

TOWN OF PAGOSA SPRINGS, COLORADO
REPORT OF EXAMINATION AND FINANCIAL STATEMENTS
YEAR ENDED DECEMBER 31, 2013

TOWN OF PAGOSA SPRINGS, COLORADO
YEAR ENDED DECEMBER 31, 2013
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INDEPENDENT AUDITOR'S REPORT

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

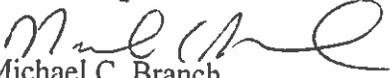
I have audited the accompanying financial statements of the governmental activities, the business-type activities, and each major fund of the Town of Pagosa Springs, Colorado as of and for the year ended December 31, 2013, which collectively comprise the Town's basic financial statements as listed in 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, 2013, 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 6, 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, 2013. Please read it in conjunction with the Town's financial statements, which follows this section.

BACKGROUND

In calendar year 2013, the national economy continued its gradual improvement. The US Bureau of Labor Statistics in October of 2013 reported the unemployment rate is as follows: nation-wide, 7.3% (7.9% in 2012, 8.9% in 2011 and 9.5% in 2010); Colorado, 6.8% (7.7% in 2012, 8.5% in 2011 and 9.1% in 2010); and Archuleta County, 6.6 (8.4% in 2012, 8.4% in 2011 and 9.1% in 2010). Note: the true unemployment rate is much higher as people exhausting unemployment benefits and are no longer seeking employment are included. The lack of economic predictability and the higher than normal national unemployment rate continue to adversely affect national, state and local economic stability. Consumer spending and the nation's stock market continued to rebound in 2013.

To be responsive should the local economy experience a downturn, the Town Council's 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 2014-01.

The Town Council budgeted for \$3,374,192 in 2014 sales tax revenue. This budgeted amount was split equally between the General Fund and Capital Fund.

Resolution 2014-01 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 2012, and 2013.

Modification to expenditures may occur as early as mid-March 2014. For example, February's expenditure level will be based on the average of January and February 2014 revenue (or the average of December of 2013 and January and February 2014 revenue). Using this method, the Town will not delay its response to changes in the revenue stream.

The Town's 2014 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, \$236,193 must be trimmed from the budget (\$118,097 from the General Fund and \$118,097 from the Capital Improvement Fund).

2013 BUDGET PERFORMANCE

In 2013, revenue is up 4.5% or \$143,796 (if all sales tax revenue is included). If the unique income (audit) is excluded, sales tax revenues increased by 5.38% or \$170,537. As a result of the sales tax revenue increase in 2013, Resolution 2012-19 expenditure reductions were not required in 2013. Had revenues declined significantly, the criterion for expenditure reductions takes into account the relative value of specific programs or services provided to the community.

2013 GRANT PROJECTS & FUNDING ACQUIRED

To ensure financial stability, during 2013, the Town staff reduced expenditures by accessing additional grant funding: \$7,400 forest service work on Reservoir Hill; \$85,000 Fishing is Fun river infrastructure (work done in 2013, inspection and payment in 2014); \$238,296 for sidewalks along Highway 160 between the library and grade school (rolls over into 2014); \$470,000 for work on the Town to Pagosa Lakes Trail (rolls over into 2014); and \$534,559 fiber-optic infrastructure (final inspection and payments may roll into 2014).

2013 EQUIPMENT PURCHASES

In 2013, the Town was able to acquire needed capital equipment, included a telephone system for Town Hall and the Community Center; two replacement police vehicles; streets department pickup truck with snow blade; new downtown crosswalk signage and lights; and an administration department 4wheel drive vehicle.

OPERATING RESERVES AS OF DECEMBER 31, 2013

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 approximately \$3.035 million cash on hand between the general and capital funds, or over nine months cash reserve (assuming zero sales tax income) and a full eighteen months reserve (assuming sales tax income drops by 50%). However, if all of the projects presented in the proposed 2014 budget are implemented, the General Fund reserves will be drawn down to 6.6 months and Capital Fund reserves will be drawn down to 3 months.

The 2013 budget approved by the Town Council in December of 2012 estimated decreasing the end of year General Fund reserves by \$612,527. At the end of 2013 the Town estimates increased General Fund reserves by \$263,148 compared to the 2013 budget. The same approved budget estimated that the Town would decrease Capital Fund Reserves by \$1,152,754. At the end of 2013 the Town actually decreased Capital Fund reserves by \$520,843.

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 2014 allocation of capital improvement revenues by the Town Council continues to place increased emphasis on improving the Town's street infrastructure. Payment of debt service on Town facilities also remains a high priority. The 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 2014 capital projects/payments include: Lewis Street paving debt service;

sidewalk replacement in downtown; completion of the community's fiber optics and wireless communication base infrastructure; construction of a gazebo on Reservoir Hill; development of a new river kayaking/tubing feature; and extension of the San Juan River walk and the Town to Pagosa Lakes trail system.

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 applied for a GOCO River Corridor Improvement Grant 2012 and a State Trails grant in 2013. Unfortunately, these proposals were not awarded a grant. However, the grant processes did advance the project engineering and design of project elements in preparation for construction. In 2014, the Town will again apply for state funds to construct the 6th Street pedestrian bridge.

The Town gained approval for 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. The grant was awarded in 2013 and construction will be completed in 2014.

STREET IMPROVEMENTS

The Town's capital improvement decision matrix and plan provides general guidance 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.

The Town has an ongoing initiatives to fill pot-holes and crack filling, mag-chloride the non-paved streets and alleyways, streetlight replacement, cleaning drainage ditches and culverts; equipment maintenance; moving the large rocks utilized for building river features, street striping and crosswalk printing, and installation and takedown of Christmas lighting.

The major streets initiatives in recent years include: replacing sidewalk, exit-way, curb and gutter at the Overlook parking area; new street lights on the 300 block of Lewis Street; 10th Street pavement patching project; 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; and removal of two old pedestrian crossings in the 400 block of San Juan Street and the old crossing at Pagosa Street and Second Street.

In 2013, major projects included: preparing the Reservoir Hill site for construction of a large gazebo; pavement overlay on South Pagosa Blvd; geothermal water line replacement; assisting the School District road improvement to enhance access to the elementary school; and Cemetery Road improvements to improve access to lots.

In 2014, major projects include: paving a portion of Majestic Drive; replacement of geothermal lines the south side of the Highway 160; further widen of the road up Reservoir Hill; repaving of 8th Street from the Apache Street intersection to the entry into the high school; and curb, gutter and sidewalk on Piedra Street from 8th Street to Old Durango Road.

ROSS ARAGÓN COMMUNITY CENTER IMPROVEMENTS

The Center deployed: expansion of event attendance – e.g.: Festival of Trees fundraising increased over 100% increase in 2013 with \$19,740 raises for non-profits in the community; increased free programs from 15 to 18 in 2013, plus adding two free events; held three collaborative events raising \$2,500 to support organizations in the community; and deployed six new summer children programs; and reestablished business with an event that had been lost to the economic downturn; the Community Center is now booking Town Park reservations and events. New equipment added in 2013 includes, new led stage lighting and a new projector.

PLANNING DEPARTMENT ACCOMPLISHMENTS

The Planning Department: coordinated the completion of the Lewis Street re-construction project, that included reconstruction of the street and installation of sidewalks and storm drainage infrastructure; proposed and coordinated the completion of a new sidewalk connection along S. 8th Street to the new lighted intersection at Hwy 160, providing a safe route for pedestrians to the new frequently used pedestrian crossing at Hwy 160. Worked closely with CDOT in the staging of the project and separating the sidewalk out from the scope of an awarded CDOT trail grant; coordinated the design and construction of new Pedestrian Crossing improvements that included: A new push button flashing light crossing at 2nd Street and the installation of new pedestrian crossing warning lights at the Courthouse and Overlook parking lot Highway crossings; conducted presentations to property owners in preparation of the east phase and west phase of the Town to Pagosa Lakes Trail project. Preparation for both projects to be constructed in 2014; continued processing of the Wal-Mart development application, ensuring all required documentation was submitted or outlined as outstanding requirements to be submitted; and received an award of a State Trails Grant for the construction of a 900 lineal foot river walk trail extension along 6th Street.

In addition, the Planning Department coordinated the preliminary design & engineering, cost estimating, environmental assessments and Army Corps of Engineers application submissions for the new 6th Street pedestrian bridge; proposed and obtained Council approval for a new Impact fees calculations to ensure relative infrastructure projects were identified and fee collections are justified; worked in partnership with CDOT staff regarding the McCabe Creek new Bridge project slated to be constructed in 2015; adopted new State Flood Plain regulations; and adopted 2009 International Fire Code.

TOWN TOURISM COMMITTEE ACCOMPLISHMENTS

The Town Tourism Committee deployed (1) a successful marketing strategy to increase lodging tax by over 6% in 2013, despite large wildfire and closure of Wolf Creek Pass during height of summer tourism season and less than typical snowfall during winter months, (2) design of enhancements to Gateway signs, addition of solar panels to provide light to new sign cabinets, (3) development and launch of new Visitor Information Program, to expand availability of visitor information; program will be fully implemented in May 2014, (4) addition of touchscreen PC at visitor center, to be expanded under Visitor Program in 2014 (5) continued on visitpagosasprings.com desktop and mobile sites, both

of which continue to show impressive growth in usage and interaction, and (6) launched enhanced Holiday promotion, *Holiday Palooza*, with event calendar, additional lights in downtown area, business and residential lighting contests and promotional / informational materials for area visitors.

PARKS & RECREATION DEPARTMENT ACCOMPLISHMENTS

The Parks Department deployed: new restrooms and security camera system for Yamaguchi Park; new heating (natural gas furnace and weatherization) and security camera system for Town Park restrooms; new swing set in Yamaguchi Park (privately funded); new swingset in Town Park; 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 with extensive fish stocking (\$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) with a new electric service installed to facilitate the expanded lighting; refined disc golf course on Reservoir Hill (privately funded); upgrade to the Yamaguchi skate-park (privately funded); required permits obtained and infrastructure installed for raw water irrigation diversion at Centennial Park; a scoreboard and dugout roof and benches at Yamaguchi Park softball field; and a large gazebo (donated) staged for 2014 completion on Reservoir Hill.

2014 BUDGET

The Town Council continues to focus on investing in community infrastructure and economic growth with emphasis on the following: 1) San Juan River enhancements; 2) way-finding plan; 3) riverwalk and trails; 4) downtown improvements; 5) park improvements; 6) tourism; 7) athletic facilities; and 8) growth incentives.

2014 Budget Assumptions

1. Sales tax revenue in 2014 will be 3.53% higher than the 2013 year-end projection = \$3,374,192. A 2% increase over 2013, plus projected sales tax from Tractor Supply
2. Lodgers tax revenue in 2014 shall increase 5% over the 2013 year end estimate = \$462,000.
3. Municipal Court continues to assist with youth drug rehabilitation in 2014 at a cost of \$4,500.
4. Service Organizations are proposed to receive 3.25% of General Fund Sales Tax Revenues (\$60,263).
5. Economic Development related projects are presented in the 2014 preliminary budget at \$2,500 for the Southwest Rural Philanthropy Days Initiative, plus \$20,000 economic development incentives.
6. Staffing patterns will remain similar to those reflected in the 2013 budget. Note: In 2013 the Town Council approved a salary plan that included cost of living increases annually based on the Denver-Boulder CPI. The 2012 CIP change is 1.943% and salaries adjusted accordingly.
7. Health insurance budgeted cost will increase 7.23 percent (approximately \$28,000 based on budgeted staffing levels) over 2013.

8. 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 portion of the Community Center Loan will be paid off in 2014. The balance of the Lewis Street portion of \$1,103,976 is scheduled to be paid off in mid-2021.
9. The WayFinding Plan will be budgeted at \$25,000 in 2014, 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.
10. The Town Council approved the acquisition of a large gazebo to be erected on Reservoir Hill. Currently, the cost of this initiative is budgeted in the 2013 year at \$41,500.
11. Town will continue to accelerate asset development in 2014, 2015 and 2016:
 - a. Parks Department to work toward construction of final two kayaking features in the river feature plan.
 - b. Parks and Recreation Department to deploy additional Yamaguchi Park improvements to including: skate-park bowl, baseball field lighting 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 way-finding and signage plan.
12. Parks and Recreation Department will develop and deploy a new parks maintenance plan, taking into account the expanded parks facilities.
13. Capital Improvement Plan continues 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.). Council will be updating CIP priorities in early 2014.
14. As approved by the Town Council, the Town shall continue conducting educational audits and accounting audits on lodging establishments (lodgers tax).
15. With Council's approval recreation center impact fees are being utilized to pay for assessing the merits of building a facility.

2014 BUDGET NARRATIVE

To finalize the budget, the Town Council utilized a 2014 sales tax revenue target of \$3,374,138. The 2014 budget projects a \$3,035,149 (General Fund and Capital Fund) carryover of funds from 2013

The approved 2014 budget estimates year-end total cash reserves of \$1,264,674 in the General Fund and \$402,661 in the Capital Improvement Fund. The proposed 2014 budget expenditures from these two funds will create a year-end unrestricted reserve of \$1,444,983.

Actual sales tax revenue received in 2013 total \$3,341,363. This is a 4.5% or \$143,796 increase over 2012. 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 2014. To be fully prepared for a potential economic downturn, the department heads will identify expenditures at the seven percent (7%), twelve percent (12%) reduction levels, to be deployed if needed.

LODGERS TAX REVENUE

As of January 13th, the Town of Pagosa Springs' November 2013 lodgers tax revenue was \$27,311, compared to \$23,180 in November of 2012, an increase of 17.82% or \$4,131. Year-to-date (2013, January through November), lodgers tax revenue has increased 6.72% or \$25,219. In calendar year 2012, lodgers tax revenue increased by 4.07% or \$7,308. Note: There was a decrease in February and March lodgers tax revenue as a result of one of the motels being in foreclosure and changing ownership. In 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 2014 indicate that lodging tax revenues will total approximately \$490,500, compared to \$443,700 (estimate) in 2013, \$418,722 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 2014 is \$47,888,745 (a decrease of \$6,293,000 from 2013). The Town Council set the Town Mill Levy at 1.557 Mills, generating \$74,563, plus an additional .027 mills of refunds/abatements will generate \$1,293.

SPECIAL FUNDS SUMMARY

Beginning in 2009 and continuing through 2014, 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 2014 Budget shows General Fund beginning reserves of \$1,538,486 and projects 2014 revenues at \$2,147,364 with expenditures of \$2,421,176 creating a year-end balance of \$1,264,176.

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 2014 Budget estimates Capital Fund beginning reserves of \$1,496,663, projected revenues of \$3,896,553, expenses of \$4,990,556, creating a year-end balance of \$402,661.

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 2014 revenues of \$47,000 plus prior balance of \$73,745 = \$120,745 and expenditures of \$70,000 for a budgeted fund balance of \$50,745 at the end of 2014.

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 2014 Budget estimates that the Lodgers Fund will have beginning reserves of \$141,687, projected revenues of \$462,000, expenses of \$556,500, thereby creating a year-end balance of \$75,687.

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 2014.

GEOTHERMAL ENTERPRISE FUND

The Geothermal Enterprise Fund includes the costs of operating the geothermal heating utility. As a result of thirty year old infrastructure, the Town has assessed alternative engineering designs (more current technology) to utilize its geothermal waters for heating purposes. The 2014 budget shows an estimated beginning fund balance of \$108,782, operational revenues of \$41,200, expenditures of \$65,350, resulting in a year-end fund balance of \$84,632.

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. 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 Governors 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 occurred between February and May 2012. During May and June more rigorous aquifer testing occurred. Monitoring will continue into 2014.

Teams from the Colorado School of Mines Geophysical Department have been conducting research into the characteristics of the geothermal resources in the Town of Pagosa Springs and surrounding Archuleta County. In 2012 and 2013, the Geophysical Department has brought in research teams composed of approximately 50 students and 20 professors, along with high-tech equipment to Pagosa Springs the last two weeks in May. Their research has proved invaluable as we gain a better understanding of this resource. The School of Mines will continue to build on the resource data for the region. We believe this research will continue into 2014, with additional visits from the School of Mines Geophysical Department (professors and students).

Based on the research of the past several years, the Town Council approved a partnership with Archuleta County and Pagosa Verde, LLC. to exploratory drilling and establishment of a geothermal electric utility. Drilling to determine the viability of the geothermal water for electricity production will take place in the spring of 2014.

BUDGETING CHANGES

Budget changes over the past several years have increased the level of detail and separation of 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.

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; **the Town of Pagosa Springs also hired new talent for our team of public servants to fill vacant positions: Building Official; Community Center Director; Community Center Program Coordinator and Project Manager. In 2013, the Town hired a new Police Officer, a Permit Technician/Associate Planner, and a new Streets Department employee.**

Since Town staff has not received any cost of living or merit salary increases in the past four years. In 2013, 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). Council approved a 1.9% cost of living salary adjustment for staff in the 2014 budget. The Town department heads will conduct a benefits review in the first quarter of 2014 and bring proposed changes to the Town Council for their consideration.

AUDIT OF TOWN REVENUES AND EXPENDITURES

As soon as it is completed, the audit of the Town's 2013 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 \$733,742. Cash increased \$466,337.

The Town's total governmental revenues were \$4,989,284. Over 67% 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 \$107,900 below budget amounts. Actual revenues were more than budgeted amounts by \$220,602.

CAPITAL ASSETS

At the end of 2013, 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	11,361,640
Buildings	2,632,034
Equipment	1,493,758
Geothermal	1,182,419
Sanitation	3,457,144
Work in progress	<u>468,080</u>
Totals	21,733,001
Less Accumulated Depreciation	<u>(4,838,270)</u>
Net Capital Assets	\$ 16,894,731

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, 2013

	Primary Government		
	Governmental Activities	Business Type Activities	Total
ASSETS			
Current assets			
Cash	\$ 4,061,222	\$ 1,898,305	\$ 5,959,527
Cash held by County	1,022	488	1,510
Receivables	730,022	65,470	795,492
Tax receivables	75,855	86,975	162,830
Total Current Assets	<u>4,868,121</u>	<u>2,051,238</u>	<u>6,919,359</u>
Capital Assets			
Fixed assets net of depreciation	13,872,369	3,022,362	16,894,731
Total Assets	<u>\$ 18,740,490</u>	<u>\$ 5,073,600</u>	<u>\$ 23,814,090</u>
LIABILITIES			
Current liabilities			
Accounts payable and accrued	\$ 343,382	\$ 3,418	\$ 346,800
Deferred revenue	75,855	86,975	162,830
Current portion of long term debt	377,977	44,657	422,634
Impact fees	342,293		342,293
Total Current Liabilities	<u>1,139,507</u>	<u>135,050</u>	<u>1,274,557</u>
Long term liabilities			
Debt payable (net of current)	1,112,177	95,502	1,207,679
Payable to PAWS		249,576	249,576
Total long term liabilities	<u>1,112,177</u>	<u>345,078</u>	<u>1,457,255</u>
Total Liabilities	<u>\$ 2,251,684</u>	<u>\$ 480,128</u>	<u>\$ 2,731,812</u>
Net Assets			
Non-spendable	\$ 12,382,215	\$ 2,632,627	\$ 15,014,842
Restricted	137,777		137,777
Committed	2,373,646	1,067,440	3,441,086
Unassigned	1,595,168	893,405	2,488,573
Total Net Assets	<u>\$ 16,488,806</u>	<u>\$ 4,593,472</u>	<u>\$ 21,082,278</u>

See accompanying notes

TOWN OF PAGOSA SPRINGS
Statement of Activities
For the Year Ended December 31, 2013

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	\$ (2,519,514)	\$ 138,790	\$ 204,886	\$ (2,175,838)		\$ (2,175,838)
Public safety	(863,835)	45,673		(818,162)		(818,162)
Public works	(1,215,913)	139,197	325,460	(751,256)		(751,256)
Total	(4,599,262)	323,660	530,346	(3,745,256)		(3,745,256)
Business-type Activities:						
Enterprise funds	(390,033)	669,748			279,715	279,715
Total	(390,033)	669,748			279,715	279,715
Governmental and Business Type Activities Total	\$ (4,989,295)	\$ 993,408	\$ 530,346	\$ (3,745,256)	\$ 279,715	\$ (3,465,541)
General revenues:						
Taxes				4,108,350	97,711	4,206,061
Other				25,325	2	25,327
Interest income				1,600	2,268	3,868
Plant investment					34,848	34,858
Interest expense				(63,077)	(7,754)	(70,831)
Total General Revenues				4,072,198	127,075	4,199,283
Changes in net assets				326,942	406,800	733,742
Net assets, January 1, 2013				16,161,864	4,186,672	20,348,536
Net assets, December 31, 2013				\$ 16,488,806	\$ 4,593,472	\$ 21,082,278

See accompanying notes

TOWN OF PAGOSA SPRINGS, COLORADO
 Balance Sheet
 Governmental Funds
 December 31, 2013

	Governmental Fund Types				Total Governmental Funds
	General	Capital Improvement	Tourism Fund	Conservation Trust	
ASSETS					
Cash	\$ 2,044,380	\$ 1,780,603	\$ 159,734	\$ 76,505	\$ 4,061,222
Cash held by County	1,022				1,022
Receivables	315,480	372,144	42,398		730,022
Property Taxes	75,855				75,855
Total Assets	\$ 2,436,737	\$ 2,152,747	\$ 202,132	\$ 76,505	\$ 4,868,121
LIABILITIES					
Accrued expenses	\$ 155,541	\$ 68,283		\$	\$ 223,824
Account payables	119,558				119,558
Deferred revenue	75,855				75,855
Impact fees	342,293				342,293
Total Liabilities	693,247	68,283			761,530
FUND EQUITY					
Fund Balances:					
Restricted	61,272			76,505	137,777
Committed	87,050	2,084,464	202,132		2,373,646
Unassigned	1,595,168				1,595,168
Total Fund Equity	1,743,490	2,084,464	202,132	76,505	4,106,591
TOTAL LIABILITIES AND FUND EQUITY	\$ 2,436,737	\$ 2,152,747	\$ 202,132	\$ 76,505	\$ 4,868,121

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, 2013

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

Total fund balance - governmental funds	\$	4,106,591
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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	\$ 16,477,885	
Accumulated depreciation is	<u>(2,605,516)</u>	
		13,872,369

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		(1,466,639)
Capital Lease		<u>(23,515)</u>

Total net assets - governmental activities	\$	<u>16,488,806</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, 2013

	<u>General</u>	<u>Capital Improvement</u>	<u>Tourism Fund</u>	<u>Conservation Trust</u>	<u>Total Governmental Funds</u>
REVENUE					
Taxes	\$ 1,911,108	\$ 1,750,669	\$ 446,573	\$	\$ 4,108,350
Licenses & permits	139,197				139,197
Intergovernmental and grants	57,706	424,104		48,536	530,346
Charges for services	121,565	17,225			138,790
Fines and forfeits	45,676				45,676
Interest	1,600				1,600
Other	15,125	10,000	200		25,325
Total Revenue	2,291,977	2,201,998	446,773	48,536	4,989,284
EXPENDITURES					
General government	748,804				748,804
Public safety and Courts	863,835				863,835
Public works		1,215,913			1,215,913
Tourism			433,474		433,474
Parks and recreation	348,300	461,932		28,776	839,008
Public support	81,448				81,448
Capital outlay and debt service		778,186			778,186
Total Expenditures	2,042,387	2,456,031	433,474	28,776	4,960,668
EXCESS (DEFICIENCY) OF REVENUE OVER EXPENDITURES	249,590	(254,033)	13,299	19,760	28,616
FUND BALANCE BEGINNING OF YEA	<u>1,493,900</u>	<u>2,338,497</u>	<u>188,833</u>	<u>56,745</u>	<u>4,077,975</u>
FUND BALANCE END OF YEAR	<u>\$ 1,743,490</u>	<u>\$ 2,084,464</u>	<u>\$ 202,132</u>	<u>\$ 76,505</u>	<u>\$ 4,106,591</u>

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, 2013

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

Net change in fund balances – total government funds	\$ 28,616
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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.	350,376
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Depreciation Expense	(416,783)
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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>364,733</u>
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Change in net assets of governmental activities	<u>\$ 326,942</u>
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TOWN OF PAGOSA SPRINGS, COLORADO
Statement of Revenue, Expenditures and Changes in
Fund Balance Budget and Actual
General Fund
Year Ended December 31, 2013

	General Fund			
	Budgeted Amounts		Actual	Variance Favorable (Unfavorable)
	Original	Final		
REVENUE				
Taxes	\$ 1,810,794	\$ 1,810,794	\$ 1,911,108	\$ 100,314
Licenses & permits	43,500	43,500	139,197	95,697
Intergovernmental	58,663	58,663	57,706	(957)
Charges for services	101,668	101,668	121,565	19,897
Fines and forfeits	49,000	49,000	45,676	(3,324)
Interest	1,500	1,500	1,600	100
Other	6,250	6,250	15,125	8,875
Total Revenue	2,071,375	2,071,375	2,291,977	220,602
EXPENDITURES				
General government	766,773	766,773	748,804	17,969
Public safety and Courts	940,778	940,778	863,835	76,943
Parks and recreation	348,836	348,836	348,300	536
Public support	93,900	93,900	81,448	12,452
Total Expenditures	2,150,287	2,150,287	2,042,387	107,900
EXCESS (DEFICIENCY) OF REVENUE OVER EXPENDITURES	(78,912)	(78,912)	249,590	328,502
FUND BALANCE BEGINNING OF YEAR			1,493,900	
FUND BALANCE END OF YEAR OF YEAR			\$ 1,743,490	

See accompanying notes

TOWN OF PAGOSA SPRINGS, COLORADO
Statement of Revenue, Expenditures and Changes in
Fund Balance Budget and Actual
Tourism Fund
Year Ended December 31, 2013

	Tourism Fund			Variance Favorable (Unfavorable)
	Budgeted Amounts		Actual	
	Original	Final		
REVENUE				
Taxes	\$ 440,000	\$ 440,000	\$ 446,573	\$ 6,573
Other	17,300	17,300	200	(17,100)
Total Revenue	457,300	457,300	446,773	(10,527)
EXPENDITURES				
Tourism	510,300	510,300	433,474	76,826
Total Expenditures	510,300	510,300	433,474	76,826
EXCESS (DEFICIENCY) OF REVENUE OVER EXPENDITURES	(53,000)	(53,000)	13,299	66,299
FUND BALANCE BEGINNING OF YEAR			188,833	
FUND BALANCE END OF YEAR			\$ 202,132	

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, 2013

	Capital Improvement Fund			
	Budgeted Amounts		Actual	Variance Favorable (Unfavorable)
	Original	Final		
REVENUE				
Taxes	\$ 1,671,150	\$ 1,671,150	\$ 1,750,669	\$ 79,519
Intergovernmental and grants	6,303,805	6,303,805	424,104	(5,879,701)
Other	14,000	14,000	27,225	13,225
	7,988,955	7,988,955	2,201,998	(5,786,957)
EXPENDITURES				
Public works	3,062,128	3,062,128	1,215,913	1,846,215
Parks and recreation	782,037	782,037	461,932	320,105
Capital outlay and debt service	5,261,133	5,261,133	778,186	4,482,947
	9,105,298	9,105,298	2,456,031	6,649,267
EXCESS (DEFICIENCY) OF REVENUE OVER EXPENDITURE	(1,116,343)	(1,116,343)	(254,033)	862,310
LOAN PROCEEDS	75,012	75,012	75,012	
NET REVENUE	(1,041,331)	(1,041,331)	(179,021)	862,310
LOAN PROCEEDS			(75,012)	
FUND BALANCE BEGINNING OF YEAR			2,338,497	
FUND BALANCE END OF YEAR			\$ 2,084,464	

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, 2013

	<u>Budgeted Amounts</u>		<u>Actual</u>	<u>Variance Favorable (Unfavorable)</u>
	<u>Original</u>	<u>Final</u>		
REVENUE				
Intergovernmental	\$ <u>47,000</u>	\$ <u>47,000</u>	<u>48,536</u>	\$ <u>1,536</u>
Total Revenue	47,000	47,000	48,536	1,536
EXPENDITURES				
Parks	<u>30,000</u>	<u>30,000</u>	<u>28,776</u>	<u>1,224</u>
Total Expenditures	30,000	30,000	28,776	1,224
EXCESS (DEFICIENCY) OF REVENUE OVER EXPENDITURES	<u>17,000</u>	<u>17,000</u>	<u>19,760</u>	<u>2,760</u>
FUND BALANCE BEGINNING OF YEAR	<u>56,745</u>	<u>56,745</u>	<u>56,745</u>	
FUND BALANCE END OF YEAR OF YEAR	\$ <u><u>73,745</u></u>	\$ <u><u>73,745</u></u>	\$ <u><u>76,505</u></u>	\$ <u><u>2,760</u></u>

See accompanying notes

TOWN OF PAGOSA SPRINGS, COLORADO
Proprietary Funds
Statement of Net Assets
December 31, 2013

	Business-type Activities Enterprise Funds		
	Sanitation Fund	Geothermal Fund	Totals
ASSETS			
Current Assets			
Cash	\$ 1,789,897	\$ 108,408	\$ 1,898,305
Account receivables (net)	64,002	1,468	65,470
Taxes receivable	86,975		86,975
Cash with County	488		488
Total Current Assets	1,941,362	109,876	2,051,238
Capital Assets			
Fixed assets, net	2,588,204	434,158	3,022,362
Total Assets	\$ 4,529,566	\$ 544,034	\$ 5,073,600
LIABILITIES			
Current liabilities			
Accrued leave time	\$ 3,418	\$	\$ 3,418
Deferred revenue	86,975		86,975
Bonds payable, current	44,657		44,657
Total Current Liabilities	135,050		135,050
Payable to PAWS	249,576		249,576
Note Payable Long Term	95,502		95,502
Total long term liabilities	345,078		345,078
Total Liabilities	\$ 480,128	\$	\$ 480,128
Net Assets			
Non spendable	\$ 2,198,469	\$ 434,158	\$ 2,632,627
Committed	1,067,440		1,067,440
Unassigned	783,529	109,876	893,405
Total Net Assets	\$ 4,049,438	\$ 544,034	\$ 4,593,472

See accompanying notes

TOWN OF PAGOSA SPRINGS, COLORADO
Proprietary Funds
Statement of Revenues, Expenses and
Changes in Fund Net Assets
December 31, 2013

	Business-type Activities Enterprise Funds		
	Sanitation Fund	Geothermal Fund	Totals
	Operating Revenue:		
Service fees	\$ 644,055	\$ 25,693	\$ 669,748
Total Revenue	644,055	25,693	669,748
Operating Expenses:			
Administrative	22,964	1,053	24,017
Operating system	165,891	51,096	216,987
Professional fees	26,666	24,711	51,377
Depreciation	74,004	23,648	97,652
Total Expenses	289,525	100,508	390,033
Income (Loss) From Operations	354,530	(74,815)	279,715
Non-Operating Revenue (Expense)			
Other	2		2
Property tax	97,711		97,711
Interest expense	(7,754)		(7,754)
Interest income	2,268		2,268
Plant investments	34,858		34,858
Total Non-Operating Revenue	127,085		127,085
Changes in Net Assets	481,615	(74,815)	406,800
Net Assets Beginning of Year	3,567,823	618,849	4,186,672
Net Assets End of Year	\$ 4,049,438	\$ 544,034	\$ 4,593,472

See accompanying notes

TOWN OF PAGOSA SPRINGS, COLORADO
Proprietary Funds
Statement of Cash Flows
For the Year Ended December 31, 2013

	Business-type Activities Enterprise Funds		
	Sanitation	Geothermal	Totals
CASH FLOWS FROM OPERATING ACTIVITIES:			
Cash Received from Customers	\$ 652,195	\$ 39,450	\$ 691,645
Cash paid for expenses	<u>(213,030)</u>	<u>(76,860)</u>	<u>(289,890)</u>
NET CASH PROVIDED (USED) BY OPERATING ACTIVITIES	439,165	(37,410)	401,755
CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES:			
Proceeds from tap fees	34,858		34,858
Principal payments on long-term debt	(42,714)		(42,714)
Interest payments on long-term debt	(7,754)		(7,754)
Interest income	2,270		2,270
Proceeds from loans	249,576		249,576
Purchase of fixed assets	<u>(468,081)</u>		<u>(468,081)</u>
CASH FLOWS FROM (USED) IN CAPITAL AND RELATED FINANCING ACTIVITIES	(231,845)		(231,845)
CASH FLOWS FROM NON CAPITAL ACTIVITIES:			
Taxes received	<u>97,711</u>		<u>97,711</u>
CASH PROVIDED BY NON-CAPITAL FINANCING ACTIVITIES	97,711		97,711
NET INCREASE (DECREASE) IN CASH	305,031	(37,410)	267,621
CASH BEGINNING OF YEAR	<u>1,484,866</u>	<u>145,818</u>	<u>1,630,684</u>
CASH END OF YEAR	<u>\$ 1,789,897</u>	<u>\$ 108,408</u>	<u>\$ 1,898,305</u>

See accompanying notes

TOWN OF PAGOSA SPRINGS, COLORADO
Proprietary Funds
Combining Statement of Cash Flows
For The Year Ended December 31, 2013

(continued)

RECONCILIATION OF OPERATING INCOME TO NET CASH
PROVIDED BY OPERATING ACTIVITIES

	<u>Sanitation</u>	<u>Geothermal</u>	<u>Total</u>
Operating Income (Loss)	\$ 354,530	\$ (74,815)	\$ 279,715
Adjustments to Reconcile Operating Income to Net Cash Provided by Operating Activities:			
Depreciation	74,004	23,648	97,652
Decrease in cash held by County	74		74
Increase in Accounts Payable	2,417		2,417
(Increase) Decrease in Accounts Receivable	<u>8,140</u>	<u>13,757</u>	<u>21,897</u>
NET CASH PROVIDED (USED) BY OPERATING ACTIVITIES	<u>\$ 439,165</u>	<u>\$ (37,410)</u>	<u>\$ 401,755</u>

See accompanying notes

TOWN OF PAGOSA SPRINGS, COLORADO
Notes to Financial Statements
Year Ended December 31, 2013

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, 2013

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, 2013

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, 2013

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

Colorado Intergovernmental Risk-Sharing Agency

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

Reserves

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

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

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

Revenue Recognition - Property Taxes

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

Cash Deposits and Cash Equivalents

Cash deposits at December 31, 2013, 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, 2013

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 unit's 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 2013, depreciation was \$416,783 for the General Fund, \$74,004 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 2013</u>	<u>Additions</u>	<u>Deletions</u>	<u>Balance December 31 2013</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	1,240,923	121,738		1,362,661
Infrastructure	11,133,002	228,638		11,361,640
Total Depreciable Assets	<u>15,005,959</u>	<u>350,376</u>		<u>15,356,335</u>
Less Accumulated Depreciation	<u>(2,188,733)</u>	<u>(416,783)</u>		<u>(2,605,516)</u>
Total Net Assets	<u>13,938,776</u>	<u>(66,407)</u>		<u>13,872,369</u>

TOWN OF PAGOSA SPRINGS, COLORADO
Notes To Financial Statements
December 31, 2013

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 2013	Additions	Deletions	Balance December 31 2013
Sewer Fund:				
Land and right of way	\$ 16,376	\$	\$	\$ 16,376
Sewer system	3,457,144			33,457,144
Equipment and vehicles	128,843			128,843
Work in progress		468,081		468,081
Accumulated Depreciation	<u>(1,408,236)</u>	<u>(74,004)</u>		<u>(1,482,240)</u>
Net fixed assets	\$ 2,194,127	\$ 394,077	\$	\$ 2,588,204
	Balance January 1 2013	Additions	Deletions	Balance December 31 2013
Geothermal Fund:				
Geothermal system	\$1,182,419	\$	\$	\$ 1,182,419
Equipment	2,254			2,254
Accumulated Depreciation	<u>(723,866)</u>	<u>(23,648)</u>		<u>(747,514)</u>
Total Geothermal Fund-net	<u>\$ 460,807</u>	<u>\$ (23,648)</u>	<u>\$</u>	<u>\$ 437,159</u>

NOTE (4) CASH AND DEPOSITS

At December 31, 2013, the District had the following cash and investments:

Deposits \$ 5,959.527

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, 2013, 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, 2013, the District had bank deposits of \$ 6,188,002 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, 2013

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, 2013 all police are eligible and participating in the plan.

The Town's total pension contributions for 2013 were \$25,372 for a payroll of \$317,144.

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, 2013

NOTE (6) RECEIVABLES

Receivables at December 31, 2013 consist of the following:

	<u>Governmental</u> <u>Fund</u>	<u>Enterprise</u> <u>Fund</u>
Accounts Receivable	\$ 86,126	\$ 65,470
Property tax	75,855	86,975
Sales tax	577,392	
Cigarette tax	1,332	
Source Gas	4,825	
Cable TV	8,000	
HUFT	5,697	
Telephone	6,305	
Lodgers	<u>40,345</u>	
Total Receivables	\$ 805,877	<u>\$ 152,445</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, 2013

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, 2013
Total assets	\$ 77,474,738
Total liabilities	<u>(40,063,159)</u>
Total equity	\$ 37,411,579
Revenue	\$ 21,142,937
Expenses	<u>(17,275,363)</u>
Excess of revenue over expenses	<u>\$ 3,867,574</u>

The December 31, 2013 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, 2013

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 \$74,455 for a payroll of \$1,478,100.

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, 2013

NOTE (9) CCOERA RETIREMENT PLAN (continued)

Summary of financial information:
Balance sheet date June 30, 2013

Total assets	\$ 1,221,276,419
Total liabilities	<u>(655,152)</u>
Total availability for benefits	\$ 1,221,621,267
Revenues and contributions	\$ 93,436,801
Expenses and benefits	<u>(80,901,865)</u>
Excess of revenue over expenses	<u>\$ 12,534,936</u>

NOTE (10) BUDGET APPROPRIATION

There was no supplemental budget in 2013.

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

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, 2013

NOTE (13) LEASES AND COMMITMENTS (continued)

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).

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
2014	15,314	682	8,201
2015	8,201	101	
	\$ 23,515	\$ 783	

Year Ended December 31, 2013

<u>Long Term Debt</u>	<u>Beginning Of Year</u>	<u>Additions</u>	<u>Deletions</u>	<u>End of Year</u>
Capital Lease	\$ 38,194	\$	\$ 14,679	\$ 23,515

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 one year and \$89,817 semi-annually for the next seven years.

Year	Principal	Interest	Remaining Balance
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	157,317	22,316	506,771
2019-2021	506,771	32,127	
	\$ 1,466,639	\$ 202,606	

Net Change in Debt				
	<u>Beginning</u>		<u>Deletions</u>	<u>End of</u>
	<u>Of Year</u>	<u>Additions</u>		<u>Year</u>
	\$ 1,816,693	\$	\$ 350,054	\$ 1,466,639

NOTE (15) BONDS PAYABLE

Bonds payable at December 31, 2013 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, 2013. 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>
2014	\$ 50,467	\$ 44,657	\$ 5,810	\$ 95,501
2015	50,467	46,689	3,778	48,812
2016	<u>50,467</u>	<u>48,812</u>	<u>1,654</u>	
	\$ 151,401	\$ 140,158	\$ 11,242	

Year Ended December 31, 2013

Net Change in Debt				
	<u>Beginning</u>		<u>Deletions</u>	<u>End of</u>
	<u>of Year</u>	<u>Additions</u>		<u>Year</u>
	\$ 182,872	\$	\$ 42,714	\$ 140,158

NOTE (16) BUDGET LAW

The Town did not over spend their budget in 2013.

NOTE (17) INTERGOVERNMENTAL AGREEMENT

On January 3, 2012, the Pagosa Springs Sanitation General Improvement District (PSSGID) and Pagosa Area Water and Sanitation District (PAWSD) entered into an intergovernmental agreement for PSSGID to extend their sewer lines to connect with the PAWSD line. PAWSD would then do the wastewater treatment. The contract has been let for a bid price of \$6,853,000. Work will begin in April 2014 and must be completed by November of 2015. The funding is going to be provided by a variety of loans, grants and equity. One million two hundred fifty thousand dollars (\$1,250,000) will be provided by a grant from the State of Colorado Department of Local Affairs. PSSGID will get a two million dollar (\$2,000,000) loan from the Colorado Water Resources and Power Development Authority. This loan will be payable over 20 years at 1% interest. PAWSD has agreed to loan PSSGID up to two million eight hundred thirty five thousand dollars (\$2,835,000). This loan will be repaid over 20 years at an interest rate equal to PAWSD lost opportunity on investment funds. The balance of approximately \$1,100,000 will come out of PSSGID reserves.

Supplementary Information

TOWN OF PAGOSA SPRINGS, COLORADO
Statement of Revenue, Expenses and
Changes in Net Assets Budget and Actual (NON-GAAP)
Sanitation Fund
Year Ended December 31, 2013

	SANITATION			
	Budgeted Amounts		Actual	Variance- Favorable (Unfavorable)
	Original	Final		
REVENUE				
Service fees	\$ 650,048	\$ 650,048	\$ 644,055	\$ (5,993)
Total Revenue	<u>650,048</u>	<u>650,048</u>	<u>644,055</u>	<u>(5,993)</u>
EXPENSES				
Administrative	35,285	35,285	22,964	12,321
Operations	253,386	253,386	165,891	87,495
Contractual	35,000	35,000	26,666	8,334
Total Expenses	<u>323,671</u>	<u>323,671</u>	<u>215,521</u>	<u>108,150</u>
EXCESS (DEFICIENCY) OF OPERATING REVENUE OVER EXPENSES	326,377	326,377	428,534	102,157
NON-OPERATING REVENUES (EXPENSES)				
Grants and loans	3,250,000	3,250,000	249,576	(3,000,424)
Property tax	95,506	95,506	97,711	2,205
Debt service	(50,469)	(50,469)	(50,468)	1
Plant investment fees	9,000	9,000	34,858	25,858
Interest and Other Income	1,900	1,900	2,270	370
Capital outlay	(2,945,000)	(2,945,000)	(468,001)	2,476,999
Total Non-Operating Revenue	360,937	360,937	(134,054)	(494,991)
Net Income	<u>687,314</u>	<u>687,314</u>	294,480	<u>(392,834)</u>
ADJUSTMENTS				
Adjust to GAAP				
Depreciation adjustment			(74,004)	
Principal payments			42,714	
Capital outly			468,001	
Loan proceeds			(249,576)	
NET ASSETS - BEGINNING OF YEAR			3,567,823	
NET ASSETS END OF YEAR			<u>\$ 4,049,438</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, 2013

	GEO THERMAL			
	Budgeted Amounts		Actual	Variance- Favorable (Unfavorable)
	Original	Final		
REVENUE				
Service fees and leases	\$ 40,000	\$ 40,000	\$ 25,693	\$ (14,307)
Total Revenue	40,000	40,000	25,693	(14,307)
EXPENSES				
Administrative	1,200	1,200	1,053	147
Operating	52,400	52,400	51,096	1,304
Professional	46,500	46,500	24,711	21,789
Total Expenses	100,100	100,100	76,860	23,240
EXCESS (DEFICIENCY) OF OPERATING REVENUE OVER EXPENSES	(60,100)	(60,100)	(51,167)	8,933
ADJUSTMENTS				
Adjust to GAAP				
Depreciation adjustment			(23,648)	
NET ASSETS - BEGINNING OF YEAR			618,849	
NET ASSETS END OF YEAR			\$ 544,034	

See accompanying notes

Other Information

LOCAL HIGHWAY FINANCE REPORT	City or County: Pagosa Springs, CO YEAR ENDING : December 2013
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This Information From The Records Of Town of Pagosa Springs, CO:	Prepared By: April Hessman Phone: 970-264-4154
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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)	83,281
a. Motor Fuel (from Item I.A.5.)		2. Maintenance:	419,247
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)	355,243	c. Other: Signage	
4. Miscellaneous local receipts (from page 2)	76,444	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)	502,528
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)	70,841	2. Notes:	
D. Receipts from Federal Government (from page 2)		a. Interest	
E. Total receipts (A.7 + B + C + D)	502,528	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)	502,258

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 2013

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	355,243	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	76,444
6. Total (1. through 5.)		h. Other: Sales Tax	
c. Total (a. + b.)	355,243	i. Total (a. through h.)	76,444
	(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	70,841	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.)	
4. Total (1. + 2. + 3.f)	70,841	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			
b. Engineering Costs			
c. Construction:			
(1). New Facilities			
(2). Capacity Improvements			
(3). System Preservation			
(4). System Enhancement & Operation		83,281	
(5). Total Construction (1) + (2) + (3) + (4)			
d. Total Capital Outlay (Lines 1.a. + 1.b. + 1.c.5)		83,281	
			(Carry forward to page 1)

Notes and Comments: