

TOWN OF PAGOSA SPRINGS, COLORADO
REPORT OF EXAMINATION AND FINANCIAL STATEMENTS
YEAR ENDED DECEMBER 31, 2012

TOWN OF PAGOSA SPRINGS, COLORADO
YEAR ENDED DECEMBER 31, 2012
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INDEPENDENT AUDITOR'S REPORT

To the Town Council
Town of Pagosa Springs
Pagosa Springs, Colorado

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, 2012, 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, 2012, 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 18, 2013

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, 2012. Please read it in conjunction with the Town's financial statements, which follows this section.

Background

During 2012, the national economy showed signs of gradual improvement. The US Bureau of Labor Statistics in November of 2012 reported the unemployment rate is as follows: nation-wide, 7.7% (8.7% in 2011, 9.8% in 2010 and 9.9% in 2009); Colorado, 7.7% (8.0% in 2011, 9.0% in 2010 and 8.5% in 2009); and Archuleta County, 8.8 in November 2012 (8.5% in 2011, 10.2% in 2010 and 8.0% in 2009). Note: the true unemployment rate is much higher as people exhausting unemployment benefits and are 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 at slow pace in 2012.

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 2012-19.

The Town Council budgeted for \$3,195,110 in 2013 sales tax revenue (same as 2012 actual sales tax revenue). This budgeted amount was split equally between the General Fund and Capital Fund.

Resolution 2012-19 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 2011, and 2012. The plan excludes the 2011 and 2012 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 or 2013.

Modification to expenditures may occur as early as mid-March 2013. For example, February's expenditure level will be based on the average of January and February 2013 revenue (or the average of December of 2012 and January and February 2013 revenue). Using this method, the Town will not delay its response to changes in the revenue stream.

The Town's 2013 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. For every five percent (7%) reduction in expenditures, \$223,658 must be trimmed from the budget (\$111,829 from the General Fund and \$111,829 from the Capital Improvement Fund).

2012 Budget Performance

The Town's 2012 sales tax revenue increased by 2.58% or +\$80,387 (includes all revenue in 2011 and 2012). If audit-related extraordinary sales tax revenue (\$108,209 in 2011 and \$26,741 in 2012), 2012 sales tax revenue is up +5.38% (\$161,855). Town expenditure reductions flowing from Resolution 2012-19 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 2012 budget approved by the Town Council in December of 2011 estimated decreasing the end of year General Fund reserves by \$453,528. At the end of 2012 the Town estimates increased General Fund reserves by \$143,880 compared to 2011 estimates. The same approved budget estimated that the Town would increase Capital Fund Reserves by \$150,351. At the end of 2012 the Town actually increased Capital Fund reserves by \$425,295 (including \$26,741 in Department of Revenue audit payments). Note: To facilitate deployment of additional capital projects, \$600,000 was transferred from the General Fund to the Capital Fund.

2012 Grants Acquired

To ensure financial stability, during 2012, the Town staff was diligent to reduce expenditures and accessed additional grant funding: \$7,400 forest service work on Reservoir Hill; \$85,000 Fishing is Fun river infrastructure (rolls over to 2013); \$12,000 for a town intern; \$240,000 for sidewalks along Highway 160 between the library and grade school (rolls over into 2013); and \$51,806 for the Yamaguchi Park restrooms (rolled over from 2011); and \$35,000 fiber-optic infrastructure (\$534,559 to roll over into 2013). Sales tax revenue exceeding the Town Council budgeted amount by \$236,166, at the end of 2012 the Town was able to acquire badly needed capital equipment.

2012 Equipment Purchases

Acquired capital equipment included the purchase of a streets department pickup truck with snow blade; new downtown crosswalk signage and lights (to be installed in 2013); 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 (General Fund and Capital Fund). The Town currently has \$3.05 million cash on hand between the general and capital funds, or over ten months cash reserve (assuming zero sales tax income) and a full twenty months reserve (assuming sales tax income drops by 50%). However, if all of the projects presented in the proposed 2013 budget are implemented, the General Fund reserves will be drawn down to 6.5 months and Capital Fund reserves will be drawn down to 5.6 months.

Capital Improvements And Project Deployment

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 2013 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 2013 capital projects include: Lewis Street paving debt service; 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; extension of the San Juan River walk and the Town to Pagosa Lakes trail system.

The capital fund received an additional \$179,300 in 2011 from the County's 1A funding audit. The Town also received \$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 was 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 was submitted to GOCO in February, with final grant application submission in March, 2012. Unfortunately, the Town was not awarded a grant during this process. However, the grant process advanced our engineering and design for these project elements in preparation for construction.

A follow-up \$120,000 grant application was submitted to the State Trails program to complete an additional nine hundred feet of the trail on the south side of the river to the landing of the proposed 6th Street pedestrian bridge. Grants will be awarded in April, 2013.

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. This application will be submitted to the Corps early in 2013.

Street Improvements

The Town Council maintains a 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 refines the street improvement five-year plan periodically, based on the needs of the community.

In addition to filling pot-holes throughout Town, over the past several years, the Town's Streets Department staff replaced sidewalk, exit-way, curb and gutter at the Overlook parking area. 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. Additional chip and seal work was completed on 6th Street, Eagle Drive and Village Drive.

The Town Council approved a \$1.5 million reconstruction of Lewis Street between 1st Street and 4th Street. 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. The project was completed in 2012.

Other 2012 Streets Department accomplishments include: new street lights on the 300 block of Lewis Street; intersection improvement (repaving) at Apache Street and Hot Springs Boulevard; 10th Street pavement patching project; new fence for the 10th Street Cemetery; redesign and construction of Trinity Lane drainage; widening of the Reservoir Hill Road access to the performing arts meadow; and replace concrete at the Overlook parking lot exit; removal of old sidewalk along the south side of Highway 160 from the San Juan River Bridge to Second Street; removal of two old pedestrian crossings in the 400 block of San Juan Street and the old crossing at Pagosa Street and Second Street; and continued crack-filling and maintenance of Town streets.

Ross Aragón Community Center Improvements

The Center deployed: a refined five microphone public address system; expansion of event attendance – e.g.: Festival of Trees 70% increase in 2012 \$8,886 raises for non-profits in the community; increase free programs from 11 to 13 in 2012; and reestablished business with four events that had been lost to the economic downturn; currently building the software to allow the Community Center to book Town Park reservations and events.

Planning Department Accomplishments

The Planning Department deployed: two redesigned pedestrian crossings in the 400 block of San Juan Street and a new crossing at Pagosa Street and Second Street; replacement of the West McCabe Creek / Highway 160 culvert near the grade school; new 8th Street traffic light; a new sidewalk and street lights along the south side of Highway 160 from the San Juan River Bridge to Second Street; preliminary engineering, environmental assessment and easement acquisition for the Riverwalk extension and application for a \$120,000 State Trails grant; west-end of the Town to Pagosa Lakes Trail grant approvals (\$200,000 from State Trails, \$200,000 from CDOT Transportation Enhancement funds, CDOT commitment to for the labor to install the Highway 160 crosswalk, and \$200,000 from Archuleta County); and east-end of the Town to Pagosa Lakes Trail grant approval and preliminary engineering for 8th Street to the elementary school (\$235,000 from CDOT Transportation Enhancement funds).

Town Tourism Committee Accomplishments

The Town Tourism Committee deployed: area signage (1) Reservoir Hill Trailhead signs – Spa Trailhead and San Juan Motel Trailhead, (2) Riverwalk trailhead signs, (3) Forest Service signs at West Fork Valley Overlook and Hwy 84 and Buckles Lake Rd, (4) Chamber / Visitor Center Parking Lot Signs and update the sign at the pedestrian sign at the River Overlook; added two dozen new street banners along Hwy 160; currently, the signage subcommittee is working on enhancing gateway entrance signs on the east and west side of town; launched new reservation system with 23 lodging properties (in partnership with the Lodgers Association), activities will be launched this month on system; integrated with the Internet Honey performance management system to track all marketing efforts, began developing iPhone and Droid phone apps, in conjunction with back-end enhancements on visitpagosasprings.com; successfully implemented lodging tax compliance program with assistance from County Staff.

Parks & Recreation Department Accomplishments

The Parks Department deployed: new restrooms and security camera system for Yamaguchi Park; new heating (weatherization) and security camera system for Town Park restrooms; new swing set in Yamaguchi Park (privately funded); kayaker's changing room at the Mary Fisher Park; new kayaking/tubing San Juan River feature adjacent to Yamaguchi Park; San Juan River Restoration – in river fish habitat and restoration of River Center fishing ponds (\$85,000 Fishing is Fun grant); 12 new park benches; 12 new trash receptacles; 10 new picnic tables; 12 new bicycle racks; new Christmas lighting in Town Park (La Plata Electric funded); refined golf course on Reservoir Hill (privately funded); upgrade to the Yamaguchi skate-park (privately funded); required permits obtained for raw water diversion at Centennial Park.

2013 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) way-finding plan; 4) riverwalk and trails; 5) downtown improvements; 6) park improvements; 7) tourism; 8) athletic facilities; and 9) growth incentives.

2013 Budget Assumptions

1. Sales tax revenue in 2013 will be the same as 2012 = \$3,195,110
2. Lodgers tax revenue in 2013 shall increase 5.77% over the 2012 year end estimate = \$440,000.
3. Development and building fees will increase in 2013 to = \$20,000.
4. The state did not approve continued grant funding for the Municipal Court youth intervention program (\$13,000). This initiative is proposed for continued funding from the Town's General Fund. Town Council funded a new Municipal Court youth drug rehabilitation program in 2012 at a cost of \$4,500.
5. Service Organizations are proposed to receive 3% of non-dedicated General Fund Revenues (\$61,953).

6. Economic Development related projects are presented in the 2013 preliminary budget at \$12,500 for the Parelli Jobs Grant Match.
7. Staffing patterns will remain similar to those reflected in the 2012 budget. Note: In the 2012 budget, one employee at the Ross Aragón Community Center was move from 32 hours per week (no benefits) to 40 hours per week (full benefits) and a special projects manager was hired in the building/planning capital fund.
8. Health insurance budgeted cost will increase 14.9 percent (approximately \$48,000 based on current staffing levels) over 2012.
9. In a \$2,155,207 financial transaction in 2011, both the Lewis Street reconstruction loan (\$1,500,000) and the balance of the Ross Aragón Community Center loan (\$655,207) were collateralized utilizing Town Hall as security. The \$1,500,000 Lewis Street reconstruction project is financed over ten years at \$179,635 per year, the Ross Aragón Community center loan will be paid off in July 2014. The Community Center is now free and clear of indebtedness.
10. The WayFinding Plan will be budgeted at \$25,000 in 2013, with the Town Tourism Committee matching with an additional \$25,000. These funds will be utilized to match state/federal grant funds and/or implement the plan without grant funding.
11. The Reservoir Hill Plan will be budgeted at \$45,000 in 2013, with the Town Tourism Committee matching with an additional \$45,000. These funds will be utilized to prepare engineering documents to support state/federal grant/loan funds.
12. Town will continue to accelerate asset development in 2013, 2014 and 2015:
 - a. Parks Department to complete new/reconstruct existing fishing habitat in 2013 and work toward construction of two new kayaking features.
 - b. Parks and Recreation Department to deploy additional Yamaguchi Park improvements to including: bleachers, scoreboard, and augment landscaping.
 - c. Parks and Recreation Department to deploy additional Riverwalk improvements to including: picnic tables, benches and trash receptacles.
 - d. The Parks and Recreation Commission shall continue to deploy the Town Council approved forest thinning and preservation plan for Reservoir Hill.
 - e. The Town Tourism Committee shall deploy the Town Council approved development plan to enhance Reservoir Hill with amenities such as an observation tower, amphitheater, zip-line, alpine coaster and chairlift.
13. Parks and Recreation Department will develop and deploy a new parks maintenance plan, taking into account the expanded parks facilities.
14. 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.).

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

2013 Budget Narrative

To finalize the budget, the Town Council utilized a 2013 sales tax revenue target of \$3,195,110.

The 2013 budget projects a \$3,051,506 (General Fund and Capital Fund) carryover of funds from 2012 (includes the unexpected revenues of \$26,741 from the Department of Revenue sales tax audit). The \$117,661 growth is a result of increased revenues and reduced expenditures in the General and Capital Funds.

The approved 2013 budget estimates year-end cash reserves of \$1,125,908 in the General Fund and \$960,284 in the Capital Improvement Fund. The proposed 2013 budget expenditures from these two funds will create a year-end unrestricted reserve of \$2,023,606.

Actual sales tax revenue received in 2012 total \$3,195,110 (includes a one-time \$26,741 Department of Revenue audit). In calendar year 2012 sales tax revenue increased by 2.58% or +\$80,387 (includes all revenue in 2011 and 2012) compared to 2011 (these amounts includes extraordinary sales tax revenue of \$108,210 in 2011 and \$26,741 in 2012).

To be fully prepared, the department heads have identified expenditures at the seven percent (7%), twelve percent (12%) 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 2013.

Lodgers Tax Revenue

As of December 27th, the Town of Pagosa Springs' November 2012 lodgers tax revenue was \$23,180, compared to \$27,542 in November 2011, a decrease of -15.846% or -\$4,362. Year-to-date (January through November 2012) lodgers tax revenue has increased by 2.75% or \$10,056. In calendar year 2011 lodgers tax revenue increased +6.13% (+\$23,538) compared to 2010. In 2010 lodgers tax revenue increased +8.97% (+\$31,587) compared to 2009. In 2009 lodgers tax revenue was up +9.20% (\$29,684), compared to 2008.

The preliminary figures for 2013 indicate that lodging tax revenues will total approximately \$440,000, compared to \$420,000 (estimate) in 2012, \$407,214 in 2011 and \$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.

Assessed Valuation & Mill Levies

The Town of Pagosa Springs assessed valuation for 2013 is \$54,181,745 (a decrease of \$1,441,613 from 2012). The Town Council set the Town Mill Levy at 1.557 Mills, generating \$84,361, plus an additional .008 mills of refunds/abatements will generate \$433.

Special Funds Summary

Beginning in 2009 and continuing through 2013, 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

The 2013 Budget shows General Fund beginning reserves of \$1,145,422 and projects 2013 revenues at \$2,046,606 with expenses of \$2,066,121 creating a year-end balance of \$1,125,908.

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 2013 Budget estimates Capital Fund beginning reserves of \$1,906,084, projected revenues of \$9,895,039, expenses of \$8,934,755, creating a year-end balance of \$960,284.

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 2013 revenues of \$47,000 plus prior balance of \$56,459 = \$103,459 and expenditures of \$30,000 for a budgeted fund balance of \$73,459 at the end of 2013.

Lodgers Tax Fund

The Town Tourism Committee makes recommendations to the Town Council for budgeting revenues and expenditures of Lodgers Tax Fund. The Town's budget reflects the TTC general income and detailed expenditures. The 2013 budget reflects a continued increase in TTC expenditures for capital construction projects. The 2013 Budget estimates that the Lodgers Fund will have beginning reserves of \$105,216, projected revenues of \$457,300, expenses of \$510,300, thereby creating a year-end balance of \$52,216.

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 normal fee structure shall be maintained in 2013.

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 \$38,463 and expenditures of \$39,667 for a total year-end fund balance of \$80,139.

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, installed the monitoring equipment the first week in 2012. Collection of base-line data will occur between February and May 2012. During May and June more rigorous aquifer testing occurred. Monitoring will continue into 2013.

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. This research will continue into 2013, with additional visits from the School of Mines Geophysical Department (professors and students).

The 2013 budget shows an estimated beginning fund balance of \$145,488, operational revenues of \$41,200, expenditures of \$100,100, resulting in a year-end fund balance of \$86,588.

Organizational Changes

Organizational changes reflected in the 2009, 2010, 2011 and 2012 budgets will continue in 2013. 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 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. Economic development has been moved from the Town Manager's budget and established as a separate budget page. 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. Also in 2012, the Town of Pagosa Springs hired new talent for our team of public servants to fill vacant positions: Zach Richardson as Building Official; Cheryl Bowdridge as Community Center Director; and Traci Bishop as Community Center Program Coordinator. In addition, Keely Whittington was hired as Project Manager (a position that had been vacant for several years).

Since Town staff has not received any cost of living or merit salary increases in the past four years. The Town Council elected to give Town staff a 7% salary adjustment. The Town Council commissioned a salary survey in 2012 (last survey was completed in 2004). The Town Council will conduct a further review of this information in the first quarter of 2013.

Audit Of Town Revenues And Expenditures

As soon as it is completed, the audit of the Town's 2012 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 \$894,640. Cash decreased \$680,843.

The Town's total governmental revenues were \$4,457,606. Over 71% 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 2012, the Town had invested in a broad range of capital assets, including land, equipment and buildings.

Town's Capital Assets	
Land	\$ 1,137,926
Streets	11,133,002
Buildings	2,632,034
Equipment	1,372,020
Geothermal	1,182,419
Sanitation	<u>3,457,144</u>
Totals	20,914,545
Less Accumulated Depreciation	<u>(4,320,834)</u>
Net Capital Assets	\$ 16,593,711

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, 2012

	Primary Government		
	Governmental Activities	Business Type Activities	Total
ASSETS			
Current assets			
Cash	\$ 3,862,506	\$ 1,630,684	\$ 5,493,190
Cash held by County	1,022		1,022
Receivables	827,309	87,367	914,676
Tax receivables	84,794	90,506	175,300
Other		562	562
Total Current Assets	<u>4,775,631</u>	<u>1,809,119</u>	<u>6,584,750</u>
Capital Assets			
Fixed assets net of depreciation	13,938,776	2,654,935	16,593,711
Total Assets	<u>\$ 18,714,407</u>	<u>\$ 4,464,054</u>	<u>\$ 23,178,461</u>
LIABILITIES			
Current liabilities			
Accounts payable and accrued	\$ 486,065	\$ 1,001	\$ 487,066
Deferred revenue	84,794	90,506	175,300
Current portion of long term debt	364,733	42,713	407,446
Impact fees	131,762		131,762
Total Current Liabilities	<u>1,067,354</u>	<u>134,220</u>	<u>1,201,574</u>
Long term liabilities			
Debt payable (net of current)	<u>1,490,154</u>	<u>140,159</u>	<u>1,630,313</u>
Total Liabilities	<u>\$ 2,557,508</u>	<u>\$ 274,379</u>	<u>\$ 2,831,887</u>
Net Assets			
Non-spendable	\$ 12,083,889	\$ 2,472,063	\$ 14,555,952
Restricted	302,291		302,291
Committed	188,832		188,832
Unassigned	<u>3,581,887</u>	<u>1,717,612</u>	<u>5,299,499</u>
Total Net Assets	<u>\$ 16,156,899</u>	<u>\$ 4,189,675</u>	<u>\$ 20,346,574</u>

See accompanying notes

TOWN OF PAGOSA SPRINGS
Statement of Activities
For the Year Ended December 31, 2012

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	\$ (2,224,881)	\$ 273,101	\$	\$ (1,951,780)	\$	\$ (1,951,780)
Public safety	(856,874)			(856,874)		(856,874)
Public works	(611,445)		246,564	(364,881)		(364,881)
Total	(3,693,200)	273,101	246,564	(3,173,535)		(3,173,535)
Business-type Activities:						
Enterprise funds	(635,756)	685,455			49,699	49,699
Total	(635,576)	685,455			49,699	49,699
Governmental and Business Type Activities Total	\$ (4,328,956)	\$ 958,556	\$ 246,564	\$ (3,173,535)	\$ 49,699	\$ (3,123,836)
General revenues:						
Taxes				3,818,194	99,854	3,918,048
Other				117,550	48,750	166,300
Interest income				2,197	4,502	6,699
Plant investment					12,233	12,233
Interest expense				(75,191)	(9,613)	(84,804)
Total General Revenues				3,862,750	155,726	4,018,476
Changes in net assets				689,215	205,425	894,640
Net assets, January 1, 2012				15,467,684	3,984,250	19,451,934
Net assets, December 31, 2012				\$ 16,156,899	\$ 4,189,675	\$ 20,346,574

See accompanying notes

TOWN OF PAGOSA SPRINGS, COLORADO
 Balance Sheet
 Governmental Funds
 December 31, 2012

	Governmental Fund Types			Total Governmental Funds
	General	Capital Improvement	Conservation Trust	
ASSETS				
Cash	\$ 1,757,949	\$ 2,047,812	\$ 56,745	\$ 3,862,506
Cash held by County	1,022			1,022
Receivables	421,494	405,815		827,309
Property Taxes	84,794			84,794
Total Assets	<u>\$ 2,265,259</u>	<u>\$ 2,453,627</u>	<u>\$ 56,745</u>	<u>\$ 4,775,631</u>
LIABILITIES				
Accrued expenses	\$ 141,697	\$ 48,972	\$	\$ 190,669
Account payables	229,238	66,158		295,396
Deferred revenue	84,794			84,794
Impact fees	131,762			131,762
Total Liabilities	<u>587,491</u>	<u>115,130</u>		<u>702,621</u>
FUND EQUITY				
Fund Balances:				
Restricted	170,536	75,010	56,745	302,291
Committed	188,832			188,832
Unassigned	1,318,400	2,263,487		3,581,887
Total Fund Equity	<u>1,677,768</u>	<u>2,338,497</u>	<u>56,745</u>	<u>4,073,010</u>
TOTAL LIABILITIES AND FUND EQUITY	<u>\$ 2,265,259</u>	<u>\$ 2,453,627</u>	<u>\$ 56,745</u>	<u>\$ 4,775,631</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, 2012

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

Total fund balance - governmental funds	\$	4,073,010
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Capital assets used in governmental activities are not financial resources and therefore are not reported as assets in governmental funds.

The cost of capital assets is	\$ 16,127,509	
Accumulated depreciation is	<u>(2,188,733)</u>	
		13,938,776

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:

Note Payable		(1,816,693)
Capital Lease		<u>(38,194)</u>

Total net assets - governmental activities	\$	<u>16,156,899</u>
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See accompanying notes

TOWN OF PAGOSA SPRINGS, COLORADO
Statement of Revenue, Expenditures and
Changes in Fund Balances
Governmental Funds
Year Ended December 31, 2012

	General	Capital Improvement	Conservation Trust	Total Governmental Funds
REVENUE				
Taxes	\$ 2,160,630	\$ 1,657,564	\$	\$ 3,818,194
Licenses & permits	58,019			58,019
Intergovernmental and grants	58,640	140,688	47,236	246,564
Charges for services	130,314	13,470		143,784
Fines and forfeits	71,298			71,298
Interest	2,197			2,197
Other	108,392	9,158		117,550
Total Revenue	2,589,490	1,820,880	47,236	4,457,606
EXPENDITURES				
General government	793,717	96,709		890,426
Public safety and Courts	853,402	3,472		856,874
Public works		611,445		611,445
Tourism	356,790			356,790
Parks and recreation	273,826	341,633	50,000	665,459
Public support	159,051			159,051
Capital outlay and debt service		2,089,724		2,089,724
Total Expenditures	2,436,786	3,142,983	50,000	5,629,769
EXCESS (DEFICIENCY) OF REVENUE OVER EXPENDITURES	152,704	(1,322,103)	(2,764)	(1,172,163)
OTHER FINANCING SOURCES (USES)				
TRANSFERS	(600,000)	600,000		
FUND BALANCE BEGINNING OF YEAR	2,125,064	3,060,600	59,509	5,245,173
FUND BALANCE END OF YEAR	\$ 1,677,768	\$ 2,338,497	\$ 56,745	\$ 4,073,010

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, 2012

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

Net change in fund balances – total government funds	\$ (1,172,163)
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.	1,677,891
Depreciation Expense	(169,132)
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.	<u>352,619</u>
Change in net assets of governmental activities	<u>\$ 689,215</u>

TOWN OF PAGOSA SPRINGS, COLORADO
Statement of Revenue, Expenditures and Changes in
Fund Balance Budget and Actual
General Fund
Year Ended December 31, 2012

	General Fund			
	Budgeted Amounts		Actual	Variance Favorable (Unfavorable)
	Original	Final		
REVENUE				
Taxes	\$ 2,111,718	\$ 2,111,718	\$ 2,160,630	\$ 48,912
Licenses & permits	28,500	28,500	58,019	29,519
Intergovernmental	61,659	61,659	58,640	(3,019)
Charges for services	76,000	76,000	130,314	54,314
Fines and forfeits	34,850	34,850	71,298	36,448
Interest	3,000	3,000	2,197	(803)
Other	26,500	26,500	108,392	81,892
	2,342,227	2,342,227	2,589,490	247,263
Total Revenue				
EXPENDITURES				
General government	744,597	744,597	793,717	(49,120)
Public safety and Courts	880,535	880,535	853,402	27,133
Tourism	436,000	436,000	356,790	79,210
Parks and recreation	297,669	297,669	273,826	23,843
Public support	159,050	159,050	159,051	(1)
Public works				
	2,517,851	2,517,851	2,436,786	81,065
Total Expenditures				
EXCESS (DEFICIENCY) OF REVENUE OVER EXPENDITURES	(175,624)	(175,624)	152,704	328,328
TRANSFERS	(600,000)	(600,000)	(600,000)	
FUND BALANCE BEGINNING OF YEAR	2,125,064	2,125,064	2,125,064	
FUND BALANCE END OF YEAR OF YEAR	\$ 1,349,440	\$ 1,349,440	\$ 1,677,768	\$ 328,328

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, 2012

	Capital Improvement Fund			Variance Favorable (Unfavorable)
	Budgeted Amounts		Actual	
	Original	Final		
REVENUE				
Taxes	\$ 1,581,565	\$ 1,581,565	\$ 1,657,564	\$ 75,999
Intergovernmental and grants	7,293,678	7,293,678	140,688	(7,152,990)
Other			22,628	22,628
Total Revenue	8,875,243	8,875,243	1,820,880	(7,054,363)
EXPENDITURES				
Public works	1,479,630	1,479,630	711,626	768,004
Parks and recreation	265,731	265,731	341,633	(75,902)
Capital outlay and debt service	9,731,959	9,731,959	2,089,724	7,642,235
Total Expenditures	11,477,320	11,477,320	3,142,983	8,334,337
EXCESS (DEFICIENCY) OF REVENUE OVER EXPENDITURES	(2,603,077)	(2,603,077)	(1,322,103)	1,280,974
TRANSFERS	600,000	600,000	600,000	
LOAN PROCEEDS	1,196,850	1,196,850	1,121,840	(75,010)
NET REVENUE	(806,227)	(806,227)	399,737	1,205,964
ADJUSTMENTS				
LOAN PROCEEDS			1,121,840	
FUND BALANCE BEGINNING OF YEAR			3,060,600	
FUND BALANCE END OF YEAR			\$ 2,338,497	

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, 2012

	Budgeted Amounts		Actual	Variance Favorable (Unfavorable)
	Original	Final		
REVENUE				
Intergovernmental	\$ 45,500	\$ 45,500	47,236	\$ 1,736
Interest				
 Total Revenue	 45,500	 45,500	 47,236	 1,736
EXPENDITURES				
Parks	<u>50,000</u>	<u>50,000</u>	<u>50,000</u>	<u></u>
 Total Expenditures	 50,000	 50,000	 50,000	
 EXCESS (DEFICIENCY) OF REVENUE OVER EXPENDITURES	 <u>(4,500)</u>	 <u>(4,500)</u>	 <u>(2,764)</u>	 <u>1,736</u>
 FUND BALANCE BEGINNING OF YEAR	 <u>59,509</u>	 <u>59,509</u>	 <u>59,509</u>	 <u></u>
 FUND BALANCE END OF YEAR OF YEAR	 <u>\$ 55,009</u>	 <u>\$ 55,009</u>	 <u>\$ 56,745</u>	 <u>\$ 1,736</u>

See accompanying notes

TOWN OF PAGOSA SPRINGS, COLORADO
Proprietary Funds
Statement of Net Assets
December 31, 2012

	Business-type Activities Enterprise Funds		
	Sanitation Fund	Geothermal Fund	Totals
ASSETS			
Current Assets			
Cash	\$ 1,484,866	\$ 145,818	\$ 1,630,684
Restricted cash			
Account receivables	72,142	15,225	87,367
Taxes receivable	90,506		90,506
Cash with County	562		562
Total Current Assets	1,648,076	161,043	1,809,119
Capital Assets			
Fixed assets, net	2,194,128	460,807	2,654,935
Total Assets	\$ 3,842,204	\$ 621,850	\$ 4,464,054
LIABILITIES			
Current liabilities			
Leave time	\$ 1,001	\$	\$ 1,001
Deferred revenue	90,506		90,506
Bonds payable, current	42,713		42,713
Total Current Liabilities	134,220		134,220
Note Payable Long Term	140,159		140,159
Total Liabilities	\$ 274,379	\$	\$ 274,379
Net Assets			
Non spendable	\$ 2,011,256	\$ 460,807	\$ 2,472,063
Unassigned	1,556,569	161,043	1,717,612
Total Net Assets	\$ 3,567,825	\$ 621,850	\$ 4,189,675

See accompanying notes
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TOWN OF PAGOSA SPRINGS, COLORADO
Proprietary Funds
Statement of Revenues, Expenses and
Changes in Fund Net Assets
December 31, 2012

	Business-type Activities Enterprise Funds		
	Sanitation Fund	Geothermal Fund	Totals
Operating Revenue:			
Service fees	\$ 646,455	\$ 39,000	\$ 685,455
Total Revenue	646,455	39,000	685,455
Operating Expenses:			
Administrative	57,083	1,680	58,763
Operating system	302,272	42,227	344,499
Contractual	97,112	31,765	128,877
Depreciation	76,969	26,648	103,617
Total Expenses	533,436	102,320	635,756
Income (Loss) From Operations	113,019	(63,320)	49,699
Non-Operating Revenue (Expense)			
Other	48,750		48,750
Property tax	99,854		99,854
Interest expense	(9,613)		(9,613)
Interest income	4,502		4,502
Plant investments	12,233		12,233
Total Non-Operating Revenue	155,726		155,726
Changes in Net Assets	268,745	(63,320)	205,425
Net Assets Beginning of Year	3,299,080	682,170	3,981,250
Net Assets End of Year	\$ <u>3,567,825</u>	\$ <u>621,850</u>	\$ <u>4,189,675</u>

See accompanying notes

TOWN OF PAGOSA SPRINGS, COLORADO
Proprietary Funds
Statement of Cash Flows
For the Year Ended December 31, 2012

	Business-type Activities Enterprise Funds		
	Sanitation	Geothermal	Totals
CASH FLOWS FROM OPERATING ACTIVITIES:			
Cash Received from Customers	\$ 646,500	\$ 42,922	\$ 689,422
Cash paid to suppliers	(391,730)	(56,672)	(448,402)
Cash paid to employees	(74,183)	(19,000)	(93,183)
NET CASH PROVIDED (USED) BY OPERATING ACTIVITIES	180,587	(32,750)	147,837
CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES:			
Proceeds from tap fees paid	12,233		12,233
Principal payments on long-term debt	(40,854)		(40,854)
Interest payments on long-term debt	(9,613)		(9,613)
Interest income	4,502		4,502
Proceeds from loan reimbursements	88,826		88,826
Proceeds from other	48,750		48,750
CASH FLOWS FROM (USED) IN CAPITAL AND RELATED FINANCING ACTIVITIES	103,844		103,844
CASH FLOWS FROM NON CAPITAL ACTIVITIES:			
Taxes received	99,854		99,854
CASH PROVIDED BY NON-CAPITAL FINANCING ACTIVITIES	99,854		99,854
NET INCREASE (DECREASE) IN CASH	384,285	(32,750)	351,535
CASH BEGINNING OF YEAR	1,100,581	178,568	1,279,149
CASH END OF YEAR	\$ <u>1,484,866</u>	\$ <u>145,818</u>	\$ <u>1,630,684</u>

See accompanying notes

TOWN OF PAGOSA SPRINGS, COLORADO
Proprietary Funds
Combining Statement of Cash Flows
For The Year Ended December 31, 2012

(continued)

RECONCILIATION OF OPERATING INCOME TO NET CASH
PROVIDED BY OPERATING ACTIVITIES

	<u>Sanitation</u>	<u>Geothermal</u>	<u>Total</u>
Operating Income (Loss)	\$ 113,019	\$ (63,320)	\$ 49,699
Adjustments to Reconcile Operating Income to Net Cash Provided by Operating Activities:			
Depreciation	76,968	26,648	103,616
Increase in cash held by County	1,094		1,094
Decrease in Accounts Payable	(10,539)		(10,539)
(Increase) Decrease in Accounts Receivable	45	3,922	3,967
NET CASH PROVIDED (USED) BY OPERATING ACTIVITIES	\$ 180,587	\$ (32,750)	\$ 147,837

See accompanying notes

Supplementary Information

TOWN OF PAGOSA SPRINGS, COLORADO

Notes to Financial Statements
Year Ended December 31, 2012

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, 2012

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, 2012

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, 2012

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 pooling 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, 2012, 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, 2012

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 2012, depreciation was \$393, 197 for the General Fund, \$76,969 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 2012</u>	<u>Additions</u>	<u>Deletions</u>	<u>Balance December 31 2012</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	2,632,034			2,632,034
Equipment and vehicles	1,162,768	78,155		1,240,923
Infrastructure	9,533,266	1,599,736		11,133,002
Total Depreciable Assets	<u>13,328,068</u>	<u>1,677,891</u>		<u>15,005,959</u>
Less Accumulated Depreciation	<u>(2,019,601)</u>	<u>(169,132)</u>		<u>(2,188,733)</u>
Total Net Assets	<u>12,430,017</u>	<u>1,508,759</u>		<u>13,938,776</u>

TOWN OF PAGOSA SPRINGS, COLORADO
Notes To Financial Statements
December 31, 2012

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 2012	Additions	Deletions	Balance December 31 2012
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>(1,331,267)</u>	<u>(76,969)</u>		<u>(1,408,236)</u>
Total Sewer Fund-net	<u>2,271,096</u>	<u>(76,969)</u>		<u>2,194,127</u>
	Balance January 1 2012	Additions	Deletions	Balance December 31 2012
Geothermal Fund:				
Geothermal system	1,182,419			1,182,419
Equipment	2,254			2,254
Accumulated Depreciation	<u>(700,218)</u>	<u>(23,648)</u>		<u>(723,866)</u>
Total Geothermal Fund-net	<u>484,455</u>	<u>(23,648)</u>		<u>460,807</u>

NOTE (4) CASH AND DEPOSITS

At December 31, 2012, the District had the following cash and investments:

Deposits \$ 5,493,190

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, 2012, 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, 2012, the District had bank deposits of \$ 5,571,492 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, 2012

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, 2012 all police are eligible and participating in the plan.

The Town's total pension contributions for 2012 were \$24,278 for a payroll of \$303,475.

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, 2012

NOTE (6) RECEIVABLES

Receivables at December 31, 2012 consist of the following:

	<u>Governmental</u> <u>Fund</u>	<u>Enterprise</u> <u>Fund</u>
Accounts Receivable	\$ 182,635	\$ 87,317
Property tax	84,794	90,506
Sales tax	559,110	
Cigarette tax	1,557	
Source Gas	4,284	
Cable TV	8,000	
HUFT	5,302	
Telephone	<u>6,305</u>	
	<u>\$ 851,987</u>	<u>\$ 177,823</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, 2012

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	December 31, 2012
Total assets	\$ 77,404,638
Total liabilities	<u>43,787,928</u>
Total equity	\$ 33,616,710
Revenue	\$ 22,933,579
Expenses	<u>25,305,813</u>
Excess of revenue over expenses	<u>\$ (2,372,234)</u>

The December 31, 2012 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, 2012

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 \$62,687 for a payroll of \$ 1,253,740.

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, 2012

NOTE (9) CCOERA RETIREMENT PLAN (continued)

Summary of financial information:
Balance sheet date June 30, 2012

Total assets	\$ 1,112,856,104
Total liabilities	<u>(618,192)</u>
Total availability for benefits	\$ 1,112,237,912
Revenues and contributions	\$ 92,669,813
Expenses and benefits	<u>79,205,606</u>
Excess of revenue over expenses	<u>\$ 13,464,207</u>

NOTE (10) BUDGET APPROPRIATION

There was a supplemental budget in 2012.

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, 2012

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 payout capital lease with Wells Fargo Equipment Finance, Inc. to purchase a 2012 Case backhoe.

Year	Principal	Interest	Remaining Balance
2013	14,679	1,299	23,515
2014	15,314	682	8,201
2015	8,201	101	
	\$ 38,194	\$ 2,082	

TOWN OF PAGOSA SPRINGS, COLORADO
Notes to Financial Statements

NOTE (14) CAPITAL LEASE (continued)

Year Ended December 31, 2012

<u>Long Term Debt</u>	<u>Beginning Of Year</u>	<u>Additions</u>	<u>Deletions</u>	<u>End of Year</u>
Capital Lease	\$ 52,317	\$	\$ 14,105	\$ 38,212

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>
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	151,847	27,786	664,088
2018-2021	664,088	54,442	
	\$ 1,816,693	\$ 264,364	

Net Change in Debt

<u>Beginning Of Year</u>	<u>Additions</u>	<u>Deletions</u>	<u>End of Year</u>
\$ 2,155,207	\$	\$ 338,514	\$ 1,816,693

NOTE (15) BONDS PAYABLE

Bonds payable at December 31, 2012 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, 2012. 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>
2013	\$ 50,467	\$ 42,714	\$ 7,753	\$ 140,158
2014	50,467	44,657	5,810	95,501
2015	50,467	46,689	3,778	48,812
2016	50,467	48,812	1,654	
	\$ 201,868	\$ 182,872	\$ 18,995	

TOWN OF PAGOSA SPRINGS, COLORADO
Notes to Financial Statements

NOTE (15) BONDS PAYABLE (continued)

Year Ended December 31, 2012

Net Change in Debt

Beginning of Year	Additions	Deletions	End of Year
\$ 223,727	\$	\$ 40,855	\$ 182,872

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 2012, 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.

In 2012, the District decided not to build a new sewer treatment plant and therefore not need the \$2 million loan. The loan was cancelled and interest and principle paid by the District was returned to the District. A total of \$126,054 was paid back. Of that amount, \$85,826 was return of principle and \$40,228 was return of interest. the return of interest was recorded as miscellaneous income.

NOTE (16) BUDGET LAW

The Town did not over spend their budget in 2012.

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 2012 funds quarterly during this year; the balance of \$195,991 shall be paid in two payments, one in September 2012 and the other in June 2012.

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, 2012

	SANITATION			Variance- Favorable (Unfavorable)
	Budgeted Amounts		Actual	
	Original	Final		
REVENUE				
Service fees	\$ 647,548	\$ 647,548	\$ 646,455	\$ (1,093)
Total Revenue	<u>647,548</u>	<u>647,548</u>	<u>646,455</u>	<u>(1,093)</u>
EXPENSES				
Personnel	100,920	100,920	66,641	34,279
Operations	225,500	225,500	215,631	9,869
Contractual	116,524	116,524	174,195	(57,671)
Total Expenses	<u>442,944</u>	<u>442,944</u>	<u>456,467</u>	<u>(13,523)</u>
EXCESS (DEFICIENCY) OF OPERATING REVENUE OVER EXPENSES	204,604	204,604	189,988	
NON-OPERATING REVENUES (EXPENSES)				
Grants and loans	7,179,000	7,179,000		(7,179,000)
Property tax	96,205	96,205	99,854	3,649
Debt service	(295,396)	(295,396)	(50,467)	244,929
Plant investment fees	7,800	7,800	12,233	4,433
Interest and Other Income	8,600	8,600	53,252	44,652
Capital outlay	(7,000,000)	(7,000,000)		7,000,000
Total Non-Operating Revenue	(3,791)	(3,791)	114,872	118,663
Net Income	200,813	200,813	304,860	104,047
ADJUSTMENTS				
Adjust to GAAP				
Depreciation adjustment			(76,969)	
Principal payments			40,854	
NET ASSETS - BEGINNING OF YEAR			3,299,080	
NET ASSETS END OF YEAR			<u>\$ 3,567,825</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, 2012

	GEOHERMAL			
	Budgeted Amounts		Actual	Variance- Favorable (Unfavorable)
	Original	Final		
REVENUE				
Service fees and leases	\$ 42,500	\$ 42,500	\$ 39,000	\$ (3,500)
Total Revenue	<u>42,500</u>	<u>42,500</u>	<u>39,000</u>	<u>(3,500)</u>
EXPENSES				
Administrative	6,600	6,600	1,680	4,920
Operating	33,500	33,500	42,227	(8,727)
Contractual	<u>64,000</u>	<u>64,000</u>	<u>31,765</u>	<u>32,235</u>
Total Expenses	<u>104,100</u>	<u>104,100</u>	<u>75,672</u>	<u>28,428</u>
EXCESS (DEFICIENCY) OF OPERATING REVENUE OVER EXPENSES	(61,600)	(61,600)	(36,672)	24,928
ADJUSTMENTS				
Adjust to GAAP				
Depreciation adjustment			(26,648)	
NET ASSETS - BEGINNING OF YEAR			<u>685,170</u>	
NET ASSETS END OF YEAR			\$ 621,850	

See accompanying notes

Other Information

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 2012

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)	1,323,081
a. Motor Fuel (from Item I.A.5.)		2. Maintenance:	394,206
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)	1,585,949	c. Other: Signage	
4. Miscellaneous local receipts (from page 2)	60,269	d. Total (a. through c.)	
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)	1,717,287
b. Bonds - Refunding Issues		B. Debt service on local obligations:	
c. Notes		1. Bonds:	
d. Total (a. + b. + c.)		a. Interest	
7. Total (1 through 6)		b. Redemption	
B. Private Contributions		c. Total (a. + b.)	
C. Receipts from State government (from page 2)	71,069	2. Notes:	
D. Receipts from Federal Government (from page 2)		a. Interest	
E. Total receipts (A.7 + B + C + D)	1,717,287	b. Redemption	
		c. Total (a. + b.)	
		3. Total (1.c + 2.c)	
		C. Payments to State for highways	
		D. Payments to toll facilities	
		E. Total disbursements (A.6 + B.3 + C + D)	1,717,287

IV. LOCAL HIGHWAY DEBT STATUS
(Show all entries at par)

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

V. LOCAL ROAD AND STREET FUND BALANCE

	A. Beginning Balance	B. Total Receipts	C. Total Disbursements	D. Ending Balance	E. Reconciliation

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	1,585,949	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	60,269
6. Total (1. through 5.)		h. Other: Sales Tax	
c. Total (a. + b.)	1,585,949	i. Total (a. through h.)	60,269
	(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	71,069	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		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)	71,069	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		1,323,081	1,323,081
(5). Total Construction (1) + (2) + (3) + (4)	0		0
d. Total Capital Outlay (Lines 1.a. + 1.b. + 1.c.5)	0	1,323,081	1,323,081
			(Carry forward to page 1)

Notes and Comments: