

TOWN OF PAGOSA SPRINGS, COLORADO
REPORT OF EXAMINATION AND FINANCIAL STATEMENTS
YEAR ENDED DECEMBER 31, 2014

TOWN OF PAGOSA SPRINGS, COLORADO
YEAR ENDED DECEMBER 31, 2014
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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 funds and each major fund of the Town, as of and for the year ended December 31, 2014, and the related notes to the financial statements, which collectively comprise the Town's basic financial statement as listed in the table of contents.

Management's Responsibility for the Financial Statements

Management is responsible for the preparation and fair presentation of these financial statements in accordance with accounting principles generally accepted in the United States of America; this includes the design, implementation, and maintenance of internal control relevant to the preparation and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error.

Auditor's Responsibility

My responsibility is to express an opinion on these financial statements based on my audit. I conducted my audit in accordance 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 involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers the internal control relevant to the entity's preparation and fair presentation of the financial statement in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing the opinion on the effectiveness of the entity's internal control. Accordingly, I express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

I believe the audit evidence I have obtained is sufficient and appropriate to provide a basis for my audit opinion.

Opinion

In my opinion, the financial statements referred to above present fairly, in all material aspects, the financial position of the District as of December 31, 2014, and the changes in financial position and cash flows for the year then ended in conformity with accounting principles generally accepted in the United States of America.

Disclaimer of Opinion on Required Supplementary Information

Accounting principles generally accepted in the United States of America require that management's discussion and analysis beginning on page 3 and the budgetary comparison information on page 34 and 37 be presented to supplement the basic financial statements. Such information, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board, who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. I have applied certain limited procedures to the requires supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to my inquiries, the basic financial statements, and other knowledge I obtain during my audit of the basic financial statements. I do not express an opinion or provide any assurance on the information because the limited procedures do not provide me with sufficient evidence to express an opinion or provide assurance.

Other Information

My audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the Town of Pagosa Springs basic financial statements. The accompanying other supplementary information, as listed in the table of contents, is presented for purposes of additional analysis and is not a required part of the basic financial statements.

The accompanying other supplementary information, as listed in the table of contents, is the responsibility of management and was derived from and relates directly to the underlying accounting and other records used to prepare the basic financial statements. Such information has been subjected to the auditing procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the basic financial statements or to the basic financial statements themselves, and other additional procedure in accordance with auditing standards generally accepted in the United States of America. In my opinion, the accompanying other supplementary information, a listed in the table of contents, is fairly stated in all material respects in relation to the basic financial statements as a whole.



Michael C. Branch
Certified Public Accountant
March 16, 2015

TOWN OF PAGOSA SPRINGS, COLORADO

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, 2014. Please read it in conjunction with the Town's financial statements, which follows this section.

INTRODUCTION

In 2014 the economy on a national, state, and local level showed noticeable improvement. The primary barometers that we use for economic activity for the Town of Pagosa Springs (Town) are sales tax, lodgers tax, the unemployment rate, and the number of building permits. From a national standpoint, the stock market is at near record levels, the unemployment rate has been consistently dropping with jobs being added, and the price of gasoline, as of the time of this writing, are at lows not seen in many years. Furthermore, the state of Colorado is experiencing an expanding economy and is one of the top states in the country for economic activity. In fact, the revenue growth has been such that it will trigger the Tax Payers' Bill of Rights (TABOR) provisions that specify tax rebates.

However, in order to be fiscally prudent should the local economy experience a downturn, the Town Council has 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 has been in place for several years and was continued by the Town Council on January 6, 2015 in the form of Town Resolution 2015-1.

GENERAL FUND

Revenues

The General Fund is one two main fund of the Town along with the Capital Improvement Fund. Both receive the majority of their funds from sales tax. The revenues for the General Fund performed very well as the economy has been improving locally. Sales tax increased by about 6% in 2014 for an increase of approximately \$105,000 compared to the 2014 budget. Based upon this performance, for the 2015 Budget, sales tax was projected to increase by 6%. A significant factor in considering by what factor to increase sales tax was the opening of the Wal-Mart store in April 2015. There is a certain amount of uncertainty about what the sustained impact will be as a result of Wal-Mart and that won't truly be known until the end of calendar year 2015.

The other notable revenue categories that showed materials differences compared to budget are Building Permits/Fees and Police Fees. Building Permits/Fees were about triple of what the budgeted amount was and represents an indicator of the renewed activity for the Town. It possible the budget was a little conservative, but given the unpredictability of the construction market, it certainly is not unreasonable to be careful in projections. Last, the Police Fees were about double than budget and where this is increased economic activity, there is usually increased police activity and should not be unexpected.

Expenditures

Expenditures for the General Fund in 2014 are expected to be approximately \$2.5 million and are encompassed in 5 categories. The categories are: General Government, Public Safety, Recreation, Community Support Services, and Other. The majority of expenses is in the General Government category and includes Town Manager, Town Clerk and Council, Community Center, Courts, and Building and Planning. Of the \$2.5 million in expenditures, in 2014 there were expenditure of about \$2.47 million so for all purposes, we met the expenditure budget.

The General Fund does have a significant Cash Reserve that is presently unrestricted. The projected cash reserve at year end for 2014 is about \$1.6 million. During the 2015 budget preparation discussion, staff was directed to research appropriate reserve levels. Once that is determined and adopted by Town Council, there may be additional funding to be used for once time expenses or debt retirement.

CAPITAL IMPROVEMENT FUND

Revenues

The Capital Improvement Fund is the other large Fund operated by the Town. As mentioned above, it also is primarily funded by sales tax. However, the Capital Fund may also receive significant funding from other sources, primarily the state or federal government in the form of grants. This can vary widely from year to year depending on the availability of grant funding from the different sources. This can affect the ending revenues and expenditures in a dramatic way, as was the case for 2014.

For 2015, the overall revenue for the Capital Fund from all sources is expected to be \$3.89 million, with the vast majority coming from the 2 sources indicated above: sales tax and grant funding. At year end, total revenue received was \$2.66 million or 68% of projected revenue and the shortfall is the result of not getting grant fund allocation or reimbursement.

Expenditures

In the Capital Fund, expenditures for 2014 were expected to total \$4.99 million and covers a multitude of projects. The Capital Fund pays for capital projects for almost all departments of the Town and includes general government, police, parks, courts, community center, streets, recreation, sidewalks, trails, geothermal, and the visitor center. In addition, the Capital Fund also helps to pay the operational costs for those departments that service the capital expenses. The departments include Street, Parks, Planning, and Facilities. Last, the Capital Fund pays for the debt the Town has incurred for major capital projects such as the Lewis Street Road Construction Project, the Community Center, and the purchase of the Visitor Center.

For 2014, the expenditures totaled \$3.49 million or about 70% of the expenditure budget. The reason for decrease in expenditures is not expending funds on planned grant projects. Some the notable projects not expended in 2014 are:

- Repaving of Piedra Street west towards the elementary school
- Street maintenance projects consistent with the 5 Year Maintenance Plan
- East and West portions of the Town To Lakes Trail
- Sidewalk projects

Most of these projects have been re-programmed for 2015.

LODGERS TAX FUND

The Lodgers Tax Fund is completely funded by a tax collected from visitors staying at lodging establishments. The Town has been fortunate to see significant growth in lodgers tax over the past few years. Lodgers tax grew by 11% from 2013 to 2014 and it is projected to grow by another 8 percent from 2014 to 2015.

Revenue

For 2014, the Town's portion of the lodgers tax was approximately \$513,000. Including miscellaneous revenue, the total revenue for the Lodgers Tax Fund was \$490,500. This is an increase of almost \$57,000 compared to budget and is about a 12% increase overall.

Expenditures

The expenditures for the Lodgers Tax Fund are categorized as Personnel, Commodities, and Contractual. Personnel costs include the Tourism Director and staff for the visitors center, which was finally acquired in 2014. The vast majority of the expenses for Commodities are for external marketing, event funding, and visitor center maintenance. The 2014 expenditure budget was \$556,500 and the actual was \$519,000 or 93% of the total.

SANITATION FUND

The Sanitation Fund is a separate entity and the Town Council also sits as Board Members for the Pagosa Springs Sanitation General Improvement District (GID). The GID is in the midst of a major sewer pipeline project whereby the existing sewer lagoons are going to be decommissioned as soon as the pipeline connecting to the Pagosa Area Water and Sanitation District is complete. A good majority of the pipeline work was completed in 2014, with pump station work occurring during the winter months when pipeline work was halted. It is expected that pipeline project will be completed in 2015.

Revenue

The 2014 revenue budget was expected to be \$6.6 million but only \$1.3 million was realized. This is a result of not accessing loans for the pipeline project. From an operational standpoint the monthly collection were slightly at over 100% of budget, but the Plant Investment Fees were at over 700% of budget. This is a result of new activity within the GID Boundaries.

Expenditures

The expenditure budget was set at \$5.56 million, but total expenditures for 2014 were just \$407,000 or 7% of budget. This too is the result of the pipeline project expenditures not occurring in the time frame as expected.

OTHER FUNDS

The other funds within the Town are the Conservation Trust, Geothermal, and Impact Fee / Trust. These funds, while important are, not as large as other Funds. All three performed as expected in 2014.

AUDIT OF TOWN REVENUES AND EXPENDITURES

The audit of the Town's 2014 expenditures IS 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 \$1,548,347. Cash increased \$467,563.

The Town's total governmental revenues were \$4,989,281. 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 \$77,937 below budget amounts. Actual revenues were more than budgeted amounts by \$98,635.

CAPITAL ASSETS

At the end of 2014, the Town had invested in a broad range of capital assets, including land, equipment and buildings.

Town's Capital Assets	
Land	\$ 1,137,926
Infrastructure	12,636,877
Buildings	2,934,034
Equipment	1,573,624
Geothermal	1,182,419
Sanitation	3,457,144
Work in progress	<u>5,048,004</u>
Totals	\$ 27,970,028
Less Accumulated Depreciation	<u>(5,169,676)</u>
Net Capital Assets	\$ 22,800,352

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.

Basic Financial Statements

TOWN OF PAGOSA SPRINGS, COLORADO
 Statements of Net Position
 December 31, 2014

	Primary Government		
	Governmental Activities	Business Type Activities	Total
ASSETS			
Current assets			
Cash	\$ 3,450,295	\$ 2,041,669	\$ 5,491,964
Restricted Cash		934,437	934,437
Cash held by County	1,034	516	1,550
Receivables	679,311	60,904	740,215
Tax receivables	75,846	86,975	162,821
Total Current Assets	4,206,486	3,124,501	7,330,987
Capital Assets			
Fixed assets net of depreciation			
	15,294,555	7,505,797	22,800,352
Total Assets	\$ 19,501,041	\$ 10,630,298	\$ 30,131,339
LIABILITIES			
Current liabilities			
Accounts payable and accrued wages	\$ 370,281	\$ 229,187	\$ 599,468
Current portion of long term debt	160,565	46,689	207,254
Impact fees	597,864		597,864
Total Current Liabilities	1,128,710	275,876	1,404,586
Long term liabilities			
Debt payable (net of current)	1,161,612	2,048,813	3,210,425
Payable to PAWS		2,722,582	2,722,582
Total long term liabilities	1,161,612	4,771,395	5,933,007
Total Liabilities	\$ 2,290,322	\$ 5,047,271	\$ 7,337,593
DEFERRED INFLOWS OF CAPITAL ASSETS			
Property taxes	75,846	86,975	162,821
Net Position			
Net investment in capital assets	\$ 13,972,378	\$ 2,687,713	\$ 16,660,091
Restricted for emergencies	190,313		190,313
Restricted for construction and other	294,861	2,067,193	2,362,054
Unassigned	2,677,321	741,146	3,418,467
Total Net Position	\$ 17,134,873	\$ 5,496,052	\$ 22,630,925

See accompanying notes

TOWN OF PAGOSA SPRINGS, COLORADO
Statement of Activities
For the Year Ended December 31, 2014

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	\$ (2,395,604)	\$ 158,722	\$	\$ (2,236,882)	\$	\$ (2,236,882)
Public safety	(895,467)	37,881		(857,586)		(857,586)
Public works	<u>(1,109,002)</u>			<u>(1,109,002)</u>		<u>(1,109,002)</u>
Total	<u>(4,400,073)</u>	<u>196,603</u>		<u>(4,203,470)</u>		<u>(4,203,470)</u>
Business-type Activities:						
Enterprise funds	<u>(475,539)</u>	<u>696,996</u>			<u>221,457</u>	<u>221,457</u>
Total	<u>(475,539)</u>	<u>696,996</u>			<u>221,457</u>	<u>221,457</u>
Governmental and Business Type Activities Total	<u>\$ (4,875,612)</u>	<u>\$ 893,599</u>	<u>\$</u>	<u>\$ (4,203,470)</u>	<u>\$ 221,457</u>	<u>\$ (3,982,013)</u>
General revenues:						
Taxes				4,383,005	93,115	4,476,120
Intergovernmental				515,805	522,138	1,037,943
Interest income				560	2,346	2,906
Plant investment					66,333	66,333
Interest expense				<u>(49,833)</u>	<u>(5,810)</u>	<u>(55,643)</u>
Total General Revenues				<u>4,849,537</u>	<u>678,122</u>	<u>5,527,659</u>
Changes in net position				646,067	902,579	1,548,646
Net position, January 1, 2014				<u>16,488,806</u>	<u>4,593,473</u>	<u>21,082,279</u>
Net position, December 31, 2014				<u>\$ 17,134,873</u>	<u>\$ 5,496,052</u>	<u>\$ 22,630,925</u>

See accompanying notes

TOWN OF PAGOSA SPRINGS, COLORADO
 Balance Sheet
 Governmental Funds
 December 31, 2014

	Governmental Fund Types				Total Governmental Funds
	General	Capital Improvement	Tourism Fund	Conservation Trust	
ASSETS					
Cash	\$ 2,172,275	\$ 1,022,895	\$ 190,355	\$ 64,770	\$ 3,450,295
Cash held by County	1,034				1,034
Receivables	328,827	309,389	41,095		679,311
Property Taxes	75,846				75,846
Total Assets	<u>\$ 2,577,982</u>	<u>\$ 1,332,284</u>	<u>\$ 231,450</u>	<u>\$ 64,770</u>	<u>\$ 4,206,486</u>
LIABILITIES					
Accrued expenses	\$ 145,149	\$ 63,762	\$ 1,359		\$ 210,270
Account payables	141,624	18,387			160,011
Impact fees	597,864				597,864
Total Liabilities	884,637	82,149	1,359		968,145
DEFERRED INFLOWS OF RESOURCES					
Property Taxes	75,846				75,846
FUND EQUITY					
Fund Balances:					
Restricted for emergencies	190,313				190,313
Restricted for parks				64,770	64,770
Restricted for tourism			230,091		230,091
Unassigned	1,427,186	1,250,135			2,677,321
Total Fund Equity	<u>1,617,499</u>	<u>1,250,135</u>	<u>230,091</u>	<u>64,770</u>	<u>3,162,495</u>
TOTAL LIABILITIES, DEFERRED INFLOWS OF RESOURCES AND FUND EQUITY	<u>\$ 2,577,982</u>	<u>\$ 1,332,284</u>	<u>\$ 231,450</u>	<u>\$ 64,770</u>	<u>\$ 4,206,486</u>

See accompanying notes

TOWN OF PAGOSA SPRINGS, COLORADO
 Reconciliation of the Governmental Funds Balance Sheet
 To the Statement of Net Position
 For the Year Ended December 31, 2014

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

Total fund balance - governmental funds	\$ 3,162,495
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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	\$ 18,134,988	
Accumulated depreciation is	<u>(2,840,433)</u>	
		15,294,555

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		(1,313,976)
Capital Lease		<u>(8,201)</u>

Total net position - governmental activities	\$ <u>17,134,873</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, 2014

	<u>General</u>	<u>Capital Improvement</u>	<u>Tourism Fund</u>	<u>Conservation Trust</u>	<u>Total Governmental Funds</u>
REVENUE					
Taxes	\$ 2,012,982	\$ 1,857,059	\$ 512,964	\$	\$ 4,383,005
Licenses & permits	93,688				93,688
Intergovernmental and grants	120,484	323,726	25,000	46,595	515,805
Charges for services	67,047	16,425	7,593		91,065
Fines and forfeits	37,881				37,881
Interest	560				560
Other	13,357	52,500	1,800		67,657
Total Revenue	2,345,999	2,249,710	547,357	46,595	5,189,661
EXPENDITURES					
General government	975,638				975,638
Public safety and Courts	895,467				895,467
Public works		1,109,002			1,109,002
Tourism			519,398		519,398
Parks and recreation	329,682	300,124		58,330	688,136
Public support	71,203				71,203
Capital outlay and debt service		2,084,913			2,084,913
Total Expenditures	2,271,990	3,494,039	519,398	58,330	6,343,757
EXCESS (DEFICIENCY) OF					
REVENUE OVER EXPENDITURES	74,009	(1,244,329)	27,959	(11,735)	(1,154,096)
Transfers in and out	(200,000)	200,000			
Loan proceeds		210,000			210,000
FUND BALANCE BEGINNING OF YEAR	1,743,490	2,084,464	202,132	76,505	4,106,591
FUND BALANCE END OF YEAR	\$ 1,617,499	\$ 1,250,135	\$ 230,091	\$ 64,770	\$ 3,162,495

See accompanying notes

TOWN OF PAGOSA SPRINGS, COLORADO
Notes to Financial Statements
Year Ended December 31, 2014

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

Net change in fund balances – total government funds \$ (944,096)

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. 1,657,103

Depreciation (234,917)

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. 167,977

Change in net position of governmental activities \$ 646,067

TOWN OF PAGOSA SPRINGS, COLORADO
Proprietary Funds
Statement of Net Position
December 31, 2014

	Business-type Activities Enterprise Funds		
	Sanitation Fund	Geothermal Fund	Total
ASSETS			
Current Assets			
Cash	\$ 1,945,563	\$ 96,106	\$ 2,041,669
Restricted cash	934,437		934,437
Accounts receivable (net)	61,693	(789)	60,904
Taxes receivable	86,975		86,975
Cash with County	516		516
Total Current Assets	3,029,184	95,317	3,124,501
Property, plant & equipment (net)	7,095,287	410,510	7,505,797
Total Assets	\$ 10,124,471	\$ 505,827	\$ 10,630,298
LIABILITIES			
Current Liabilities			
Accrued wages and PTO	\$ 7,669	\$	\$ 7,669
Bonds payable, current	46,689		46,689
Accounts payable	133,886		133,886
Retainage payable	87,632		87,632
Total Current Liabilities	275,876		275,876
Payable to PAWS	\$ 2,722,582	\$	\$ 2,722,582
Note payable long term	2,048,813		2,048,813
Total long term liabilities	4,771,395		4,771,395
Total Liabilities	\$ 9,818,666	\$	\$ 9,818,666
DEFERRED INFLOWS OF RESOURCES			
property taxes	\$ 86,975		\$ 86,975
Net Position			
Net investment in capital assets	\$ 2,277,203	\$ 410,510	\$ 2,687,713
Restricted for construction	2,067,193		2,067,193
Unassigned	645,829	95,317	741,146
Total Net Position	\$ 4,990,225	\$ 505,827	\$ 5,496,052

See accompanying notes
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TOWN OF PAGOSA SPRINGS, COLORADO
Proprietary Funds
Statement of Revenue, Expenses and
Changes in Fund Net Position
Year Ended December 31, 2014

	Business-type Activities		
	Sanitation Fund	Geothermal Fund	Totals
Operating Revenue			
Service fees	\$ 660,909	\$ 36,087	\$ 696,996
Total Revenue	660,909	36,087	696,996
Operating Expenses			
Administrative	34,555	2,092	36,647
Operating system	263,043	38,680	301,723
Professional fees	30,806	9,875	40,681
Depreciation	72,840	23,648	96,488
Total Expenses	401,244	74,295	475,539
Income (loss) from Operations	259,665	(38,208)	221,457
Non-operating Revenue (Expense)			
Grants	522,138		522,138
Property tax and SOT	96,115		96,115
Interest expense	(5,810)		(5,810)
Interest income	2,346		2,346
Plant investments	66,333		66,333
Total Non-operating Revenue	681,122		681,122
Changes in Net Position	940,787	(38,208)	902,579
Net Position Beginning of Year	4,049,438	544,035	4,593,473
Net Position End of Year	\$ 4,990,225	\$ 505,827	\$ 5,496,052

See accompanying notes

TOWN OF PAGOSA SPRINGS, COLORADO
Proprietary Funds
Statement of Cash Flows
For the Year Ended December 31, 2014

	Business-type Activities Enterprise Funds		
	Sanitation	Geothermal	Totals
CASH FLOWS FROM OPERATING ACTIVITIES:			
Cash Received from Customers	\$ 663,190	\$ 38,345	\$ 701,535
Cash paid for expenses	<u>(324,153)</u>	<u>(50,647)</u>	<u>(374,800)</u>
 NET CASH PROVIDED (USED) BY OPERATING ACTIVITIES	 339,037	 (12,302)	 326,735
 CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES:			
Proceeds from tap fees	66,333		66,333
Principal payments on long-term debt	(44,657)		(44,657)
Interest payments on long-term debt	(5,810)		(5,810)
Interest income	2,346		2,346
Proceeds from loans	4,473,006		4,473,006
Investment in system	(4,579,923)		(4,579,923)
Increase in construction related payables	<u>221,518</u>		<u>221,518</u>
 CASH FLOWS FROM (USED) IN CAPITAL AND RELATED FINANCING ACTIVITIES	 132,813		 132,813
 CASH FLOWS FROM NON CAPITAL ACTIVITIES:			
Taxes received	96,115		96,115
Grants	<u>522,138</u>		<u>522,138</u>
 CASH PROVIDED BY NON-CAPITAL FINANCING ACTIVITIES	 618,253		 618,253
 NET INCREASE (DECREASE) IN CASH	 1,090,103	 (12,302)	 1,077,801
 CASH BEGINNING OF YEAR	 <u>1,789,897</u>	 <u>108,408</u>	 <u>1,898,305</u>
 CASH END OF YEAR	 <u>\$ 2,880,000</u>	 <u>\$ 96,106</u>	 <u>\$ 2,976,106</u>

See accompanying notes

TOWN OF PAGOSA SPRINGS, COLORADO
Proprietary Funds
Combining Statement of Cash Flows
For The Year Ended December 31, 2014

(continued)

RECONCILIATION OF OPERATING INCOME TO NET CASH
PROVIDED BY OPERATING ACTIVITIES

	<u>Sanitation</u>	<u>Geothermal</u>	<u>Total</u>
Operating Income (Loss)	\$ 259,665	\$ (38,208)	\$ 221,457
Adjustments to Reconcile Operating Income to Net Cash Provided by Operating Activities:			
Depreciation	72,840	23,648	96,488
Decrease in cash held by County	(28)		(28)
Increase in Accounts Payable	4,251		4,251
(Increase) Decrease in Accounts Receivable	2,309	2,258	4,567
NET CASH PROVIDED (USED) BY OPERATING ACTIVITIES	\$ 339,037	\$ (12,302)	\$ 326,735

See accompanying notes

TOWN OF PAGOSA SPRINGS, COLORADO
Notes to Financial Statements
Year Ended December 31, 2014

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, 2014

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 Towns'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, 2014

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 Governmental and Proprietary Funds are adopted on a basis consistent with generally accepted accounting principles (GAAP).
- (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, 2014

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, 2014, 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.

Fund balance classifications

Net Assets/Fund Balances

The difference between assets and liabilities is "Net Position" on the government-wide and proprietary fund financial statements and "Fund balance" on the governmental fund financial statements. Net assets are divided into invested in capital assets (net of related debt), restricted and unrestricted. Net assets are reported as restricted when constraints are placed upon them by external parties or are imposed by constitutional provisions or enabling legislation.

The Town has implemented GASB Statement No. 54, "Fund Balance Reporting and Governmental Fund Type Definitions." In the fund financial statements the following classifications describe the relative strength of spending constraints.

TOWN OF PAGOSA SPRINGS, COLORADO
Notes to Financial Statements
December 31, 2014

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

Non-Spendable Fund Balance- The portion of fund balance that cannot be spent because it is either not in spendable form (such as inventory and prepaid amounts) or is legally or contractually required to be maintained in tact.

Restricted Fund Balance-The portion of fund balance constrained to being used for a specific purpose by external parties (such as grantors or bondholders), constitutional provisions or enabling legislation.

Committed Fund Balance- The portion of fund balance constrained for specific purposes according to the limitations imposed by the District's highest level of decision making authority, the Town Board, or other individuals authorized to assign funds to be used for specific purpose. This classification is necessary to indicate that those funds are, at a minimum, intended to be used for the purpose of that particular fund.

Assigned Fund Balance-The portion of the fund balance set aside for planned or intended purposes but is neither restricted nor committed. The intended use may be expressed by the Town Board or other individuals authorized to assign funds to be used for a specific purpose. Assigned fund balances in special revenue funds will also include any remaining fund balance that is not restricted or committed. This classification is necessary to indicate that those funds are, at a minimum, intended to be used for the purpose of that particular fund.

Unassigned Fund Balance- The residual portion of the fund balance that does not meet any of the above criteria. The District will only report a positive unassigned fund balance in the General Fund.

When both restricted and unrestricted fund balance are available for use, it is the Town's policy to use restricted amounts first. Unrestricted fund balance will be used in the following order: committed, assigned and unassigned.

Subsequent events

Management has evaluated subsequent events through May 16, 2015, the date which the financial statements were available to be issued. No events were identified that required additional disclosure.

TOWN OF PAGOSA SPRINGS, COLORADO
Notes to Financial Statements
December 31, 2014

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.

NOTE (3) CAPITAL ASSETS AND DEPRECIATION

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 2014, depreciation was \$234,917 for the General Fund, \$72,840 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

TOWN OF PAGOSA SPRINGS, COLORADO
Notes to Financial Statements
December 31, 2014

	Balance January 1 2014	Additions	Deletions	Balance December 31 2014
Non-depreciable Assets:				
Land	1,121,550			1,121,550
Total non-depreciable assets	1,121,550			1,121,550
Depreciable Assets:				
Buildings	2,632,034	302,000		2,934,034
Equipment and vehicles	1,362,661	79,866		1,442,527
Infrastructure	11,361,640	1,275,237		12,636,877
Total Depreciable Assets	15,356,335	1,657,103		17,013,438
Less Accumulated Depreciation	(2,605,516)	(234,917)		(2,840,433)
Total Net Assets	13,872,369	1,422,186		15,294,555

Business-Type Activities

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

	Balance January 1, 2014	Additions	Deletions	Balance December 31, 2014
Sewer Fund:				
Land and right of way	\$ 16,376	\$	\$	\$ 16,376
Sewer system	3,457,144			3,457,144
Equipment and vehicles	128,843			128,843
Work in progress	468,081	4,579,923		5,048,004
Accumulated Depreciation	(1,482,240)	(72,840)		(1,555,080)
Net fixed assets	\$ 2,588,204	\$ 4,507,083	\$	\$ 7,095,287

TOWN OF PAGOSA SPRINGS, COLORADO
Notes to Financial Statements
December 31, 2014

	Balance January 1 2014	Additions	Deletions	Balance December 31 2014
Geothermal Fund:				
Geothermal system	\$ 1,182,419	\$	\$	\$ 1,182,419
Equipment	2,254			2,254
Accumulated Depreciation	(750,515)	(23,648)		(774,163)
Total Geothermal Fund-net	<u>\$ 434,158</u>	<u>\$ (23,648)</u>	<u>\$</u>	<u>\$ 410,510</u>

NOTE (4) CASH AND DEPOSITS

At December 31, 2014, the District had the following cash and investments:

Deposits \$5,491,964

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, 2014, 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, 2014, the District had bank deposits of \$ 5,897,308 collateralized with securities held by the financial institutions' agents but not in the District's name.

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

TOWN OF PAGOSA SPRINGS, COLORADO
Notes to Financial Statements
December 31, 2014

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, 2014 all police are eligible and participating in the plan.

The Town's total pension contributions for 2014 were \$ _____ for a payroll of \$ _____

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.

NOTE (6) RECEIVABLES

Receivables at December 31, 2014 consist of the following:

	<u>Governmental</u> <u>Fund</u>	<u>Enterprise</u> <u>Fund</u>
Accounts Receivable	\$ 3,300	\$ 60,904
Property tax	75,846	86,975
Sales tax	607,986	
Cigarette tax	1,332	
Source Gas	4,202	
Cable TV	7,000	
HUFT	5,396	
Telephone	9,000	
Lodgers	<u>41,095</u>	
Total Receivables	\$755,157	<u>\$147,879</u>

TOWN OF PAGOSA SPRINGS, COLORADO
Notes to Financial Statements
December 31, 2014

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.

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.

TOWN OF PAGOSA SPRINGS, COLORADO
Notes to Financial Statements
December 31, 2014

Summary of financial information:	
Balance sheet date	December 31, 2014
Total assets	\$ 79,179,012
Total liabilities	<u>(37,237,831)</u>
Total equity	\$ 41,941,181
Revenue	\$ 22,583,515
Expenses	<u>(18,053,913)</u>
Excess of revenue over expenses	<u>\$ 4,529,602</u>

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.

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.

TOWN OF PAGOSA SPRINGS, COLORADO
Notes to Financial Statements
December 31, 2014

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.

Summary of financial information:
Balance sheet date June 30, 2014

Total assets	\$ 1,371,681,986
Total liabilities	<u>(925,360)</u>
Total availability for benefits	\$ 1,370,756,626
Revenues and contributions	\$ 238,565,098
Expenses and benefits	<u>(89,430,044)</u>
Excess of revenue over expenses	<u>\$ 149,135,044</u>

NOTE (10) BUDGET APPROPRIATION

There was a supplemental budget in 2014.

TOWN OF PAGOSA SPRINGS, COLORADO
Notes to Financial Statements
December 31, 2014

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.

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.

On January 1, 2015, the Coalition conveyed their interest in the Community Center to the Town.

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.

<u>Year</u>	<u>Principal</u>	<u>Interest</u>	<u>Remaining Balance</u>
2015	8,201	101	
	\$ 8,201	\$ 101	

Year Ended December 31, 2014

<u>Long Term Debt</u>	<u>Beginning Of Year</u>	<u>Additions</u>	<u>Deletions</u>	<u>End of Year</u>
Capital Lease	\$ 23,515	\$	\$ 15,314	\$ 8,201

TOWN OF PAGOSA SPRINGS, COLORADO
Notes to Financial Statements
December 31, 2014

On July 7, 2014, the Town entered into a full payout long-term lease with the Pagosa Springs Chamber of Commerce to purchase the Chamber building to use as a Visitor's Center. The price was \$300,000. The Town paid \$90,000 down and the Chamber financed \$210,000 payable over 15 years in semi annual payments of \$9,073 including interest at 3.5%.

Year	Principal	Interest	Remaining Balance
2015	\$ 10,891	\$ 7,256	\$ 199,109
2016	11,276	6,871	187,833
2017	11,674	6,473	176,159
2018	12,087	6,060	164,072
2019	12,512	5,635	151,560
2020-2024	69,512	21,223	82,048
2025-2029	82,048	8,687	
	\$ 210,000	\$ 62,205	

Net Change in Debt

Beginning Of Year	Additions	Deletions	End of Year
\$	\$ 210,000	\$	\$ 210,000

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
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	162,983	16,650	343,788
2020-2021	343,788	15,477	
	\$ 1,103,976	\$ 153,455	

Net Change in Debt

Beginning Of Year	Additions	Deletions	End of Year
\$ 1,466,639	\$	\$ 362,663	\$ 1,103,976

TOWN OF PAGOSA SPRINGS, COLORADO
Notes to Financial Statements
December 31, 2014

NOTE (15) BONDS PAYABLE

Bonds payable at December 31, 2014 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, 2014. 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>
2015	\$ 50,467	\$ 46,689	\$ 3,778	\$ 48,813
2016	<u>50,467</u>	<u>48,813</u>	<u>1,654</u>	
	\$ 100,934	\$ 95,502	\$ 5,432	

Net Change in Debt

<u>Beginning of Year</u>	<u>Additions</u>	<u>Deletions</u>	<u>End of Year</u>
\$ 140,159	\$	\$ 44,657	\$ 95,502

NOTE (16) BUDGET LAW

The Town did not over spend their budget in 2014.

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.

Required Supplementary Information

TOWN OF PAGOSA SPRINGS, COLORADO
Statement of Revenue, Expenditures and Changes in
Fund Balance Budget and Actual
General Fund
Year Ended December 31, 2014
General Fund

	<u>Budgeted Amounts</u>		<u>Actual</u>	Variance
	<u>Original</u>	<u>Final</u>		Favorable (Unfavorable)
REVENUE				
Taxes	\$ 1,907,976	\$ 1,907,976	\$ 2,012,982	\$ 105,006
Licenses & permits	42,500	42,500	93,688	51,188
Intergovernmental	159,988	159,988	120,484	(39,504)
Charges for services	76,900	76,900	67,047	(9,853)
Fines and forfeits	49,000	49,000	37,881	(11,119)
Interest	1,000	1,000	560	(440)
Other	10,000	10,000	13,357	3,357
	<u>2,247,364</u>	<u>2,247,364</u>	<u>2,345,999</u>	<u>98,635</u>
EXPENDITURES				
General government	936,299	936,299	975,638	(39,339)
Public safety and Courts	977,878	977,878	895,467	82,411
Parks and recreation	339,987	339,987	329,682	10,305
Public support	95,763	95,763	71,203	24,560
	<u>2,349,927</u>	<u>2,349,927</u>	<u>2,271,990</u>	<u>77,937</u>
EXCESS (DEFICIENCY) OF REVENUE OVER EXPENDITURES				
	<u>(102,563)</u>	<u>(102,563)</u>	<u>74,009</u>	<u>176,572</u>
TRANSFERS IN (OUT)	(200,000)	(200,000)	(200,000)	
FUND BALANCE BEGINNING OF YEAR			<u>1,743,490</u>	
FUND BALANCE END OF YEAR OF YEAR			<u>\$ 1,617,499</u>	

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, 2014

	Tourism Fund			
	Budgeted Amounts		Actual	Variance Favorable (Unfavorable)
	Original	Final		
REVENUE				
Taxes	\$ 462,000	\$ 462,000	\$ 512,964	\$ 50,964
Other	28,500	28,500	34,393	5,893
Total Revenue	490,500	490,500	547,357	56,857
EXPENDITURES				
Tourism	556,500	556,500	519,398	37,102
Total Expenditures	556,500	556,500	519,398	37,102
EXCESS (DEFICIENCY) OF REVENUE OVER EXPENDITURES				
	(66,000)	(66,000)	27,959	93,959
FUND BALANCE BEGINNING OF YEAR				
			202,132	
FUND BALANCE END OF YEAR				
			\$ 230,091	

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, 2014

	Capital Improvement Fund			
	Budgeted Amounts		Actual	Variance Favorable (Unfavorable)
	Original	Final		
REVENUE				
Taxes	\$ 1,759,596	\$ 1,759,596	\$ 1,857,059	\$ 97,463
Intergovernmental and grants	1,922,957	1,922,957	323,726	(1,599,231)
Other	14,000	14,000	68,925	54,925
	3,696,553	3,696,553	2,249,710	(1,446,843)
EXPENDITURES				
Public works	1,789,606	1,789,606	1,109,002	680,604
Parks and recreation	300,840	300,840	300,124	713
Capital outlay and debt service	2,900,109	2,900,109	2,084,913	815,196
Total Expenditures	4,990,555	4,990,555	3,494,039	1,496,513
EXCESS (DEFICIENCY) OF				
REVENUE OVER EXPENDITURE	(1,274,002)	(1,294,002)	(1,244,329)	49,673
LOAN PROCEEDS				
TRANSFERS	200,000	200,000	200,000	210,000
NET REVENUE	(1,094,002)	(1,094,002)	(834,329)	259,673
FUND BALANCE				
BEGINNING OF YEAR			2,084,464	
FUND BALANCE				
END OF YEAR			\$ 1,250,135	

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, 2014

	<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>46,595</u>	\$ <u>(405)</u>
Total Revenue	47,000	47,000	46,595	(405)
EXPENDITURES				
Parks	<u>70,000</u>	<u>70,000</u>	<u>58,330</u>	<u>11,670</u>
Total Expenditures	70,000	70,000	58,330	11,670
EXCESS (DEFICIENCY) OF REVENUE OVER EXPENDITURES	<u>(23,000)</u>	<u>(23,000)</u>	<u>(11,735)</u>	<u>11,265</u>
FUND BALANCE BEGINNING OF YEAR	<u>76,505</u>	<u>76,505</u>	<u>76,505</u>	<u> </u>
FUND BALANCE END OF YEAR OF YEAR	\$ <u><u>53,505</u></u>	\$ <u><u>53,505</u></u>	\$ <u><u>64,770</u></u>	\$ <u><u>11,265</u></u>

See accompanying notes

Other Supplementary Information

TOWN OF PAGOSA SPRINGS, COLORADO
Statement of Revenue, Expenses and
Changes in Net Position Budget and Actual (NON-GAAP)
Sanitation Fund
Year Ended December 31, 2014

	SANITATION			
	Budgeted Amounts		Actual	Variance- Favorable (Unfavorable)
	Original	Final		
REVENUE				
Service fees	\$ 647,580	\$ 647,580	\$ 660,909	\$ 13,329
Total Revenue	647,580	647,580	660,909	13,329
EXPENSES				
Administrative	26,215	26,215	17,055	9,160
Operations	372,717	372,717	286,349	86,368
Contractual	31,500	31,500	25,000	6,500
Total Expenses	430,432	430,432	328,404	102,028
EXCESS (DEFICIENCY) OF OPERATING REVENUE OVER EXPENSES	217,148	217,148	332,505	115,357
NON-OPERATING REVENUES (EXPENSES)				
Grants and loans	3,250,000	3,250,000	4,995,144	(840,671)
Property tax	91,975	91,975	96,115	4,140
Debt service	(50,471)	(50,471)	(50,467)	4
Plant investment fees	9,000	9,000	66,333	57,333
Interest and Other Income	4,400	4,400	2,346	(2,054)
Capital outlay	(2,500,000)	(2,500,000)	(4,579,923)	505,892
Total Non-Operating Revenue	804,904	804,904	529,548	(275,356)
Net Income	\$ 1,022,052	\$ 1,022,052	862,053	\$ (159,999)
ADJUSTMENTS				
Adjust to GAAP			(72,840)	
Depreciation adjustment			44,657	
Principal payments			4,579,923	
Capital outlay			(4,473,006)	
Loan proceeds				
NET POSITION - BEGINNING OF YEAR			4,049,438	
NET POSITION END OF YEAR			\$ 4,990,255	

See accompanying notes

TOWN OF PAGOSA SPRINGS, COLORADO
Statement of Revenue, Expenses and
Changes in Net Position Budget and Actual (NON-GAAP)
Geothermal Fund
Year Ended December 31, 2014

	GEOHERMAL			
	Budgeted Amounts		Actual	Variance- Favorable (Unfavorable)
	Original	Final		
REVENUE				
Service fees and leases	\$ 41,200	\$ 41,200	\$ 36,087	\$ (5,113)
Total Revenue	41,200	41,200	36,087	(5,113)
EXPENSES				
Administrative	3,350	3,350	2,092	1,258
Operating	49,000	49,000	38,680	10,320
Professional	13,000	13,000	9,875	3,125
Total Expenses	65,350	65,350	50,647	14,703
EXCESS (DEFICIENCY) OF OPERATING REVENUE OVER EXPENSES	(24,150)	(24,150)	(14,560)	9,590
ADJUSTMENTS				
Adjust to GAAP				
Depreciation adjustment			(23,648)	
NET POSITION - BEGINNING OF YEAR			541,035	
NET POSITION END OF YEAR			\$ 502,827	

See accompanying notes