>(676,570)</u>	<u>(23,648)</u>	<u> </u>	<u>(700,218)</u>
Total Geothermal Fund-net	<u>508,103</u>	<u>(23,648)</u>	<u> </u>	<u>484,455</u>

NOTE (4) CASH AND DEPOSITS

At December 31, 2011, the District had the following cash and investments:

Deposits \$ 6,174,033

Deposits

The Colorado Public Deposit Protection Act (PDPA) requires that all units of local government deposit cash in eligible public depositories. Eligibility is determined by state regulations. At December 31, 2011, the State regulatory commissioners had indicated that all financial institutions holding deposits for the District are eligible public depositories.

Amounts on deposit in excess of federal insurance levels must be collateralized by eligible collateral as determined by the PDPA. PDPA allows the financial institution to create a single collateral pool for all public funds held. The pool is to be maintained by another institution, or held in trust for all the uninsured public deposits as a group. The market value of the collateral must be at least equal to 102% of the uninsured deposits. At December 31, 2011, the District had bank deposits of \$ 5,370,557 collateralized with securities held by the financial institutions' agents but not in the District's name.

TOWN OF PAGOSA SPRINGS, COLORADO
Notes To Financial Statements
December 31, 2011

NOTE (4) CASH AND DEPOSITS (continued)

Cash and Investments

The District is required to comply with State statutes which specify investment instruments meeting defined rating, maturity, custodial and concentration risk criteria in which local governments may invest which include:

- Obligations of the United States and certain U.S. Agency securities
- Certain international agency securities
- General obligation and revenue bonds of U.S. local government entities
- Bankers' acceptances of certain banks
- Commercial paper
- Written repurchase agreements collateralized by certain authorized securities
- Certain money market funds
- Guaranteed investment contracts
- Local government investment pools

NOTE (5) PENSION PLANS

Policemen's Pension

The New Hire fund is administered by the Fire and Police Pension Association (of Colorado), which is a multi-employer comprehensive plan. An actuarial study is performed annually. All new hire employees are covered by the plan and contribute 8% of their base salary. The Town is required to at least match the employee contributions. As of December 31, 2011 all police are eligible and participating in the plan.

The Town's total pension contributions for 2011 were \$23,907 for a payroll of \$386,153.

The normal retirement date shall be the date on which a member has completed at least twenty-five years of active service and has attained the age of sixty. There are provisions for early retirement. The normal retirement benefit shall be two percent of the average of the member's highest three years base salary multiplied by the member's years of service prior to age sixty-five, not to exceed twenty-five years. A Deferred Vested Benefit allows a member who terminates with at least ten years of active service to leave their contributions in the fund and when they attain age sixty-five, to be eligible to receive an annual benefit equal to two percent of the average of their highest three years salary multiplied by their years of active service not to exceed twenty-five years. A member may upon termination elect to have their accumulated contributions refunded to them in a lump sum.

In addition to receiving their accumulated contributions, the member shall receive five percent of their total accumulated contributions as interest. Members of this fund and their employees are currently each contributing at the rate of eight percent of base salary.

FPPA issues a publicly available report that includes financial statements and required supplementary information. That report maybe obtained by writing to Fire and Police Pension Association, Two DTC, 5290 DTC Parkway, #100, Englewood, Colorado 80111.

TOWN OF PAGOSA SPRINGS, COLORADO
Notes to Financial Statements
December 31, 2011

NOTE (6) RECEIVABLES

Receivables at December 31, 2011 consist of the following:

	<u>Governmental</u> <u>Fund</u>	<u>Enterprise</u> <u>Fund</u>
Accounts Receivable	\$ 169,881	\$ 91,334
Property tax	88,052	91,250
Sales tax	583,687	
Cigarette tax	1,315	
Source Gas	4,108	
Cable TV	8,000	
HUFT	5,830	
Telephone	<u>12,920</u>	
	\$ 873,793	<u>\$ 182,584</u>

NOTE (7) PROPERTY TAX

Property taxes attach as an enforceable lien on property as of January 1. Taxes are levied on January 1st and are payable in two installments (on or before the last day of February and June 15th) or in total by April 30th. The County bills and collects the property taxes and remits the funds to the Town. Property tax revenue is recognized when levied to the extent that it results in a current receivable with an offset to deferred revenue.

NOTE (8) RISK MANAGEMENT

The Town is exposed to various risks of loss, related to injuries of employees while on the job and to property and casualty losses. The Town has joined together with other municipalities to form the Colorado Intergovernmental Risk Sharing Agency to insure against said risk.

The Colorado Intergovernmental Risk Sharing Agency (CIRSA), a separate and independent governmental and legal entity, was formed by intergovernmental agreement by member municipalities pursuant to the provisions of 24-10-115.5, C.R.S. (1985 Repl. Vol.), as amended, 29-1-201 et. seq., C.R.S.(1977 Repl. Vol.), as amended, 29-13-102, C.R.S.(1977 Repl. Vol., as amended, and Colorado Constitution, Article XIV, Section 18(2).

The purpose of CIRSA is to provide members with a defined liability and property coverage and to assist members in preventing losses to municipal property by reducing injuries to persons or property that might result in claims being made against members of CIRSA, their employees or their officers.

It is the intent of the members of CIRSA to create an entity in perpetuity which will administer and use funds contributed by the members to defend and indemnify, in accordance with the Bylaws, any member of CIRSA against stated liability or loss, to the limit of the financial resources of CIRSA. It is also the intent of the members to have CIRSA provide continuing stability and availability of needed coverage at a reasonable cost. All income and assets of CIRSA shall be at all times dedicated to the exclusive benefit of its members. The Bylaws shall constitute the substance of the intergovernmental contract among the members. The Town of Pagosa Springs, Colorado is one member out of a total of ninety-nine towns and cities. CIRSA is directed by a seven-member board of directors composed of municipal officials from member cities and towns.

TOWN OF PAGOSA SPRINGS, COLORADO
Notes to Financial Statements
December 31, 2011

NOTE (8) RISK MANAGEMENT (continued)

Board directors are nominated and elected by members to two year staggered terms and must meet at least monthly to direct CIRSA operations.

The participants have control over the financial operation of CIRSA only in their ability to elect board members and their ability to change the bylaws. CIRSA has no formal budgeting requirements.

Summary of financial information:

Balance sheet date	June 30, 2011
Total assets	\$ 77,743,315
Total liabilities	<u>41,754,371</u>
Total equity	\$ 35,988,944
Revenue	\$ 21,127,182
Expenses	<u>(22,210,672)</u>
Excess of revenue over expenses	<u>\$ (1,083,490)</u>

The December 31, 2011 financial statement was not available when this report was issued.

NOTE (9) CCOERA RETIREMENT PLAN

The Colorado County Officials and Employees Retirement Association (Association) was established to serve as trustee and provide continuing administration of a trust fund for retirement benefits of eligible county and municipal officers and county, municipal, and special district employees. The Association established a defined contribution plan called the Colorado County Officials and Employees Retirement Plan (Plan) through which contributions of the employers are combined with contributions of the employees and invested in income earning instruments for the benefit of Plan participants. Any county, municipality, or special district of the State of Colorado may, with the consent of the Association, can become a member of the Association and participate in the Plan by adopting it for its officers and employees.

Employees and officers of Association members are required to participate in the Plan after the completion of one year of service, but participation is optional for all elected board officers. The Plan is controlled by a five-member governing board selected in accordance with Colorado State statutes.

Employer contributions to the Plan is 5% of compensation. Employee contributions must match employer contributions and are funded on a current basis. Employees may make additional voluntary contributions not to exceed 10% of compensation.

TOWN OF PAGOSA SPRINGS, COLORADO
Notes to Financial Statements
December 31, 2011

NOTE (9) CCOERA RETIREMENT PLAN (continued)

Participants vest in employer contributions and in the earnings, losses, and changes in the fair market value of the Plan at 20% per year, as adopted by the Town. Participants are immediately vested 100% in their own contributions and earnings. In the event that an Association member withdraws from the Plan, the participant balances for that member shall become immediately vested 100%. Contributions by the Town to the plan were \$63,913 for a payroll of \$ 1,020,397.

Net earnings or losses are allocated quarterly to Plan participants. The allocation is based on each participant's balance as of the beginning of that quarter. Participants receiving benefit payments upon retirement or termination are allocated earnings through the date of the distribution.

Benefit payments are made as of the effective date of each participant's retirement or termination. At retirement, each participant has the option of receiving their vested balance in cash or having the Association place the funds in a bank account maintained under the joint control of the Association and the retiring individual. Any employer contribution forfeited by a participant due to termination of employment before becoming fully vested is returned to the member county, municipality, or special district.

The Association may at any time elect to terminate the Plan. In the event of such termination, each participant shall become 100% vested.

In addition to participating in the Plan, each participant may elect to contribute to a deferred compensation plan. Through the deferred compensation plan, a member employer defers payment of a portion of an employee's current salary and deposits the deferred payment with the Association upon a participant's retirement or termination of employment, the Association may begin payment of this deferred amount, and until then, all rights and interest in the deferred compensation plan remain vested with the employer.

Both the retirement plan and the deferred compensation plan were amended July 1, 1991 to allow Participants to self-direct the investment of their funds. Participants may self-direct employee and deferred contributions and earnings, and employer contributions and earnings, in which they are 100% vested. The governing board selected six Fidelity Investment funds (Magellan Fund, Contra Fund, Growth and Income Portfolio, Global Bond Fund, Intermediate Bond Fund and the Retirement Money Market Portfolio) for the investment of self-directed funds. The board continues to manage all other investments of the Plan. If no written directions are received from a participant, the participant's funds are automatically invested in the board managed assets.

TOWN OF PAGOSA SPRINGS, COLORADO
Notes to Financial Statements
Year Ended December 31, 2011

NOTE (9) CCOERA RETIREMENT PLAN (continued)

Summary of financial information:
Balance sheet date June 30, 2011

Total assets	\$ 1,099,295,544
Total liabilities	<u>(521,839)</u>
Total availability for benefits	\$ 1,098,773,705
Revenues and contributions	\$ 236,536,748
Expenses and benefits	<u>(72,526,824)</u>
Excess of revenue over expenses	<u>\$ 164,009,924</u>

NOTE (10) BUDGET APPROPRIATION

There was a supplemental budget in 2011.

NOTE (11) DEFICIT RETAINED EARNINGS

The Geothermal Fund has a negative retained earnings resulting from depreciation of the system. This will not change for many years.

NOTE (12) TAX, SPENDING, AND DEBT LIMITATIONS

Colorado voters passed an amendment to the State Constitution, Article X, Section 20, which has several limitations including revenue raising, spending abilities, and other specific requirements of State and local governments. The amendment is complex and subject to judicial interpretation. The Town believes it is in compliance with the requirements of the amendment. However, the Town has made certain interpretations of the amendment's language in order to determine its compliance.

NOTE (13) LEASES AND COMMITMENTS

The Town of Pagosa Springs, the Pagosa Springs Community Facilities Coalition, Archuleta County and Wells Fargo Bank have entered into a series of leases to facilitate the financing, of a multi-use community center building. They include the following:

Ground Lease Agreement

This agreement, dated May 1, 2001, is between the Town of Pagosa Springs and the Coalition. The Town has legal title to the 2.5 acre community center site. In this agreement, the Town leased to the Coalition, for a period of fifty years, this site for ten dollars a year.

TOWN OF PAGOSA SPRINGS, COLORADO

Notes to Financial Statements

Year Ended December 31, 2011

NOTE (13) LEASES AND COMMITMENTS (continued)

This agreement, dated May 1, 2001 is between the Town of Pagosa Springs and Wells Fargo Brokerage Services, LLC. In this agreement, the Town entered into a lease purchase financing transaction through Wells Fargo Brokerage Services, LLC for consideration of \$1,717,000. This agreement is on a year-to-year basis and shall be renewable for successive periods not to exceed ten years. The Town secured this lease purchase with the 51% portion of the Community Center, for which the Town has legal title. The balance of the space was conveyed to the Coalition and the County. The Town shall pay a lease payment of \$223,682 per year.

Lease Between Coalition and Archuleta County

This agreement, dated July 17, 2001 is between the Coalition and Archuleta County. By this agreement, the County leased from the Coalition, 2,591 square feet of space in the new Community Center, including 930 feet of kitchen space.

Agreement for Construction and Use of a Community Center (as amended).

This agreement, dated May 1, 2001, and amended first on June 5, 2001 and a second time on June 20, 2001, is between the Town and the Coalition. It was entered into for the purpose of providing for the construction, operation, maintenance and use of a Community Center. It states that the Town shall pay approximately \$1,700,000 of the construction costs, a CDBG Grant will amount to \$500,000, the County will pay \$124,000 and the Coalition will pay the balance. The term of the lease is fifty years.

NOTE (14) CAPITAL LEASE

The Town entered into a full pay out capital lease purchase agreement with Wells Fargo on the Town's 51% ownership in the Community Center. The amount financed was \$2,145,184 and is payable at \$118,348 semi annually including interest at 4.75%.

On July 8, 2011 The Town entered into a long term lease with Deutsche Bank in the amount of \$2,155,207. Out of these proceeds \$655,207.38 were used to pay off the Community Center Lease.

<u>Long Term Debt</u>	<u>Beginning Of Year</u>	<u>Additions</u>	<u>Deletions</u>	<u>End of Year</u>
Capital Lease	\$ 850,104	\$	\$ 850,104	\$

TOWN OF PAGOSA SPRINGS, COLORADO

Notes to Financial Statements
Year Ended December 31, 2011

NOTE (14) CAPITAL LEASE (continued)

The Town entered into a full payout capital lease with Wells Fargo Equipment Finance, Inc. to purchase a 2011 Case backhoe.

	<u>Year</u>	<u>Principal</u>	<u>Interest</u>	<u>Remaining Balance</u>
	2012	\$ 14,105	\$ 1,891	\$ 38,212
	2013	14,697	1,299	23,515
	2014	15,314	682	8,201
	2015	8,201	101	
		<u>\$ 52,317</u>	<u>\$ 3,973</u>	
		33		
<u>Long Term Debt</u>	<u>Beginning Of Year</u>	<u>Additions</u>	<u>Deletions</u>	<u>End of Year</u>
Capital Lease	\$ 65,854	\$	\$ 13,537	\$ 52,317

A capital lease to Deutsche Bank on the Town hall. said lease is a full pay out over ten years at 3.57% interest. This note is payable \$205,907 semi-annually for three years and \$89,817 semi-annually for the next seven years.

	<u>Year</u>	<u>Principal</u>	<u>Interest</u>	<u>Remaining Balance</u>
	2012	\$ 338,514	\$ 73,300	\$1,816,693
	2013	350,054	61,759	1,466,639
	2014	362,663	49,151	1,103,976
	2015	141,473	38,161	962,503
	2016	146,568	33,065	815,935
	2017-2021	815,935	82,228	
		<u>\$ 2,155,207</u>	<u>\$ 337,664</u>	
Net Change in Debt				
	<u>Beginning Of Year</u>	<u>Additions</u>	<u>Deletions</u>	<u>End of Year</u>
	\$	\$ 2,155,207	\$	\$ 2,155,207

TOWN OF PAGOSA SPRINGS, COLORADO
Notes to Financial Statements
Year Ended December 31, 2011

NOTE (15) BONDS PAYABLE

Bonds payable at December 31, 2011 are comprised of the following:

A note payable to Water Pollution Control Revolving Fund in the original amount of \$640,000. Balance of note was \$223,727 at December 31, 2011. Note is payable in semi-annual payments of \$25,234 including interest at 4.5%.

<u>Year</u>	<u>Payment</u>	<u>Principal</u>	<u>Interest</u>	<u>Balance</u>
2012	\$ 50,467	\$ 40,854	\$ 9,613	\$ 182,873
2013	50,467	42,714	7,753	140,159
2014	50,467	44,657	5,810	95,502
2015	50,467	46,689	3,778	48,813
2016	50,467	48,813	1,654	
	<u>\$ 252,335</u>	<u>\$ 223,727</u>	<u>\$ 28,608</u>	

<u>Net Change in Debt</u>			<u>End of</u>
<u>Beginning</u>	<u>Additions</u>	<u>Deletions</u>	<u>Year</u>
<u>of Year</u>			
\$ 262,802	\$	\$ 39,075	\$ 223,727

On August 29, 2008, The Sanitation District entered into a loan agreement with The Water Pollution Control Revolving Fund for a \$2,000,000 loan to build a new sewer treatment plant. No draws were made and no interest accrued. On November 1, 2010, the District paid \$3,125 to the Revolving Fund which the District booked as an availability fee. However, in 2011, the Revolving Fund notified the District that this loan should not be accounted for as a construction loan but that the District is responsible for the principal balance regardless of how much has been drawn against the loan. The balance of unexpended loan proceeds are recorded as restricted cash.

TOWN OF PAGOSA SPRINGS, COLORADO
Notes to Financial Statements
Year Ended December 31, 2011

NOTE (15) BONDS PAYABLE (continued)

A note payable to Water Pollution Control Revolving Fund in the amount of \$2,000,000. Note is payable in semi-annual payments of \$61,464 including interest at 1.875%.

<u>Year</u>	<u>Payment</u>	<u>Principal</u>	<u>Interest</u>	<u>Balance</u>
2012	\$ 122,929	\$ 87,449	\$ 35,483	\$ 1,826,725
2013	122,929	89,093	33,836	1,737,632
2014	122,929	90,772	32,157	1,646,860
2015	122,929	92,482	30,447	1,554,378
2016	122,929	94,224	28,705	1,460,154
2017-2021	614,645	498,423	116,222	961,731
2022-2026	614,645	547,171	67,474	414,560
2027-2030	430,251	414,560	15,691	
	\$ 2,274,186	\$ 1,914,171	\$ 360,015	

Net Change in Debt

<u>Beginning of Year</u>	<u>Additions</u>	<u>Deletions</u>	<u>End of Year</u>
\$ 2,000,000	\$	\$ 85,829	\$ 1,914,171

There are a number of limitations and restrictions contained in the various bond indentures. The District believes to be in compliance with all significant limitations and restrictions.

NOTE (16) BUDGET LAW

The Town did not over spend their budget in 2011.

NOTE (17) INTERGOVERNMENTAL AGREEMENT-PAYMENT OF MEASURE 1A FUNDS

The County collects 1A funds through a mill levy per a ballot measure passed in 2007. These funds have been used by the County per ballot measure for general and road and bridge funding. It was recently discovered that the 1A mill funds used for road and bridge should have been shared with the town per C.R.S. 43-2-202 and according to this formula. The County has completed an IGA addressing the monies owed to the town and the payment to the Town for this amount. The Town shall receive the 2011 funds quarterly during this year; the balance of \$195,991 shall be paid in two payments, one in September 2011 and the other in June 2012.

Supplementary Information

TOWN OF PAGOSA SPRINGS, COLORADO
Statement of Revenue, Expenses and
Changes in Net Assets Budget and Actual (NON-GAAP)
Sanitation Fund
Year Ended December 31, 2011

	SANITATION			Variance- Favorable (Unfavorable)
	Budgeted Amounts		Actual	
	Original	Final		
REVENUE				
Service fees	\$ 647,548	\$ 647,548	\$ 634,021	\$ (13,527)
Total Revenue	<u>647,548</u>	<u>647,548</u>	<u>634,021</u>	<u>(13,527)</u>
EXPENSES				
Personnel	105,563	105,563	103,055	2,508
Operations	259,411	259,411	347,510	(88,099)
Contractual	25,000	25,000	25,000	0
Total Expenses	<u>389,974</u>	<u>389,974</u>	<u>475,565</u>	<u>(85,591)</u>
EXCESS (DEFICIENCY) OF OPERATING REVENUE OVER EXPENSES	257,574	257,574	158,456	(99,118)
NON-OPERATING REVENUES (EXPENSES)				
Grants	7,250,000	7,250,000		(7,250,000)
Property tax	105,552	105,552	105,072	(480)
Debt service	(286,972)	(286,972)	(173,395)	113,577
Plant investment fees	5,000	5,000	14,500	9,500
Interest and Other Income	9,200	9,200	14,170	4,970
Capital outlay	<u>(7,000,000)</u>	<u>(7,000,000)</u>		<u>7,000,000</u>
Total Non-Operating Revenue	82,780	82,780	(39,653)	(122,433)
Net Income	340,354	340,354	118,803	(221,551)
ADJUSTMENTS				
Adjust to GAAP				
Depreciation adjustment			(80,593)	
Principal payments			124,904	
NET ASSETS - BEGINNING OF YEAR			<u>3,135,966</u>	
NET ASSETS END OF YEAR				<u>\$ 3,299,080</u>

See accompanying notes

TOWN OF PAGOSA SPRINGS, COLORADO
Statement of Revenue, Expenses and
Changes in Net Assets Budget and Actual (NON-GAAP)
Geothermal Fund
Year Ended December 31, 2011

	GEOHERMAL			
	Budgeted Amounts		Actual	Variance- Favorable (Unfavorable)
	Original	Final		
REVENUE				
Service fees and leases	\$ 44,500	\$ 44,500	\$ 35,298	\$ (9,202)
Total Revenue	44,500	44,500	35,298	(9,202)
EXPENSES				
Administrative	26,600	26,600	17,066	9,534
Operating	475,450	475,450	45,733	429,717
Contractual	20,000	20,000	20,000	
Total Expenses	522,050	522,050	82,799	439,251
EXCESS (DEFICIENCY) OF OPERATING REVENUE OVER EXPENSES	(477,550)	(477,550)	(47,501)	430,049
NON-OPERATING REVENUES (EXPENSES)				
Grants	400,000	400,000		(400,000)
Total Non-Operating Revenue	400,000	400,000		(400,000)
Net Income	(77,550)	(77,550)	(47,501)	30,049
ADJUSTMENTS				
Adjust to GAAP				
Depreciation adjustment			(23,648)	
NET ASSETS - BEGINNING OF YEAR			753,318	
NET ASSETS END OF YEAR			\$ 682,169	

See accompanying notes

The public report burden for this information collection is estimated to average 380 hours annually.

LOCAL HIGHWAY FINANCE REPORT

City or County:
Pagosa Springs, CO
YEAR ENDING :
December 2011

This Information From The Records Of Town of Pagosa Springs, CO: Prepared By: April Hessman
Phone: 970-264-4154

I. DISPOSITION OF HIGHWAY-USER REVENUES AVAILABLE FOR LOCAL GOVERNMENT EXPENDITURE

ITEM	A. Local Motor-Fuel Taxes	B. Local Motor-Vehicle Taxes	C. Receipts from State Highway-User Taxes	D. Receipts from Federal Highway Administration
1. Total receipts available				
2. Minus amount used for collection expenses				
3. Minus amount used for nonhighway purposes				
4. Minus amount used for mass transit				
5. Remainder used for highway purposes				

II. RECEIPTS FOR ROAD AND STREET PURPOSES

III. DISBURSEMENTS FOR ROAD AND STREET PURPOSES

ITEM	AMOUNT	ITEM	AMOUNT
A. Receipts from local sources:		A. Local highway disbursements:	
1. Local highway-user taxes		1. Capital outlay (from page 2)	
a. Motor Fuel (from Item I.A.5.)		2. Maintenance:	747,980
b. Motor Vehicle (from Item I.B.5.)		3. Road and street services:	
c. Total (a.+b.)		a. Traffic control operations	
2. General fund appropriations		b. Snow and ice removal	
3. Other local imposts (from page 2)	538,162	c. Other: Signage	20,000
4. Miscellaneous local receipts (from page 2)	0	d. Total (a. through c.)	20,000
5. Transfers from toll facilities		4. General administration & miscellaneous	
6. Proceeds of sale of bonds and notes:		5. Highway law enforcement and safety	
a. Bonds - Original Issues		6. Total (1 through 5)	767,980
b. Bonds - Refunding Issues		B. Debt service on local obligations:	
c. Notes		1. Bonds:	
d. Total (a. + b. + c.)	0	a. Interest	
7. Total (1 through 6)	538,162	b. Redemption	
B. Private Contributions		c. Total (a. + b.)	0
C. Receipts from State government (from page 2)	229,818	2. Notes:	
D. Receipts from Federal Government (from page 2)	0	a. Interest	
E. Total receipts (A.7 + B + C + D)	767,980	b. Redemption	
		c. Total (a. + b.)	0
		3. Total (1.c + 2.c)	0
		C. Payments to State for highways	
		D. Payments to toll facilities	
		E. Total disbursements (A.6 + B.3 + C + D)	767,980

IV. LOCAL HIGHWAY DEBT STATUS

(Show all entries at par)

	Opening Debt	Amount Issued	Redemptions	Closing Debt
A. Bonds (Total)				0
1. Bonds (Refunding Portion)				
B. Notes (Total)				0

V. LOCAL ROAD AND STREET FUND BALANCE

	A. Beginning Balance	B. Total Receipts	C. Total Disbursements	D. Ending Balance	E. Reconciliation
		767,980	767,980		0

Notes and Comments:

LOCAL HIGHWAY FINANCE REPORT

STATE:
Colorado
YEAR ENDING (mm/yy):
December 2011

II. RECEIPTS FOR ROAD AND STREET PURPOSES - DETAIL

ITEM	AMOUNT	ITEM	AMOUNT
A.3. Other local imposts:		A.4. Miscellaneous local receipts:	
a. Property Taxes and Assessments		a. Interest on investments	
b. Other local imposts:		b. Traffic Fines & Penalties	
1. Sales Taxes		c. Parking Garage Fees	
2. Infrastructure & Impact Fees		d. Parking Meter Fees	
3. Liens		e. Sale of Surplus Property	
4. Licenses		f. Charges for Services	
5. Specific Ownership &/or Other		g. County mills	335,333
6. Total (1. through 5.)		h. Other: Sales Tax	202,829
c. Total (a. + b.)	0	i. Total (a. through h.)	538,162
	(Carry forward to page 1)		(Carry forward to page 1)

ITEM	AMOUNT	ITEM	AMOUNT
C. Receipts from State Government		D. Receipts from Federal Government	
1. Highway-user taxes	71,004	1. FHWA (from Item I.D.5.)	
2. State general funds		2. Other Federal agencies:	
3. Other State funds:		a. Forest Service	
a. State bond proceeds		b. FEMA	
b. Project Match		c. HUD	
c. Motor Vehicle Registrations		d. Federal Transit Admin	
d. Other (Specify) - CDOT	158,814	e. U.S. Corps of Engineers	
e. Other (Specify)		f. Other Federal	
f. Total (a. through e.)		g. Total (a. through f.)	0
4. Total (1. + 2. + 3.f)	229,818	3. Total (1. + 2.g)	
			(Carry forward to page 1)

III. DISBURSEMENTS FOR ROAD AND STREET PURPOSES - DETAIL

	ON NATIONAL HIGHWAY SYSTEM (a)	OFF NATIONAL HIGHWAY SYSTEM (b)	TOTAL (c)
A.1. Capital outlay:			
a. Right-Of-Way Costs			0
b. Engineering Costs			0
c. Construction:			
(1). New Facilities			0
(2). Capacity Improvements			0
(3). System Preservation			0
(4). System Enhancement & Operation			0
(5). Total Construction (1) + (2) + (3) + (4)	0		0
d. Total Capital Outlay (Lines I.a. + I.b. + I.c.5)	0		0
			(Carry forward to page 1)

Notes and Comments: