



TOWN OF PAGOSA SPRINGS, COLORADO

FINANCIAL STATEMENTS

FOR THE FISCAL YEAR ENDED DECEMBER 31, 2017

WITH REPORT OF

CERTIFIED PUBLIC ACCOUNTANTS

TOWN OF PAGOSA SPRINGS, COLORADO

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HINTONBURDICK
CPAs & ADVISORS

Independent Auditors' Report

The Honorable Mayor and Council
Town of Pagosa Springs, Colorado

Report on the Financial Statements

We have audited the accompanying financial statements of the governmental activities, the business-type activities, each major fund, and the aggregate remaining fund information of the Town of Pagosa Springs, Colorado, as of and for the year ended December 31, 2017, and the related notes to the financial statements, which collectively comprise the Town's basic financial statements 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

Our responsibility is to express opinions on these financial statements based on our audit. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from 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 internal control relevant to the entity's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. Accordingly, we 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.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinions.

Opinions

In our 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, each major fund, and the aggregate remaining fund information of the Town of Pagosa Springs, Colorado, as of December 31, 2017, and the respective changes in financial position and, where applicable, cash flows thereof for the year then ended in accordance with accounting principles generally accepted in the United States of America

Other Matters

Required Supplementary Information

Accounting principles generally accepted in the United States of America require that the management's discussion and analysis, pension related schedules, and budgetary comparison information 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. We have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements, and other knowledge we obtained during our audit of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

Other Information

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the Town of Pagosa Springs, Colorado's basic financial statements. The budgetary comparison schedules and the Local Highway Finance Report are presented for additional analysis as required by the State of Colorado and are not a required part of the basic financial statements.

The budgetary comparison schedules and the Local Highway Finance Report are the responsibility of management and were derived from and relate directly to the underlying accounting and other records used to prepare the financial statements. Such information has been subjected to the auditing procedures applied in the audit of the financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the financial statements or to the financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the budgetary comparison schedules and the Local Highway Finance Report are fairly stated in all material respects in relation to the financial statements as a whole.

Other Reporting Required by Government Auditing Standards

In accordance with *Government Auditing Standards*, we have also issued our report dated June 14, 2018, on our consideration of the Town of Pagosa Springs, Colorado's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the Town of Pagosa Springs, Colorado's internal control over financial reporting and compliance



HintonBurdick, PLLC
St. George, Utah
June 14, 2018

TOWN OF PAGOSA SPRINGS, COLORADO
MANAGEMENT'S DISCUSSION AND ANALYSIS
For the Year Ended December 31, 2017

As management of the Town of Pagosa Springs (Town), we offer readers of the Town's financial statements this narrative overview and analysis of the financial activities of the Town for the year ended December 31, 2017. Please read it in conjunction with the accompanying basic financial statements.

FINANCIAL HIGHLIGHTS

- Total assets plus deferred outflows of resources exceeded total liabilities plus deferred inflows of resources (net position) by \$35.1 million at the close of the fiscal year.
- Total governmental and business-type net position increased by a combined total of \$2.2 million.
- Governmental-type prior period adjustments decreased total net position by \$58,328.
- The total cost of all Town programs for 2017 was \$6,587,437.
- The General fund unassigned fund balance at the end of 2017 was \$2,005,495 which is 67% of total General fund expenditures.

USING THIS ANNUAL REPORT

This annual report consists of a series of financial statements. The three components of the financial statements are: (1) Government-wide financial statements which include the Statement of Net Position and the Statement of Activities. These statements provide information about the activities of the Town as a whole. (2) Fund financial statements tell how these services were financed in the short term as well as what remains for future spending. Fund financial statements also report the Town's operations in more detail than the government-wide statements by providing information about the Town's most significant funds. (3) Notes to the financial statements.

Reporting the Town as a Whole

The Statement of Net Position and the Statement of Activities (Government-wide)

A frequently asked question regarding the Town's financial health is whether the year's activities contributed positively to the overall financial well-being. The Statement of Net Position and the Statement of Activities report information about the Town as a whole and about its activities in a way that helps answer this question. These statements include all assets and liabilities using the accrual basis of accounting, which is similar to the accounting used by most private-sector companies. All of the current year's revenues and expenses are taken into account regardless of when cash is received or paid.

These two statements report the Town's net position and changes therein. Net position, the difference between assets plus deferred outflows and liabilities plus deferred inflows, are one way to measure the Town's financial health, or financial position. Over time, increases or decreases in net position is an indicator of whether the financial health is improving or deteriorating. However, it is important to consider other non-financial factors such as changes in the condition of the Town's roads to accurately assess the overall health of the Town.

The Statement of Net Position and the Statement of Activities, present information about the following:

- Government activities – All of the Town's basic services are considered to be governmental activities, including general government, public safety, public works/streets, parks and recreation, community support, and interest on long-term debt. Sales taxes, property taxes, franchise taxes, intergovernmental revenues and charges for services finance most of these activities.
- Proprietary activities/Business type activities – The Town charges a fee to customers to cover most of the cost of the services provided.

Reporting the Town's Most Significant Funds

Fund Financial Statements

The fund financial statements provide detailed information about the most significant funds—not the Town as a whole. Some funds are required to be established by State law and by bond covenants. However, management establishes many other funds which aid in the management of money for particular purposes or meet legal responsibilities associated with the usage of certain taxes, grants, and other money. The Town's two major kinds of funds, governmental and proprietary, use different accounting approaches as explained below.

- Governmental funds – Most of the Town's basic services are reported in governmental funds. Governmental funds focus on how resources flow in and out with the balances remaining at year-end that are available for spending. These funds are reported using an accounting method called the modified accrual accounting method, which measures cash and all other financial assets that can readily be converted to cash. The governmental fund statements provide a detailed short-term view of the Town's general government operations and the basic services it provides. Government fund information shows whether there are more or fewer financial resources that can be spent in the near future to finance the Town's programs. We describe the relationship (or differences) between governmental activities (reported in the Statement of Net Position and the Statement of Activities) and governmental funds in a reconciliation included with the Basic Financial Statements and in footnote 2.
- Proprietary funds – When the Town charges customers for the services it provides, these services are generally reported in proprietary funds. Proprietary funds are reported in the same way that all activities are reported in the Statement of Net Position and the Statement of Activities.

GOVERNMENT-WIDE FINANCIAL ANALYSIS

Net position may serve over time as a useful indicator of the Town's financial position. The Town's combined assets plus deferred outflows exceeded liabilities plus deferred inflows by \$35.1 million as of December 31, 2017 as shown in the following condensed statement of net position. Of this amount, \$5,720,234 is unrestricted and available to meet the Town's ongoing financial obligations.

By far the largest portion of net position is the net investment in capital assets of \$28,175,199 (80.25% of total net position). This amount reflects the investment in all capital assets (e.g. infrastructure, land, buildings, and equipment) less any related debt used to acquire those assets that are still outstanding. These capital assets are used to provide services to citizens; consequently, these assets are not available for future spending. Although the investment in capital assets is reported net of debt, it should be noted that the resources needed to repay this debt must be provided from other sources since capital assets themselves cannot be used to liquidate these liabilities.

The Town has chosen to account for its sanitation and geothermal operations in enterprise funds which are shown as Business Activities.

The following table summarizes the Town's governmental and business-type net position as of December 31, 2017 and 2016:

TOWN OF PAGOSA SPRINGS, COLORADO Statement of Net Position

	Governmental activities		Business-type activities		Combined Total	
	12/31/2017	12/31/2016	12/31/2017	12/31/2016	12/31/2017	12/31/2016
Current and other assets	\$ 6,343,403	\$ 7,458,438	\$ 1,677,679	\$ 1,998,739	\$ 8,021,082	\$ 9,457,177
Capital assets	24,533,792	21,444,991	11,072,028	10,608,824	35,605,820	32,053,815
Total assets	<u>30,877,195</u>	<u>28,903,429</u>	<u>12,749,707</u>	<u>12,607,563</u>	<u>43,626,902</u>	<u>41,510,992</u>
Deferred outflows of resources	134,003	118,272	-	-	134,003	118,272
Long-term liabilities outstanding	3,104,934	3,249,119	4,508,225	4,712,889	7,613,159	7,962,008
Other liabilities	667,429	278,537	246,813	315,858	914,242	594,395
Total liabilities	<u>3,772,363</u>	<u>3,527,656</u>	<u>4,755,038</u>	<u>5,028,747</u>	<u>8,527,401</u>	<u>8,556,403</u>
Deferred inflows of resources	86,807	84,564	35,360	33,580	122,167	118,144
Net position:						
Net investment in capital assets	21,603,971	18,349,859	6,571,228	5,900,639	28,175,199	24,250,498
Restricted	1,215,904	1,286,351	-	10,000	1,215,904	1,296,351
Unrestricted	4,332,153	5,773,271	1,388,081	1,634,597	5,720,234	7,407,868
Total net position	<u>\$ 27,152,028</u>	<u>\$ 25,409,481</u>	<u>\$ 7,959,309</u>	<u>\$ 7,545,236</u>	<u>\$ 35,111,337</u>	<u>\$ 32,954,717</u>

An additional portion of net position, \$1,215,904, represents resources that are subject to external restrictions on how they may be used. The remaining balance of unrestricted net position, \$5,720,234 (16.29% of total net position), may be used to meet the government's ongoing obligations to citizens and creditors.

Governmental Activities

The cost of all Governmental activities this year was \$5,756,488 as shown in the Changes in Net Position statement below. \$640,568 of this cost was paid for by those who directly benefited from the programs. \$855,857 was subsidized by grants or contributions received from other governmental organizations for both capital and operating activities. Overall governmental program revenues, including intergovernmental aid and fees for services were \$1,496,425. General taxes, other revenues, gain on sale of assets and investment earnings totaled \$6,060,938.

The Town's programs include: General Government, Public Safety, Public Works/Streets, Parks & Recreation, and Community Support. Each program's revenues and expenses are presented below.

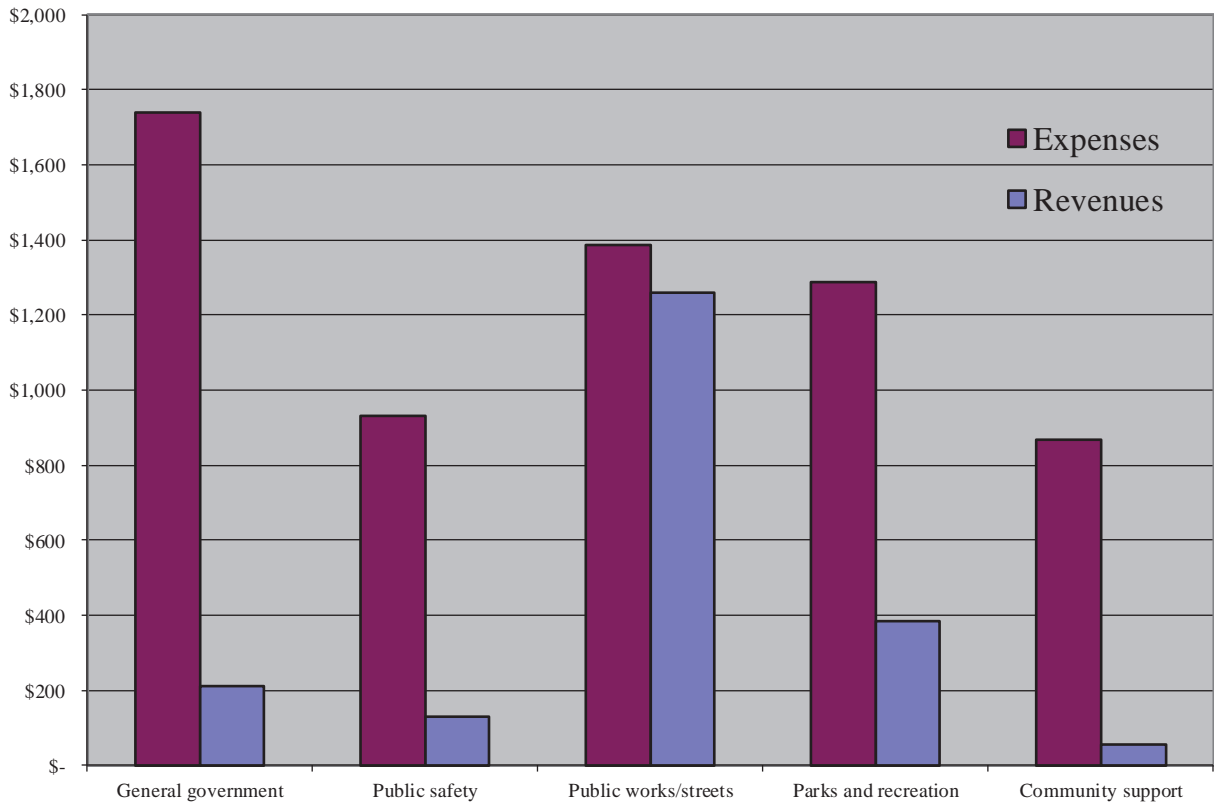
TOWN OF PAGOSA SPRINGS, COLORADO Changes in Net Position

	Governmental activities		Business-type activities		Combined Total	
	12/31/2017	12/31/2016	12/31/2017	12/31/2016	12/31/2017	12/31/2016
Revenues:						
Program revenues:						
Charges for services	\$ 640,568	\$ 561,993	\$ 729,376	\$ 717,920	\$ 1,369,944	\$ 1,279,913
Operating grants and contributions	300,126	427,428	-	-	300,126	427,428
Capital grants and contributions	1,102,564	464,427	475,204	213,767	1,577,768	678,194
General revenues:						
Taxes	5,948,944	5,597,840	37,823	62,359	5,986,767	5,660,199
Investment earnings	55,520	40,044	2,619	2,594	58,139	42,638
Gain on sale of assets	-	18,859	-	-	-	18,859
Other revenue/(expense)	56,474	35,340	-	-	56,474	35,340
Total revenues	<u>8,104,196</u>	<u>7,145,931</u>	<u>1,245,022</u>	<u>996,640</u>	<u>9,349,218</u>	<u>8,142,571</u>
Expenses:						
General government	1,740,109	1,818,282	-	-	1,740,109	1,818,282
Public safety	929,921	917,369	-	-	929,921	917,369
Public works/streets	1,386,337	1,452,957	-	-	1,386,337	1,452,957
Parks and recreation	1,287,596	766,157	-	-	1,287,596	766,157
Community support	866,832	1,138,292	-	-	866,832	1,138,292
Interest on long-term debt	92,526	43,070	-	-	92,526	43,070
Sanitation	-	-	776,641	659,724	776,641	659,724
Geothermal	-	-	54,308	66,711	54,308	66,711
Total expenses	<u>6,303,321</u>	<u>6,136,127</u>	<u>830,949</u>	<u>726,435</u>	<u>7,134,270</u>	<u>6,862,562</u>
Increase (decrease) in net position	1,800,875	1,009,804	414,073	270,205	2,214,948	1,280,009
Net position, beginning	25,409,481	24,399,677	7,545,236	7,154,080	32,954,717	31,553,757
Prior period adjustment	(58,328)	-	-	120,951	(58,328)	120,951
Net position, ending	<u>\$ 27,152,028</u>	<u>\$ 25,409,481</u>	<u>\$ 7,959,309</u>	<u>\$ 7,545,236</u>	<u>\$ 35,111,337</u>	<u>\$ 32,954,717</u>

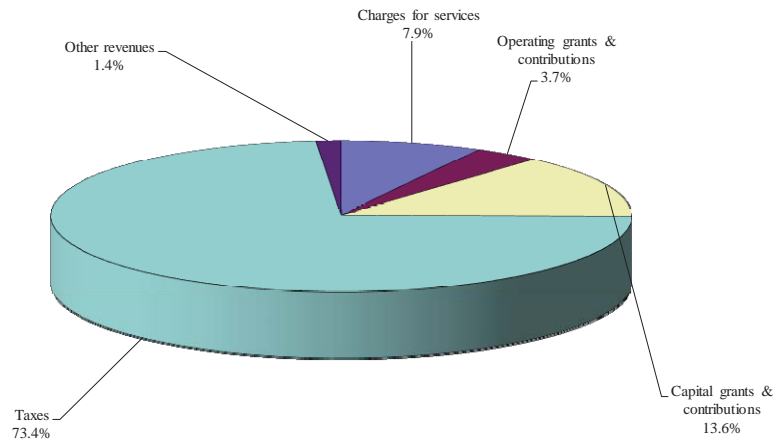
Total resources available during the year to finance governmental operations were \$32,966,844 consisting of net position at January 1, 2017 of \$25,409,481, program revenues of \$1,496,425, and General Revenues of \$6,060,938. Total Governmental Activities expenses during the year were \$5,756,488 and there was a prior period adjustment of \$(58,328); thus Governmental Net Position increased by \$1,742,547 to \$27,152,028.

The following graphs compare program expenses to program revenues and provides a breakdown of revenues by source for all governmental activities:

Expenses and Program Revenues - Governmental Activities
(in Thousands)



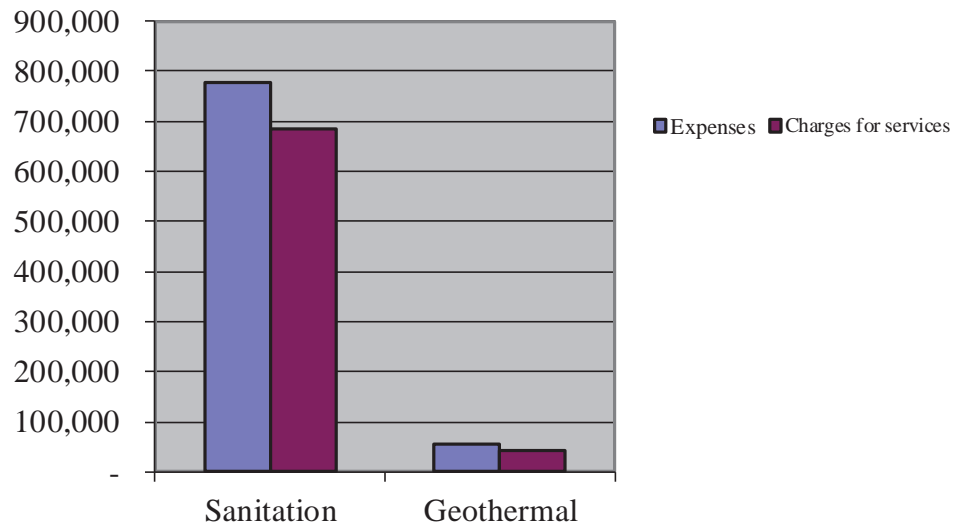
Revenue By Source - Governmental Activities



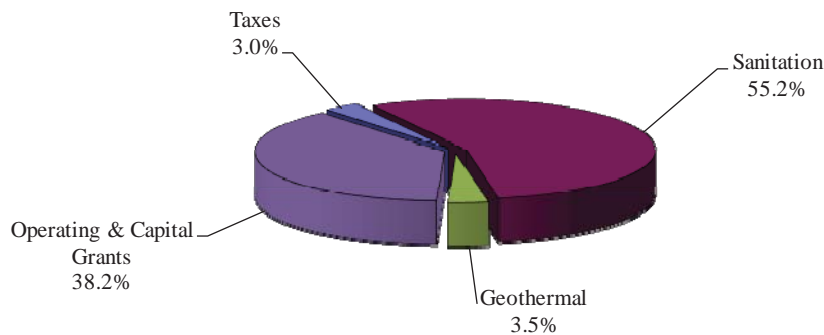
Business Type Activities

Net position of the Business Type activities at December 31, 2017, as reflected in the Statement of Net Position was \$7.9 million. The cost of providing all Proprietary (Business Type) activities this year was \$830,949. As shown in the statement of Changes in Net Position, the amounts paid by users of the system were \$729,376 and there was \$475,204 subsidized by capital grants and contributions. Investment earnings and tax revenues were \$40,442. The Net Position increased by \$414,073. The following graphs compare the total business-type activity expenses by service to the charges for those services and the graph at the bottom of the page provides a breakdown of the total revenues for business-type activities.

Expenses and Charges for Services - Business-type Activities



Revenue By Source - Business-type Activities



Financial Analysis of the Government's Funds

As noted earlier, the Town uses fund accounting to ensure and demonstrate compliance with finance-related legal requirements.

Governmental funds: The focus of the Town's governmental funds is to provide information on near-term inflows, outflows, and balances of spendable resources. Such information is useful in assessing the Town's financing requirements. In particular, unreserved fund balance may serve as a useful measure of a government's net resources available for spending at the end of the fiscal year.

As of the end of the current fiscal year, the Town's governmental funds reported combined ending fund balances of \$5,609,515, a decrease of \$1,503,895 in comparison with the prior year. Approximately 36%, \$2,005,495 constitutes unassigned fund balance, which is available for spending at the government's discretion.

The Town has three major governmental funds, the general fund, the capital improvement fund, and the tourism fund.

The General fund is the primary operating fund for the Town. At December 31, 2017, unassigned fund balance in the General fund was \$2,005,495. As a measure of the General fund's liquidity, it may be useful to compare both unassigned fund balance and total fund balance to total fund expenditures. Total unassigned fund balance represents 67% of the total General fund expenditures. The fund balance of the Town's General fund increased by \$141,899 for the year ended December 31, 2017. As compared to the prior year, the General fund revenues increased due to increased tax, and charges for services. General fund expenses decreased due to decreased community support expenses.

The Capital Improvement fund budgeted for and completed several projects during the year. The expected reduction in fund balance was (\$3,128,728). The actual change in fund balance was \$(1,636,175).

The Tourism fund is used to account for tax on lodging establishments and the related community support expenditures. Actual revenues were more than budgeted revenues and actual expenditures were less than budgeted expenditures which resulted in an increase in fund balance of \$11,180.

Proprietary funds: The Town's proprietary funds provide the same type of information found in the government-wide financial statements, but in more detail. Net position and changes in net position for the year-ended December 31, 2017 for the Town's enterprise funds (Sanitation and Geothermal) are as follows:

	Sanitation	Geothermal	Total
Unrestricted net position	\$ 1,272,205	\$ 115,876	\$ 1,388,081
Total net position	7,536,004	423,305	7,959,309
Change in net position	425,188	(11,115)	414,073

Budgetary Highlights

General fund revenues of \$3,407,714 were higher than budgeted revenues of \$3,150,448 by \$257,266. The most significant factor contributing to this excess amount is related to sales tax revenues which exceeded budget by \$123,759. Budgeted expenditures exceeded actual expenditures by \$162,598.

CAPITAL ASSET AND DEBT ADMINISTRATION

Capital Assets

The capital assets of the Town are those assets that are used in performance of Town functions including infrastructure assets. Capital Assets include equipment, buildings, land, system improvements, park facilities and roads. At the end of 2017, net capital assets of the government activities totaled \$24.5 million and the net capital assets of the business-type activities were \$11.1 million. The most significant governmental capital additions were the Hwy 160 overlook deck, the multi-use trail, and the 10th street resurfacing. The most significant business-type capital addition was the Pump Station #1. Depreciation on capital assets for both government activities and business-type activities is recognized in the Government-Wide financial statements. (See note 5 to the financial statements.)

Debt

At year-end, the Town had \$3,080,562 in governmental type debt, and \$4,508,225 in proprietary debt. During the current fiscal year, the Town's total debt decreased by \$373,219. (See note 6 to the financial statements for detailed descriptions.)

NEXT YEAR'S BUDGET AND ECONOMIC FACTORS

In considering the Town Budget for fiscal year 2018, the Town Council and management were cautious as to the growth of revenues and expenditures due to a slow economy.

CONTACTING THE TOWN'S FINANCIAL MANAGEMENT

This financial report is designed to provide our citizens, taxpayers, customers, investors and creditors with a general overview of the Town's finances and to show the Town's accountability for the money it receives. If you have questions about this report or need additional financial information, contact the Town Clerk at: PO Box 1859, Pagosa Springs, CO 81147.

BASIC FINANCIAL STATEMENTS

TOWN OF PAGOSA SPRINGS, COLORADO
Statement of Net Position
December 31, 2017

	Governmental Activities	Business-type Activities	Total
Assets			
Cash and cash equivalents	\$ 4,967,319	\$ 1,491,115	\$ 6,458,434
Receivables (net of allowance)	1,362,384	186,564	1,548,948
Prepays	13,700	-	13,700
Capital assets (net of accumulated depreciation):			
Land	2,336,550	16,376	2,352,926
Construction in progress	3,118,228	771,285	3,889,513
Buildings and improvements	8,274,288	307,429	8,581,717
Machinery and equipment	588,216	-	588,216
Infrastructure and systems	10,216,510	9,976,938	20,193,448
Total assets	<u>30,877,195</u>	<u>12,749,707</u>	<u>43,626,902</u>
Deferred Outflows of Resources			
Deferred outflows related to pensions	134,003	-	134,003
Total deferred outflows of resources	<u>134,003</u>	<u>-</u>	<u>134,003</u>
Liabilities			
Accounts payable and other current liabilities	589,136	238,807	827,943
Interest payable	19,108	8,006	27,114
Customer deposits	34,185	-	34,185
Unearned revenue	25,000	-	25,000
Noncurrent liabilities:			
Due within one year	294,904	218,239	513,143
Due in more than one year	2,785,658	4,289,986	7,075,644
Net pension liability	24,372	-	24,372
Total liabilities	<u>3,772,363</u>	<u>4,755,038</u>	<u>8,527,401</u>
Deferred Inflows of Resources			
Deferred inflows related to pensions	1,240	-	1,240
Deferred revenue - property taxes	85,567	35,360	120,927
Total deferred inflows of resources	<u>86,807</u>	<u>35,360</u>	<u>122,167</u>
Net Position			
Net investment in capital assets	21,603,971	6,571,228	28,175,199
Restricted for:			
Emergency reserve	301,378	-	301,378
Capital projects	245,963	-	245,963
Parks and recreation	43,375	-	43,375
Tourism	370,764	-	370,764
Other purposes	254,424	-	254,424
Unrestricted	4,332,153	1,388,081	5,720,234
Total net position	<u>\$ 27,152,028</u>	<u>\$ 7,959,309</u>	<u>\$ 35,111,337</u>

The accompanying notes are an integral part of the financial statements.

TOWN OF PAGOSA SPRINGS, COLORADO
Statement of Activities
For the Year Ended December 31, 2017

Functions/Programs	Expenses	Program Revenues			Net (Expense) Revenue and Changes in Net Position		
		Charges for Services	Operating Grants and Contributions	Capital Grants and Contributions	Primary Government		Total
					Governmental Activities	Business-type Activities	
Governmental activities:							
General government	\$ 1,740,109	\$ 201,588	\$ -	\$ 10,543	\$ (1,527,978)	\$ -	\$ (1,527,978)
Public safety	929,921	114,605	-	16,138	(799,178)	-	(799,178)
Public works/streets	1,386,337	145,847	120,426	992,234	(127,830)	-	(127,830)
Parks and recreation	1,287,596	165,687	134,583	83,649	(903,677)	-	(903,677)
Community support	866,832	12,841	45,117	-	(808,874)	-	(808,874)
Interest on long-term debt	92,526	-	-	-	(92,526)	-	(92,526)
Total governmental activities	<u>6,303,321</u>	<u>640,568</u>	<u>300,126</u>	<u>1,102,564</u>	<u>(4,260,063)</u>	<u>-</u>	<u>(4,260,063)</u>
Business-type activities:							
Sanitation	776,641	686,183	-	475,204	-	384,746	384,746
Geothermal	54,308	43,193	-	-	-	(11,115)	(11,115)
Total business-type activities	<u>830,949</u>	<u>729,376</u>	<u>-</u>	<u>475,204</u>	<u>-</u>	<u>373,631</u>	<u>373,631</u>
Total primary government	<u>\$ 7,134,270</u>	<u>\$ 1,369,944</u>	<u>\$ 300,126</u>	<u>\$ 1,577,768</u>	<u>(4,260,063)</u>	<u>373,631</u>	<u>(3,886,432)</u>
General Revenues:							
Taxes:							
					83,757	37,823	121,580
					4,953,511	-	4,953,511
					118,358	-	118,358
					28,197	-	28,197
					765,121	-	765,121
					55,520	2,619	58,139
					56,474	-	56,474
					<u>6,060,938</u>	<u>40,442</u>	<u>6,101,380</u>
					1,800,875	414,073	2,214,948
					25,409,481	7,545,236	32,954,717
					(58,328)	-	(58,328)
					<u>\$ 27,152,028</u>	<u>\$ 7,959,309</u>	<u>\$ 35,111,337</u>

The accompanying notes are an integral part of the financial statements.

TOWN OF PAGOSA SPRINGS, COLORADO
Balance Sheet
Governmental Funds
December 31, 2017

Assets	<u>General Fund</u>	<u>Capital Improvement Fund</u>	<u>Tourism Fund</u>	<u>Nonmajor Conservation Trust Fund</u>	<u>Total Governmental Funds</u>
Cash and cash equivalents	\$ 2,646,453	\$ 1,958,513	\$ 318,978	\$ 43,375	\$ 4,967,319
Receivables, net of allowances:	36,921	301,661	50,346	-	388,928
Property tax receivable	85,567	-	-	-	85,567
Due from other governments	422,810	428,206	36,873	-	887,889
Prepays	11,408	2,292	-	-	13,700
Total assets	<u>\$ 3,203,159</u>	<u>\$ 2,690,672</u>	<u>\$ 406,197</u>	<u>\$ 43,375</u>	<u>\$ 6,343,403</u>
Liabilities					
Accounts payable	\$ 72,420	\$ 342,811	\$ 32,504	\$ -	\$ 447,735
Accrued liabilities	59,954	10,158	2,929	-	73,041
Retainage payable	-	68,360	-	-	68,360
Customer deposits	34,185	-	-	-	34,185
Unearned revenue	25,000	-	-	-	25,000
Total liabilities	<u>191,559</u>	<u>421,329</u>	<u>35,433</u>	<u>-</u>	<u>648,321</u>
Deferred inflows of resources					
Deferred revenue - property taxes	85,567	-	-	-	85,567
Total deferred inflows of resources	<u>85,567</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>85,567</u>
Fund balances					
Nonspendable:					
Prepaid items	11,408	2,292	-	-	13,700
Restricted for:					
Emergency reserve	301,378	-	-	-	301,378
Capital outlay	245,963	-	-	-	245,963
Parks and recreation	-	-	-	43,375	43,375
Tourism	-	-	370,764	-	370,764
Other purposes	254,424	-	-	-	254,424
Assigned for:					
Health funds	107,365	-	-	-	107,365
Capital outlay	-	2,267,051	-	-	2,267,051
Unassigned	2,005,495	-	-	-	2,005,495
Total fund balances	<u>2,926,033</u>	<u>2,269,343</u>	<u>370,764</u>	<u>43,375</u>	<u>5,609,515</u>
Total liabilities, deferred inflows of resources, and fund balances	<u>\$ 3,203,159</u>	<u>\$ 2,690,672</u>	<u>\$ 406,197</u>	<u>\$ 43,375</u>	<u>\$ 6,343,403</u>

The accompanying notes are an integral part of the financial statements.

TOWN OF PAGOSA SPRINGS, COLORADO
Reconciliation of the Balance Sheet of Governmental Funds
to the Statement of Net Position
December 31, 2017

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

Total fund balances - governmental funds		\$ 5,609,515
Capital assets used in governmental activities are not financial resources and, therefore, are not reported in the funds.		
Governmental capital assets	\$ 31,478,999	
Accumulated depreciation	<u>(6,945,207)</u>	24,533,792
Long-term liabilities are not due and payable in the current period and therefore are not reported in the funds.		
Capital leases payable	(275,598)	
Lease revenue bond	(2,654,223)	
Net pension liability	(24,372)	
Interest payable	(19,108)	
Compensated absences	<u>(150,741)</u>	(3,124,042)
Deferred outflows and inflows of resources related to pensions are applicable to future reporting periods and, therefore, are not reported in the funds.		
Deferred outflows	134,003	
Deferred inflows	<u>(1,240)</u>	<u>132,763</u>
Net position of governmental activities		<u><u>\$27,152,028</u></u>

The accompanying notes are an integral part of the financial statements.

TOWN OF PAGOSA SPRINGS, COLORADO
Statement of Revenues, Expenditures, and Changes in
Fund Balances - Governmental Funds
For the Year Ended December 31, 2017

	General Fund	Capital Improvement Fund	Tourism Fund	Nonmajor Conservation Trust Fund	Total Governmental Funds
Revenues					
Taxes	\$ 2,632,647	\$ 2,551,177	\$ 613,089	\$ -	\$ 5,796,913
Licenses and permits	147,880	-	-	-	147,880
Intergovernmental	48,501	552,143	152,031	72,877	825,552
Fines and forfeitures	81,190	-	-	-	81,190
Charges for services	258,138	43,341	1,187	-	302,666
Interest revenue	55,520	-	-	-	55,520
Contributions and donations	88,231	-	-	-	88,231
Other revenues	95,607	30,418	45,117	-	171,142
Total revenues	<u>3,407,714</u>	<u>3,177,079</u>	<u>811,424</u>	<u>72,877</u>	<u>7,469,094</u>
Expenditures					
Current:					
General government	1,502,458	181,752	-	-	1,684,210
Public safety	862,864	17,329	-	-	880,193
Public works/streets	-	767,232	-	-	767,232
Parks and recreation	482,614	392,674	-	-	875,288
Community support	167,365	-	693,244	-	860,609
Capital outlay	-	3,603,992	-	92,676	3,696,668
Debt service:					
Principal retirement	-	147,437	-	-	147,437
Interest on long-term debt	-	91,293	-	-	91,293
Total expenditures	<u>3,015,301</u>	<u>5,201,709</u>	<u>693,244</u>	<u>92,676</u>	<u>9,002,930</u>
Excess of revenues over (under) expenditures	392,413	(2,024,630)	118,180	(19,799)	(1,533,836)
Other financing sources (uses):					
Transfers in	-	388,455	-	-	388,455
Transfers out	(280,455)	-	(107,000)	(1,000)	(388,455)
Impact fees	88,269	-	-	-	88,269
Total other financing sources (uses)	<u>(192,186)</u>	<u>388,455</u>	<u>(107,000)</u>	<u>(1,000)</u>	<u>88,269</u>
Net change in fund balances	200,227	(1,636,175)	11,180	(20,799)	(1,445,567)
Fund balance, beginning of year	2,784,134	3,905,518	359,584	64,174	7,113,410
Prior period adjustment	(58,328)	-	-	-	(58,328)
Fund balance, end of year	<u>\$ 2,926,033</u>	<u>\$ 2,269,343</u>	<u>\$ 370,764</u>	<u>\$ 43,375</u>	<u>\$ 5,609,515</u>

The accompanying notes are an integral part of the financial statements

TOWN OF PAGOSA SPRINGS, COLORADO
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, 2017

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

Net change in fund balances - total governmental funds \$ (1,445,567)

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

Capital outlay	\$ 3,444,428	
Depreciation expense	<u>(902,460)</u>	2,541,968

Donations of capital assets increase net position in the statement of activities, but do not appear in the governmental funds because they are not financial resources. 546,833

Pension contributions are reported as expenditures in the governmental funds when made. However, they are reported as deferred outflows of resources in the statement of net position because the net pension liability is measured a year before the Town's report date. Pension expense, which is the change in the net pension liability adjusted for changes in deferred outflows and inflows of resources related to pensions, is reported in the statement of activities.

Pension contribution	(27,285)	
Pension expense	<u>17,603</u>	(9,682)

Repayment of long term debt principal is an expenditure in the governmental funds, but the repayment reduces long-term liabilities in the statement of net position. 147,438

Accrued interest for long-term debt is not reported as an expenditure for the current period while it is recorded in the statement of activities. (1,234)

Compensated absences expenses reported in the statement of activities do not require the use of current financial resources and therefore are not reported as expenditures in governmental funds. 21,119

Change in net position of governmental activities	<u><u>\$ 1,800,875</u></u>
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The accompanying notes are an integral part of the financial statements.

TOWN OF PAGOSA SPRINGS, COLORADO
Statement of Net Position
Proprietary Funds
December 31, 2017

	Sanitation Fund	Nonmajor Geothermal Fund	Combined Total
Assets			
Current assets:			
Cash	\$ 1,380,630	\$ 110,485	\$ 1,491,115
Receivables (net of allowance)	145,813	5,391	151,204
Property tax receivable	35,360	-	35,360
Total current assets	<u>1,561,803</u>	<u>115,876</u>	<u>1,677,679</u>
Noncurrent assets:			
Land	16,376	-	16,376
Construction in progress	771,285	-	771,285
Buildings	-	1,182,419	1,182,419
Improvements and system	11,650,133	-	11,650,133
Machinery and equipment	101,417	-	101,417
Accumulated depreciation	(1,774,612)	(874,990)	(2,649,602)
Total noncurrent assets	<u>10,764,599</u>	<u>307,429</u>	<u>11,072,028</u>
Total assets	<u>\$ 12,326,402</u>	<u>\$ 423,305</u>	<u>\$ 12,749,707</u>
Liabilities			
Current liabilities:			
Accounts payable	\$ 38,443	\$ -	\$ 38,443
Accrued liabilities	1,006	-	1,006
Retainage payable	199,358	-	199,358
Interest payable	8,006	-	8,006
Loans payable - current	210,814	-	210,814
Compensated absences - current	7,425	-	7,425
Total current liabilities	<u>465,052</u>	<u>-</u>	<u>465,052</u>
Noncurrent liabilities:			
Loans payable (net of current portion)	4,289,986	-	4,289,986
Total long-term debt	<u>4,289,986</u>	<u>-</u>	<u>4,289,986</u>
Total liabilities	<u>4,755,038</u>	<u>-</u>	<u>4,755,038</u>
Deferred inflows of resources			
Deferred revenue - property taxes	35,360	-	35,360
Total deferred inflows of resources	<u>35,360</u>	<u>-</u>	<u>35,360</u>
Net position			
Net investment in capital assets	6,263,799	307,429	6,571,228
Unrestricted	1,272,205	115,876	1,388,081
Total net position	<u>\$ 7,536,004</u>	<u>\$ 423,305</u>	<u>\$ 7,959,309</u>

The accompanying notes are an integral part of the financial statements.

TOWN OF PAGOSA SPRINGS, COLORADO
Statement Revenues, Expenses, and Changes in Fund Net Position
Proprietary Funds
For the Year Ended December 31, 2017

	Sanitation Fund	Nonmajor Geothermal Fund	Combined Total
Operating revenues			
Charges for services	\$ 673,278	\$ 43,193	\$ 716,471
Other revenues	12,905	-	12,905
Total operating revenues	<u>686,183</u>	<u>43,193</u>	<u>729,376</u>
Operating expenses			
Salaries and wages	77,452	-	77,452
Operating system	355,266	21,406	376,672
Administrative	28,554	4,023	32,577
Professional fees	75,029	5,231	80,260
Depreciation	233,860	23,648	257,508
Total operating expenses	<u>770,161</u>	<u>54,308</u>	<u>824,469</u>
Operating income	<u>(83,978)</u>	<u>(11,115)</u>	<u>(95,093)</u>
Non-operating revenues (expenses)			
Interest income	2,619	-	2,619
Interest expense and fiscal charges	(6,480)	-	(6,480)
Property and specific ownership tax	37,823	-	37,823
Grant revenue	434,104	-	434,104
Connection and tap fees	41,100	-	41,100
Capital outlay	-	-	-
Total non-operating revenues (expenses)	<u>509,166</u>	<u>-</u>	<u>509,166</u>
Change in net position	425,188	(11,115)	414,073
Total net position, beginning of year	<u>7,110,816</u>	<u>434,420</u>	<u>7,545,236</u>
Total net position, end of year	<u><u>\$ 7,536,004</u></u>	<u><u>\$ 423,305</u></u>	<u><u>\$ 7,959,309</u></u>

The accompanying notes are an integral part of the financial statements.

TOWN OF PAGOSA SPRINGS, COLORADO
Statement of Cash Flows
Proprietary Funds
For the Year Ended December 31, 2017

	Sanitation Fund	Non-Major Geothermal Fund	Combined Total
Cash flows from operating activities:			
Cash received from customers, service fees	\$ 796,072	\$ 43,148	\$ 839,220
Cash paid to suppliers	(463,386)	(30,660)	(494,046)
Cash paid to employees	(74,731)	-	(74,731)
Net cash flows from operating activities	<u>257,955</u>	<u>12,488</u>	<u>270,443</u>
Cash flows from capital and related financing activities:			
Purchase of capital assets	(711,429)	-	(711,429)
Principal paid on long-term debt	(207,385)	-	(207,385)
Interest paid	(80,271)	-	(80,271)
Property and specific ownership tax	37,823	-	37,823
Capital grants	434,104	-	434,104
Connection and tap fees	41,100	-	41,100
Net cash flows from capital and related financing activities	<u>(486,058)</u>	<u>-</u>	<u>(486,058)</u>
Cash flows from investing activities:			
Interest on investments	2,619	-	2,619
Net change in cash and cash equivalents	(225,484)	12,488	(212,996)
Cash and cash equivalents, including restricted cash beginning of year	<u>1,606,114</u>	<u>97,997</u>	<u>1,704,111</u>
Cash and cash equivalents, including restricted cash end of year	<u>\$ 1,380,630</u>	<u>\$ 110,485</u>	<u>\$ 1,491,115</u>
Reconciliation of operating income to net cash provided by operating activities:			
Net operating income	\$ (83,978)	\$ (11,115)	\$ (95,093)
Adjustments to reconcile net income to net cash provided by operating activities:			
Depreciation/amortization	233,860	23,648	257,508
Changes in operating assets and liabilities:			
(Increase)/decrease in receivables	111,669	(45)	111,624
Increase/(decrease) in payables	(4,537)	-	(4,537)
Increase/(decrease) in accrued liabilities	2,721	-	2,721
Increase/(decrease) in deferred revenue	(1,780)	-	(1,780)
Net cash flows from operating activities	<u>\$ 257,955</u>	<u>\$ 12,488</u>	<u>\$ 270,443</u>

The accompanying notes are an integral part of the financial statements.

TOWN OF PAGOSA SPRINGS, COLORADO
Notes to the Financial Statements
December 31, 2017

Note 1. Summary of Significant Accounting Policies

Description of Government-Wide Financial Statements

The government-wide financial statements (i.e., the statement of net position and the statement of activities) report information on all of the nonfiduciary activities of the primary government and its component units. All fiduciary activities are reported only in the fund financial statements. *Governmental activities*, which normally are supported by taxes, intergovernmental revenues, and other nonexchange transactions, are reported separately from *business-type activities*, which rely to a significant extent on fees and charges to external customers for support. Likewise, when applicable, the *primary government* is reported separately from certain legally separate *component units* for which the primary government is financially accountable.

Reporting Entity

The Town of Pagosa Springs is a home-rule municipality with a mayor – Council form of government with six elected Council members. The accompanying financial statements present the government and its component units, entities for which the government is considered to be financially accountable. Blended component units are, in substance, part of the primary government’s operations, even though they are legally separate entities. Thus, blended component units are appropriately presented as funds of the primary government. Each discretely presented component unit is reported in a separate column in the government-wide financial statements to emphasize that it is legally separate from the government. However, there are no blended or discretely presented component units that are applicable in defining the Town’s reporting entity.

Basis of Presentation – Government-Wide Financial Statements

While separate government-wide and fund financial statements are presented, they are interrelated. The governmental activities column incorporates data from governmental funds, while business-type activities incorporate data from the government’s enterprise funds. Separate financial statements are provided for governmental funds and proprietary funds.

As a general rule, the effect of interfund activity has been eliminated from the government-wide financial statements.

Basis of Presentation – Fund Financial Statements

The fund financial statements provide information about the government’s funds. Separate statements for each fund category—governmental and proprietary—are presented. The emphasis of fund financial statements is on major governmental and enterprise funds, each displayed in a separate column. All remaining governmental and enterprise funds are aggregated and reported as nonmajor funds. Major individual governmental and enterprise funds are reported as separate columns in the fund financial statements.

TOWN OF PAGOSA SPRINGS, COLORADO
Notes to the Financial Statements
December 31, 2017

Note 1. Summary of Significant Accounting Policies, Continued

The Town reports the following major governmental funds:

The **General Fund** is the Town's primary operating fund. It accounts for all financial resources of the general government, except for those required to be accounted for in another fund.

The **Capital Improvement Fund** accounts for maintenance, acquisition or construction of major capital facilities (other than those belonging to enterprise funds).

The **Tourism Fund** accounts for the tax collected from lodging establishments to be used for community support services.

The Town reports the following major enterprise funds:

The **Sanitation Fund** accounts for the activities related to the Town's sanitation treatment and distribution operations.

During the course of operations the government has activity between funds for various purposes. Any residual balances outstanding at year end are reported as due from/to other funds and advances to/from other funds. While these balances are reported in fund financial statements, certain eliminations are made in the preparation of the government-wide financial statements. Balances between the funds included in governmental activities (i.e., the governmental funds) are eliminated so that only the net amount is included as internal balances in the governmental activities column. Similarly, balances between the funds included in business-type activities (i.e., the enterprise funds) are eliminated so that only the net amount is included as internal balances in the business-type activities column.

Further, certain activity occurs during the year involving transfers of resources between funds. In fund financial statements these amounts are reported at gross amounts as transfers in/out. While reported in fund financial statements, certain eliminations are made in the preparation of the government-wide financial statements. Transfers between the funds included in governmental activities are eliminated so that only the net amount is included as transfers in the governmental activities column. Similarly, balances between the funds included in business-type activities are eliminated so that only the net amount is included as internal balances in the business-type activities column.

Measurement Focus and Basis of Accounting

The accounting and financial reporting treatment is determined by the applicable measurement focus and basis of accounting. Measurement focus indicates the type of resources being measured such as *current financial resources* or *economic resources*. The basis of accounting indicates the timing of transactions or events for recognition in the financial statements.

The government-wide financial statements are reported using the *economic resources measurement focus* and the *accrual basis of accounting*. 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 the Financial Statements
December 31, 2017

Note 1. Summary of Significant Accounting Policies, Continued

The governmental fund financial statements are reported using the *current financial resources measurement focus* and the *modified accrual basis of accounting*. Revenues are recognized as soon as they are both measurable and available. Revenues are considered to be available when they are collectible within the current period or soon enough thereafter to pay liabilities of the current period. For this purpose, the government considers revenues to be available if they are collected within 60 days of the end of the current fiscal period. Expenditures generally are recorded when a liability is incurred, as under accrual accounting. However, debt service expenditures, as well as expenditures related to compensated absences, and claims and judgments, are recorded only when payment is due. General capital asset acquisitions are reported as expenditures in governmental funds. Issuance of long-term debt and acquisitions under capital leases are reported as other financing sources.

Property taxes, sales taxes, franchise taxes, other taxes, licenses, and interest associated with the current fiscal period are all considered to be susceptible to accrual and so have been recognized as revenues of the current fiscal period. Entitlements are recorded as revenues when all eligibility requirements are met, including any time requirements, and the amount is received during the period or within the availability period for this revenue source (within 60 days of year end). Expenditure-driven grants are recognized as revenue when the qualifying expenditures have been incurred and all other eligibility requirements have been met, and the amount is received during the period or within the availability period for this revenue source (within 60 days of year end). All other revenue items are considered to be measurable and available only when cash is received by the government.

The proprietary funds are reported using the *economic resources measurement focus* and the *accrual basis of accounting*.

Assets, Liabilities, Deferred Outflows/Inflows of Resources, and Net Position/Fund Balance

Deposits and Investments

The Town's cash and cash equivalents are considered to be cash-on-hand, demand deposits and short-term investments with original maturities of three months or less from the date of acquisition for purposes of this note and the statement of cash flows.

Receivables and Payables

All trade accounts receivable in the enterprise funds are shown net of an allowance for uncollectible accounts. Due to the nature of the accounts receivable in governmental type activities, management does not consider an allowance for uncollectible accounts receivable necessary or material. Therefore, no allowance for uncollectible accounts receivable is presented.

TOWN OF PAGOSA SPRINGS, COLORADO
Notes to the Financial Statements
December 31, 2017

Note 1. Summary of Significant Accounting Policies, Continued

Capital Assets

Capital assets, which include; property, plant, equipment, and infrastructure assets (e.g., roads, bridges, sidewalks, and similar items), are reported in the applicable governmental or business-type activity columns in the government-wide financial statements. Capital assets are defined by the Town as assets with an individual cost of more than \$5,000 and an estimated useful life of more than two years. Such assets are recorded at historical cost or estimated historical cost if purchased or constructed. Donated capital assets are recorded at estimated acquisition value at the date of donation. The costs of normal maintenance and repairs that do not add to the value of the asset or materially extend assets lives are not capitalized. Interest incurred during the construction phase of capital assets of business-type activities is included as part of the capitalized value of the assets constructed. Property, plant and equipment is depreciated using the straight-line method over the following estimated useful lives:

Buildings and improvements	15 to 50 years
Utility plant and improvements	50 years
Machinery, equipment and vehicles	5 to 20 years
Infrastructure	20 to 50 years

Deferred Outflows/Inflows of Resources

In addition to assets, the statement of financial position will sometimes report a separate section for deferred outflows of resources. This separate financial statement element, *deferred outflows of resources*, represents a consumption of net position that applies to a future period(s) and so will not be recognized as an outflow of resources (expense/ expenditure) until then. The government has one item that qualifies for reporting in this category. This item is pension related items reported on the government-wide financial statements. See Note 8 for more information.

In addition to liabilities, the statement of financial position will sometimes report a separate section for deferred inflows of resources. This separate financial statement element, *deferred inflows of resources*, represents an acquisition of net position that applies to a future period(s) and so will not be recognized as an inflow of resources (revenue) until that time. The government has two types of items, which qualify for reporting in this category. Accordingly, the item, *deferred revenue – property taxes*, is reported in both the governmental funds balance sheet and the statement of net position. The second item is pension related items reported on the government-wide financial statements. See Note 8 for more information.

Net Position Flow Assumption

Sometimes the government will fund outlays for a particular purpose from both restricted (e.g., restricted bond or grant proceeds) and unrestricted resources. In order to calculate the amounts to report as restricted – net position and unrestricted – net position in the government-wide and proprietary fund financial statements, a flow assumption must be made about the order in which the resources are considered to be applied. It is the government’s policy to consider restricted – net position to have been depleted before unrestricted – net position is applied.

TOWN OF PAGOSA SPRINGS, COLORADO
Notes to the Financial Statements
December 31, 2017

Note 1. Summary of Significant Accounting Policies, Continued

Fund Balance Flow assumptions

Sometimes the government will fund outlays for a particular purpose from both restricted and unrestricted resources (the total of committed, assigned, and unassigned fund balance). In order to calculate the amounts to report as restricted, committed, assigned, and unassigned fund balance in the governmental fund financial statements a flow assumption must be made about the order in which the resources are considered to be applied. It is the government's policy to consider restricted fund balance to have been depleted before using any of the components of unrestricted fund balance. Further, when the components of unrestricted fund balance can be used for the same purpose, committed fund balance is depleted first, followed by assigned fund balance. Unassigned fund balance is applied last.

Fund Balance Policies

Fund balance of governmental funds is reported in various categories based on the nature of any limitations requiring the use of resources for specific purposes. The government itself can establish limitations on the use of resources through either a commitment (committed fund balance) or an assignment (assigned fund balance).

The committed fund balance classification includes amounts that can be used only for the specific purposes determined by a formal action of the government's highest level of decision-making authority. The Town Council is the highest level of decision-making authority for the government that can, by adoption of a resolution prior to the end of the fiscal year, commit fund balance. Once adopted, the limitation imposed by the ordinance remains in place until a similar action is taken (the adoption of another ordinance) to remove or revise the limitation.

Amounts in the assigned fund balance classification are intended to be used by the government for specific purposes but do not meet the criteria to be classified as committed. The Town Manager is authorized to assign amounts to a specific purpose in accordance with the Town's budget policy. The council may also assign fund balance as it does when appropriating fund balance to cover a gap between estimated revenue and appropriations in the subsequent year's appropriated budget. Unlike commitments, assignments generally only exist temporarily. In other words, an additional action does not normally have to be taken for the removal of an assignment. Conversely, as discussed above, an additional action is essential to either remove or revise a commitment.

Revenues and Expenditures/Expenses

Program Revenues

Amounts reported as program revenues include 1) charges to customers or applicants who purchase, use, or directly benefit from goods, services, or privileges provided by a given function or segment and 2) grants and contributions (including special assessments) that are restricted to meeting the operational or capital requirements of a particular function or segment. All taxes, including those dedicated for specific purposes, and other internally dedicated resources are reported as general revenues rather than as program revenues.

TOWN OF PAGOSA SPRINGS, COLORADO
Notes to the Financial Statements
December 31, 2017

Note 1. Summary of Significant Accounting Policies, Continued

Property Taxes

Property tax revenues are recognized as revenues in the year collected or if collected within 60 days thereafter unless they are prepaid. Property taxes levied in the current year and not collected within 60 days of year-end are not deemed available to pay current liabilities and therefore the receivable is recorded as a deferred inflow in the governmental funds. Property taxes for the current year are levied by the County and attach as a lien on property the following January 1. They are payable in full by April 30 or in two equal installments due February 28 and June 15. The County also levies various personal property taxes during the year.

Compensated Absences

For governmental funds, amounts of vested or accumulated vacation and sick leave that are not expected to be liquidated with expendable available financial resources are reported as liabilities in the government-wide statement of net position and as expenses in the government-wide statement of activities. No expenditures are reported for these amounts in the fund financial statements. Vested or accumulated vacation and sick leave in the proprietary fund are recorded as an expense and a liability of that fund as the benefits accrue to the employees and are thus recorded in both the government-wide financial statements and the individual fund financial statements.

Proprietary Funds Operating and Nonoperating Revenues and Expenses

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

Use of Estimates

The preparation of financial statements in conformity with accounting principles generally accepted in the United States of America requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenditures/expenses during the reporting period. Actual results could differ from those estimates.

TOWN OF PAGOSA SPRINGS, COLORADO
Notes to the Financial Statements
December 31, 2017

Note 2. Reconciliation of Government-Wide and Fund Financial Statements

The governmental fund balance sheet includes a reconciliation between total governmental fund balances and net position of governmental activities as reported in the government-wide statement of net position. These differences primarily result from the long-term economic focus of the statement of net position versus the current financial resources focus of the governmental fund balance sheets. The details of these differences are reported in the reconciliation.

The governmental fund statement of revenues, expenditures, and changes in fund balance includes a reconciliation between net changes in fund balances-total governmental funds and changes in net position of governmental activities as reported in the government-wide statement of activities. These differences are the result of converting from the current resources measurement focus and modified accrual basis for governmental fund statements to the economic resources measurement focus and full accrual basis used for government-wide statements. The details of these differences are reported in the reconciliation.

Note 3. Stewardship, Compliance, and Accountability

Stewardship, compliance, and accountability are key concepts in defining the responsibilities of the Town. The use of budgets and monitoring of equity status facilitate the Town's compliance with legal requirements.

Budgets and Budgetary Accounting

The Town Council adheres to the following procedures in establishing the budgetary data reflected in the financial statements:

- In accordance with State statutes, prior to October 15, the Town Manager submits to the Town Council 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 level.
- Public hearings are conducted to obtain taxpayer comment.
- Prior to December 31, the budget is legally adopted through passage of a resolution.
- The Town Clerk is required to present a monthly report to the Town Council explaining any variance from the approved budget.
- Formal budgetary integration is employed as a management control device during the year for all funds of the Town.
- Appropriations lapse at the end of each calendar year.

TOWN OF PAGOSA SPRINGS, COLORADO
Notes to the Financial Statements
December 31, 2017

Note 3. Stewardship, Compliance, and Accountability, Continued

- The Town Council may authorize supplemental appropriations during the year.

Budget amounts included in the financial statements report both the original and final amended budget. There were revisions made to the original budget during the year.

Budgets for governmental funds are adopted on a basis consistent with accounting principles generally accepted in the United States of America, except for long-term receivables and advances and capital lease financing which are budgeted when liquidated rather than when the receivable/liability is incurred. Budgets for enterprise funds are adopted on a basis consistent with the spending measurement focus of the governmental funds.

Expenditures over Appropriations

Per C.R.S. 29-1-108(2), appropriations are made by fund or spending agency (e.g. department) within a fund at the discretion of the Town Council. The Council by Resolution has made appropriations at the fund level and thus, expenditures may not legally exceed budgeted appropriations at the fund level. The individual Schedules of Revenues, Expenditures and Changes in Fund Balances - Budget to Actual reports as listed in the table of contents report those funds that exceeded approved budget appropriations. There were no individual funds that exceeded approved budget appropriations for the year ended December 31, 2017.

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, excluding “enterprises.”

The Amendment requires that an emergency reserve be maintained at three percent of fiscal year spending (excluding bonded debt service). A portion of the General Fund’s fund balance is classified as restricted for emergencies as required by the Amendment. The Town is not allowed to use the emergency reserves to compensate for economic conditions, revenue shortfalls, or salary or benefit increases.

The Amendment is complex and subject to judicial interpretation. The Town believes it is in compliance with the requirements of the Amendment. However, the entity has made certain interpretations in the Amendment’s language in order to determine its compliance.

TOWN OF PAGOSA SPRINGS, COLORADO
Notes to the Financial Statements
December 31, 2017

Note 4. Deposits and Investments

A summary of cash and investments as shown on the statement of net position follows:

Cash on hand	\$ 200
Cash in bank	<u>6,458,234</u>
Total cash and investments	<u><u>\$ 6,458,434</u></u>

Deposits

Custodial Credit Risk

For deposits this is the risk that in the event of a bank failure, the government's deposit may not be returned to it. The Town does not have a formal policy for custodial credit risk; however, 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 regulators. Amounts on deposit in excess of federal insurance levels must be collateralized. The eligible collateral is determined by the PDPA. The PDPA allows the institution to create a single collateral pool for all public funds. 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 the aggregate uninsured deposits. Collateral in the pool is considered to be equal to depository insurance pursuant to definitions listed in GASB Statement No. 40. At December 31, 2017 cash on hand was \$200 and the carrying amount of the Town's deposits was \$6,458,234. As of December 31, 2017 the bank balance of the Town's deposits was \$6,702,179 of which \$293,190 was insured by federal depository insurance and \$6,408,989 was collateralized by the PDPA as noted above.

Investments

Colorado statutes specify investment instruments meeting defined rating and risk criteria in which local government entities may invest. Authorized investments include obligations of the United States and certain U.S. government agency securities; certain international agency securities; general obligation and revenue bonds of U.S. local government entities; bankers' acceptances of certain banks; commercial paper; local government investment pools; written repurchase agreements collateralized by certain authorized securities; certain money market funds; and, guaranteed investment contracts. The Town's investment policy follows Colorado statutes.

Interest rate risk

Interest rate risk is the risk that changes in interest rates will adversely affect the fair value of an investment. The Town's policy for managing its exposure to fair value loss arising from increasing interest rates is to comply with the provisions of the Colorado Public Deposit Protection Act (PDPA) which requires that the Town's investment portfolio maturities do not exceed five years from the time of purchase.

TOWN OF PAGOSA SPRINGS, COLORADO
Notes to the Financial Statements
December 31, 2017

Note 4. Deposits and Investments, Continued

Credit risk

Credit risk is the risk that an issuer or other counterparty to an investment will not fulfill its obligations. The Town's policy for reducing its exposure to credit risk is to comply with the provisions of the Colorado Public Deposit Protection Act (PDPA) which limits investment in commercial paper and corporate bonds to the top ratings issued by at least two nationally recognized statistical rating organizations such as Standard & Poor's and Moody's Investor Services.

Note 5. Capital Assets

The following table summarizes the changes to capital assets for governmental activities during the year.

Governmental Activities:	Balance 12/31/2016	Additions	Deletions	Balance 12/31/2017
Capital assets, not being depreciated:				
Land	\$ 2,336,550	\$ -	\$ -	\$ 2,336,550
Construction in progress	634,970	2,912,286	(429,028)	3,118,228
Total capital assets, not being depreciated	<u>2,971,520</u>	<u>2,912,286</u>	<u>(429,028)</u>	<u>5,454,778</u>
Capital assets, being depreciated:				
Buildings & improvements	9,669,052	629,653	-	10,298,705
Equipment & vehicles	1,667,694	238,552	-	1,906,246
Infrastructure	13,179,472	639,798	-	13,819,270
Total capital assets, being depreciated	<u>24,516,218</u>	<u>1,508,003</u>	<u>-</u>	<u>26,024,221</u>
Less accumulated depreciation for:				
Buildings & improvements	(1,702,524)	(321,893)	-	(2,024,417)
Equipment & vehicles	(1,171,036)	(146,994)	-	(1,318,030)
Infrastructure	(3,169,187)	(433,573)	-	(3,602,760)
Total accumulated depreciation	<u>(6,042,747)</u>	<u>(902,460)</u>	<u>-</u>	<u>(6,945,207)</u>
Total capital assets, being depreciated, net	<u>18,473,471</u>	<u>605,543</u>	<u>-</u>	<u>19,079,014</u>
Governmental activities capital assets, net	<u>\$ 21,444,991</u>	<u>\$ 3,517,829</u>	<u>\$ (429,028)</u>	<u>\$ 24,533,792</u>

TOWN OF PAGOSA SPRINGS, COLORADO
Notes to the Financial Statements
December 31, 2017

Note 5. Capital Assets, Continued

Depreciation expense was charged to the functions/programs of the Town as follows:

Governmental Activities:	
General government	\$ 84,199
Public safety	43,242
Public works/streets	488,855
Parks & recreation	278,420
Community support	7,744
Total depreciation expense - governmental activities	<u>\$ 902,460</u>

The following table summarizes the changes to capital assets for business-type activities during the year.

Business Type Activities:	<u>Balance 12/31/2016</u>	<u>Additions</u>	<u>Deletions</u>	<u>Balance 12/31/2017</u>
Capital assets not being depreciated:				
Land	\$ 16,376	\$ -	\$ -	\$ 16,376
Construction in progress	50,573	720,712	-	771,285
Total capital assets, not being depreciated	<u>66,949</u>	<u>720,712</u>	<u>-</u>	<u>787,661</u>
Capital assets being depreciated:				
Improvements and systems	12,832,552	-	-	12,832,552
Equipment and vehicles	101,417	-	-	101,417
Total capital assets, being depreciated	<u>12,933,969</u>	<u>-</u>	<u>-</u>	<u>12,933,969</u>
Less accumulated depreciation for:				
Improvements and systems	(2,291,534)	(256,651)	-	(2,548,185)
Equipment and vehicles	(100,560)	(857)	-	(101,417)
Total accumulated depreciation	<u>(2,392,094)</u>	<u>(257,508)</u>	<u>-</u>	<u>(2,649,602)</u>
Total capital assets, being depreciated, net	<u>10,541,875</u>	<u>(257,508)</u>	<u>-</u>	<u>10,284,367</u>
Business-type activities capital assets, net	<u>\$ 10,608,824</u>	<u>\$ 463,204</u>	<u>\$ -</u>	<u>\$ 11,072,028</u>

TOWN OF PAGOSA SPRINGS, COLORADO
Notes to the Financial Statements
December 31, 2017

Note 5. Capital Assets, Continued

Depreciation expense was charged to the functions/programs of the Town as follows:

Business-Type Activities:	
Sanitation	\$ 233,860
Geothermal	23,648
Total depreciation expense - business-type activities	<u>\$ 257,508</u>

Note 6. Long-Term Liabilities

The following is a summary of changes in long-term obligations for the year ended December 31, 2017:

	Balance 12/31/2016	Additions	Retirements	Balance 12/31/2017	Current Portion
Governmental Activities:					
Lease revenue bond	\$ 2,660,000	\$ -	\$ (100,000)	\$ 2,560,000	\$ 100,000
Bond premium	98,934	-	(4,711)	94,223	-
Capital leases payable	318,324	-	(42,726)	275,598	44,163
Compensated absences	171,859	94,966	(116,084)	150,741	150,741
Total Governmental activity	\$ 3,249,117	\$ 94,966	\$ (263,521)	\$ 3,080,562	\$ 294,904
Business-Type Activities:					
Water Pollution Control Fund Note	\$ 1,899,427	\$ -	\$ (93,957)	\$ 1,805,469	\$ 94,901
Note Payable to PAWSD	2,808,758	-	(113,428)	2,695,330	115,912
Compensated absences	4,704	4,678	(1,957)	7,425	7,425
Total Business-type activity	\$ 4,712,889	\$ 4,678	\$ (209,342)	\$ 4,508,225	\$ 218,239

For governmental activities, compensated absences, other post-employment benefits (OPEB), and net position liabilities are generally liquidated through the General Fund.

TOWN OF PAGOSA SPRINGS, COLORADO
Notes to the Financial Statements
December 31, 2017

Note 6. Long-Term Liabilities, Continued

Long-term liabilities for the primary government at December 31, 2017 are comprised of the following:

Bonds payable:

Governmental Activities:

Lease Revenue Bonds, Series 2016, due in annual principal and semi-annual interest installments ranging from \$176,800 to \$195,563, bearing interest at 3.0% to 4.0%, maturing November 1, 2037.	<u>\$ 2,560,000</u>
Total Bonds Payable	<u><u>\$ 2,560,000</u></u>

Notes payable:

Business-Type Activities:

Note payable to Water Pollution Control Revolving Fund in the original amount of \$2,000,000. Due in forty semi-annual payments of \$9,215 for the first payment and then 39 payments of \$56,359, including interest at 1%, maturing May 1, 2035.	\$ 1,805,469
Loan payable to Pagosa Area Water and Sanitation District (PAWSD) in the original amount of up to \$2,835,000. Due in twenty annual payments of \$174,940, including interest at 2.19%, maturing November 30, 2036.	<u>2,695,330</u>
Total Notes Payable	<u><u>\$ 4,500,800</u></u>

Debt service requirements to maturity are as follows:

Years ending June 30:	Governmental Activities		Business-Type Activities	
	Principal	Interest	Principal	Interest
2018	\$ 100,000	\$ 95,563	\$ 210,814	\$ 76,846
2019	100,000	92,562	214,304	73,356
2020	100,000	89,563	217,858	69,801
2021	100,000	85,562	221,480	66,179
2022	105,000	81,563	225,169	62,490
2023-2027	570,000	353,152	1,183,654	254,643
2028-2032	675,000	244,062	1,286,874	151,422
2033-2037	810,000	98,600	940,646	40,916
	<u>\$ 2,560,000</u>	<u>\$ 1,140,627</u>	<u>\$ 4,500,800</u>	<u>\$ 795,653</u>

TOWN OF PAGOSA SPRINGS, COLORADO
Notes to the Financial Statements
December 31, 2017

Note 7. Capital Leases Payable

The Town has entered into lease agreements. These lease agreements are considered capital leases in accordance with Financial Accounting Standard Board ASC 840-30-25. The leases are shown in the governmental activities of the government-wide statements.

The following is an annual schedule of future minimum lease payments with interest rates of 3.5 and 3.57 percent under the capital leases, together with the present value of the net minimum lease payments:

<u>December 31,</u>	<u>Governmental Activities</u>
2018	\$ 53,504
2019	53,504
2020	53,504
2021	18,147
2022	18,147
2023-2027	90,735
2028-2029	<u>35,661</u>
Total remaining lease payments	\$ 323,201
Less: Amount representing interest	<u>(47,603)</u>
Present value of net remaining minimum lease payments	<u>\$ 275,598</u>

	<u>Governmental Activities</u>
Buildings & improvements	\$ 302,000
Equipment & vehicles	165,848
Accumulated depreciation	<u>(40,233)</u>
Net total	<u>\$ 427,615</u>

TOWN OF PAGOSA SPRINGS, COLORADO
Notes to the Financial Statements
December 31, 2017

Note 8. Pension Plans

Fire and Police Pension Association of Colorado

Plan description – The Town participates in the Statewide Defined Benefit Plan (SWDB) which is a cost-sharing multiple-employer defined benefit pension plan. The Plan is administered by the Fire & Police Pension Association of Colorado (FPPA). FPPA issues a publicly available comprehensive annual financial report that can be obtained on the FPPA’s website at www.fppaco.org.

Benefits provided – A member is eligible for a normal retirement pension once the member has completed twenty-five years of credited service and has attained the age of 55.

The annual normal retirement benefit is 2 percent of the average of the member’s highest three years’ base salary for each year of credited service up to ten years, plus 2.5 percent for each year of service thereafter. The benefit earned prior to January 1, 2007 for members of affiliated social security employers will be reduced by that amount of social security income payable to the member annually. Effective January 1, 2007, members currently covered under social security will receive half the benefit when compared to the SWDB. Benefits paid to retired members are evaluated and may be re-determined every October 1. The amount of any increase is based on the Board’s discretion and can range from 0 to the higher of 3 percent or the Consumer Price Index.

A member is eligible for an early retirement at age 50 or after 30 years of service. The early retirement benefit equals the normal retirement benefit reduced on an actuarially equivalent basis. Upon termination, an employee may elect to have member contributions, along with 5 percent as interest, returned as a lump sum distribution. Alternatively, a member with at least five years of accredited service may leave contributions with the Plan and remain eligible for a retirement pension at age 55 equal to 2 percent of the member’s average highest three years’ base salary for each year of credited service up to ten years, plus 2.5 percent for each year of service thereafter.

Contributions – The Plan sets contributions rates at a level that enables all benefits to be fully funded at the retirement date of all members. Contribution rates for the SWDB plan are set by state statute. Employer contribution rates can only be amended by state statute. Member contribution rates can be amended by state statute or election of the membership.

Members of the SWDB plan and their employers are contributing at the rate of 9 percent and 8 percent, respectively, of base salary for a total contribution rate of 17 percent in 2016. In 2014, the members elected to increase the member contribution rate to the SWDB plan beginning in 2015. Member contribution rates will increase by 0.5 percent annually through 2022 to a total of 12 percent of base salary. Employer contributions will remain at 8 percent resulting in a combined rate of 20 percent in 2022.

TOWN OF PAGOSA SPRINGS, COLORADO
Notes to the Financial Statements
December 31, 2017

Note 8. Pension Plans, Continued

The Town's contributions for the current and 2 preceding fiscal years, all of which were equal to the required contributions, were as follows:

Year Ended December 31,	Retirement Fund
2015	\$ 24,280
2016	27,615
2017	27,285

Pension liability – At December 31, 2017, the Town reported a liability of \$24,372 for its proportionate share of the SWDB net pension liability/asset. The net pension liability/asset was measured as of December 31, 2016. The total pension liability used to calculate the net pension liability was determined using an actuarial valuation as of January 1, 2017. The Town's proportion of the net pension liability/asset was based on the Town's actual contributions to the plan relative to the total of all participating employers' contributions for the year ended December 31, 2016. The Town's proportion measured as of December 31, 2016, was 0.067448 percent for police, which was an increase of 0.004841 percent from the proportions measured as of December 31, 2015.

Pension expense and deferred outflows/inflows of resources – For the year ended December 31, 2017, the Town recognized pension expense for SWDB of \$42,847. At December 31, 2017, the Town reported deferred outflows of resources and deferred inflows of resources related to pensions from the following sources:

	Police	
	Deferred Outflows of Resources	Deferred Inflows of Resources
Differences between expected and actual experience	\$ 21,761	\$ 1,240
Changes in assumptions	16,648	-
Net difference between projected and actual earnings on pension plan investments	65,784	-
Changes in proportion and differences between contributions and proportional share of contributions	2,525	-
Contributions subsequent to the measurement date	27,285	-
Total	\$ 134,003	\$ 1,240

TOWN OF PAGOSA SPRINGS, COLORADO
Notes to the Financial Statements
December 31, 2017

Note 8. Pension Plans, Continued

The \$27,285 reported as deferred outflows of resources related to SWDB pensions resulting from Town contributions subsequent to the measurement date will be recognized as a reduction of the net pension liability in the year ending December 31, 2017. Other amounts reported as deferred outflows of resources and deferred inflows of resources related to SWDB pensions will be recognized in pension expense as follows:

Year Ended December 31	Deferred Outflows (Inflows) of Resources Police
2017	\$ 25,371
2018	25,371
2019	23,870
2020	9,867
2021	4,674
Thereafter	16,326

Actuarial Assumptions – The significant actuarial assumptions used to measure the total pension liability are as follows:

Actuarial Method	Entry Age Normal
Amortization Method	Level % of Payroll, Open
Amortization Period	30 Years
Long-term Investment Rate of Return*	7.5%
Projected Salary Increases	4.0-14.0%
Cost of Living Adjustments (COLA)	0.0%
*Includes Inflation at	2.5%

Effective January 1, 2016, the post-retirement mortality tables for non-disabled retirees is a blend of the Annuitant and Employee RP-2014 generational mortality tables with blue collar adjustment projected with Scale BB. The occupationally disabled post-retirement mortality assumption uses the same table as used for healthy annuitants, except there is a three year set-forward, meaning a disabled member age 70 will be valued as if they were a 73 year old healthy retiree. The totally disabled post-retirement mortality assumption uses the RP-2014 generational mortality tables for disabled annuitants, except as additional provision to apply a minimum 3% mortality probability to males and 2% mortality probability for females is included to reflect substantial impairment for this population. The pre-retirement off-duty mortality tables are adjusted to 55% of the RP-2014 mortality tables for active employees. The on-duty mortality rate is 0.00020.

TOWN OF PAGOSA SPRINGS, COLORADO
Notes to the Financial Statements
December 31, 2017

Note 8. Pension Plans, Continued

The long-term expected rate of return on SWDB pension plan investments was determined using a building-block method in which best-estimate ranges of expected future real rates of return (expected returns, net of pension plan investment expense and inflation) are developed for each major asset class. These ranges are combined to produce the long-term expected rate of return by weighting the expected future real rates of return by the target asset allocation percentage and by adding expected inflation. Best estimates of arithmetic real rates of return for each major asset class included in the Fund's target asset allocation as of December 31, 2016 are summarized in the following table:

Asset Class	Target Allocation	Long-Term Expected Rate of Return
Global Equity	36%	9.25%
Equity Long/Short	10%	7.35%
Illiquid Alternatives	23%	10.75%
Fixed Income	15%	4.10%
Absolute Return	10%	6.55%
Managed Futures	4%	5.5%
Cash	2%	0.00%*
Total	100%	

*While the expected inflation exceeds the expected rate of return for cash, a 0.0 percent real rate of return is utilized.

Discount Rate – The discount rate used to measure the SWDB total pension liability was 7.5 percent, which is less than the long-term expected rate of return. The projection of cash flows used to determine the discount rate assumed that contributions from participating employers will be made based on the actuarially determined rates based on the SWDB Board's funding policy, which establishes the contractually required rate under Colorado statute. Based on those assumptions, the pension plan's fiduciary net position was projected to be available to make all projected future benefit payments of current plan members. Therefore, the long-term expected rate of return on pension plan investments was applied to all periods of projected benefit payments to determine the total pension liability.

Sensitivity of the proportionate share of the net pension liability to changes in the discount rate – The following table presents the Town's proportionate share of the net pension liability calculated using the discount rate of 7.5 percent, as well as what the Town's proportionate share of the net pension liability would be if it were calculated using a discount rate that is 1 percentage point lower (6.5 percent) or 1 percentage point higher (8.5 percent) than the current rate:

	1% Decrease 6.50%	Current Discount Rate 7.50%	1% Increase 8.50%
Police			
Net pension (asset) / liability	\$ 207,363	\$ 24,372	\$ (127,612)

Pension plan fiduciary net position-- Detailed information about the pension plan's fiduciary net position is available in the separately issued FPPA financial report.

TOWN OF PAGOSA SPRINGS, COLORADO
Notes to the Financial Statements
December 31, 2017

Note 8. Pension Plans, Continued

Colorado County Officials and Employees Retirement Association

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 for eligible county and municipal officers and county, municipal, and special district employees. The Association established a defined contribution plan called 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 the 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 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 \$101,579.

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 contributions 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.

TOWN OF PAGOSA SPRINGS, COLORADO
Notes to the Financial Statements
December 31, 2017

Note 8. Pension Plans, Continued

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.

Note 9. Risk Management

The Town is exposed to various risks of loss related to torts; theft of, damage to and destruction of assets; errors and omissions; injuries to employees and natural disasters. Claims have not exceeded coverage in any of the last three fiscal years.

The Town is a member of the Colorado Intergovernmental Risk Sharing Agency (CIRSA), a separate and independent governmental and legal entity formed by an intergovernmental agreement by member municipalities pursuant to the provision of 24-10-1155, Colorado Revised Statutes (1982 Replacement Volume) and the Colorado Constitution, Article XIV, Section 18(2).

The purposes of CIRSA is to provide members defined liability and property coverage's and to assist members to prevent and reduce losses and injuries to municipal property and to persons or property which might result in claims being made against members of CIRSA, their employees or 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 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's at reasonable costs. All income and assets of CIRSA shall at all times be dedicated to the exclusive benefit of its members.

The Town recognizes an expense for coverage for the amount paid to CIRSA annually for these coverage's. Contingent liability claims for the coverage have not been recognized to date after reviewing claim history and the remoteness of potential loss in excess of actual contributions by the Town.

CIRSA is a separate legal entity and the Town does not approve budgets nor does it have the ability to significantly affect the operations of CIRSA. The Board of Directors of the Agency is composed of seven directors elected by the members at the annual meeting to be scheduled in December each year.

TOWN OF PAGOSA SPRINGS, COLORADO
Notes to the Financial Statements
December 31, 2017

Note 10. 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 sewer treatment. The construction contract of this extended line was for a bid price of \$6,853,000. PAWSD has agreed to loan PSSGID up to \$2,835,000 for the construction. This loan will be repaid over 20 years at an interest rate equal to PAWSD lost opportunity on investment funds.

Note 11. Prior Period Adjustments

Prior period adjustments are the net effect of changes resulting from correction of an error. Because such amounts are the product of errors from a prior period, they are not properly included as part of the results of operations of the current period, even though they are reported in the current period. Instead, such adjustments are properly reported as a direct adjustment to beginning fund balance or beginning net position to restate that amount to what it would have been had the error not occurred. During the year ended December 31, 2017, a prior period adjustment was necessary in the General Fund to reclassify \$58,328 from fund balance to the liability line item customer deposits. This amount was incorrectly included in fund balance in the prior year and should have been shown as a customer deposit.

Note 12. Interfund Transfers

Interfund transfers for the year ended December 31, 2017 were as follows:

	Transfers In	
Transfers Out	Capital Improvement Fund	Total
General Fund	\$ 280,455	\$ 280,455
Tourism Fund	107,000	107,000
Conservation Trust Fund	1,000	1,000
	\$ 388,455	\$ 388,455

Transfers are used to (1) move revenues from the fund that statute or budget requires to collect them to the fund that statute or budget requires to expend them and (2) use unrestricted revenues collected in the general fund to finance various programs accounted for in other funds in accordance with budgetary authorizations.

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REQUIRED SUPPLEMENTARY INFORMATION

TOWN OF PAGOSA SPRINGS, COLORADO
Required Supplementary Information
Schedule of the Proportionate Share of the Net Pension Liability
December 31, 2017

	Police		
	Reporting Fiscal Year		
	(Measurement Date)		
	2017	2016	2015
	(2016)	(2015)	(2014)
	<u> </u>	<u> </u>	<u> </u>
Proportion of the net pension liability (asset)	0.067448%	0.062607%	0.061858%
Proportionate share of the net pension liability (asset)	\$ 24,372	\$ (1,104)	\$ (69,812)
Covered payroll	\$ 341,063	\$ 345,181	\$ 303,497
Proportionate share of the net pension liability (asset) as a percentage of its covered payroll	7.15%	-0.32%	-23.00%
Plan fiduciary net position as a percentage of the total pension liability	98.21%	100.10%	106.80%

Note: The Town implemented GASB 68 in 2015. Prior year information is not available.

TOWN OF PAGOSA SPRINGS, COLORADO
Required Supplementary Information
Schedule of Contributions
December 31, 2017

	Police		
	Reporting Fiscal Year		
	(Measurement Date)		
	2017	2016	2015
	(2016)	(2015)	(2014)
	<u> </u>	<u> </u>	<u> </u>
Contractually required contribution	\$ 27,615	\$ 24,280	\$ 22,254
Contributions in relation to the contractually required contribution	\$ (27,615)	\$ (24,280)	\$ (22,254)
Contribution deficiency (excess)	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>
Covered payroll	\$ 341,063	\$ 345,181	\$ 303,497
Contributions as a percentage of covered payroll	8.10%	7.03%	7.33%

Note: The Town implemented GASB 68 in 2015. Prior year information is not available.

TOWN OF PAGOSA SPRINGS, COLORADO
Required Supplementary Information
Notes to Pension Plan Schedules
December 31, 2017

Note 1. Actuarially Determined Contribution Rates

Actuarially determined contribution rates for FPPA are calculated as of January 1, or two years prior to the end of the fiscal year in which contributions are made. The actuarial methods and assumptions used to establish the contribution requirements are as follows:

- Actuarial cost method Entry age normal
- Amortization method Level % of payroll, open
- Remaining amortization period 15 years
- Asset valuation method 5-year smoothed fair value
- Actuarial assumptions:
 - Investment rate of return: 7.5%
 - Projected salary increase: 4.0% - 14.0%
 - Inflation: 2.5%
 - COLA: 0.0%

TOWN OF PAGOSA SPRINGS, COLORADO

REQUIRED SUPPLEMENTARY INFORMATION

BUDGETARY COMPARISON SCHEDULES

FOR THE FOLLOWING MAJOR FUNDS:

The **General Fund** is used to account for resources traditionally associated with government which are not required legally or by sound financial management to be accounted for in another fund.

The **Tourism Fund** accounts for the tax collected from lodging establishments to be used for community support services.

TOWN OF PAGOSA SPRINGS, COLORADO
General Fund
Schedule of Revenues, Expenditures and Changes in Fund Balance
Budget and Actual
For the Year Ended December 31, 2017

Revenues	Budgeted Amounts		Actual Amounts	Variance with Final Budget
	Original	Final		
Taxes:				
Property tax	\$ 83,261	\$ 83,261	\$ 83,757	\$ 496
Sales tax	2,352,997	2,352,997	2,476,756	123,759
Franchise tax	31,500	31,500	28,197	(3,303)
Other taxes	38,500	38,500	43,937	5,437
Total taxes	<u>2,506,258</u>	<u>2,506,258</u>	<u>2,632,647</u>	<u>126,389</u>
Licenses, permits and fees:				
Licenses, permits and fees	44,500	44,500	48,633	4,133
Building permits	62,500	62,500	99,247	36,747
Total licenses, permits and fees	<u>107,000</u>	<u>107,000</u>	<u>147,880</u>	<u>40,880</u>
Intergovernmental:				
Grant revenues	48,500	48,500	48,501	1
Total intergovernmental	<u>48,500</u>	<u>48,500</u>	<u>48,501</u>	<u>1</u>
Fines and forfeitures:				
Fines and forfeitures	82,500	82,500	81,190	(1,310)
Total fines and forfeitures	<u>82,500</u>	<u>82,500</u>	<u>81,190</u>	<u>(1,310)</u>
Charges for services:				
Charges for services	215,715	215,715	258,138	42,423
Total charges for services	<u>215,715</u>	<u>215,715</u>	<u>258,138</u>	<u>42,423</u>
Interest:				
Interest revenue	25,000	25,000	55,520	30,520
Total interest	<u>25,000</u>	<u>25,000</u>	<u>55,520</u>	<u>30,520</u>
Contributions and donations:				
Contributions and donations	60,000	84,000	88,231	4,231
Total contributions and donations	<u>60,000</u>	<u>84,000</u>	<u>88,231</u>	<u>4,231</u>
Other revenues:				
Miscellaneous	54,000	81,475	95,607	14,132
Total other revenues	<u>54,000</u>	<u>81,475</u>	<u>95,607</u>	<u>14,132</u>
Total revenues	<u>3,098,973</u>	<u>3,150,448</u>	<u>3,407,714</u>	<u>257,266</u>

(continued)

TOWN OF PAGOSA SPRINGS, COLORADO
General Fund
Schedule of Revenues, Expenditures and Changes in Fund Balance
Budget and Actual, (Continued)
For the Year Ended December 31, 2017

Expenditures	<u>Budgeted Amounts</u>		<u>Actual Amounts</u>	<u>Variance with Final Budget</u>
	<u>Original</u>	<u>Final</u>		
General Government:				
Town manager/admin	272,994	313,494	327,459	(13,965)
Town clerk/town hall	446,069	450,090	448,708	1,382
Building and planning	444,300	449,300	403,446	45,854
Municipal court	311,084	311,084	322,845	(11,761)
Total General Government	<u>1,474,447</u>	<u>1,523,968</u>	<u>1,502,458</u>	<u>21,510</u>
Public Safety:				
Police	956,767	965,447	862,864	102,583
Total Public Safety	<u>956,767</u>	<u>965,447</u>	<u>862,864</u>	<u>102,583</u>
Parks & Recreation:				
Recreation	226,247	268,027	262,555	5,472
Community center	230,652	230,652	220,059	10,593
Total Public Works	<u>456,899</u>	<u>498,679</u>	<u>482,614</u>	<u>16,065</u>
Community Support:				
Total Community Support	<u>185,380</u>	<u>189,805</u>	<u>167,365</u>	<u>22,440</u>
Total expenditures	<u>3,073,493</u>	<u>3,177,899</u>	<u>3,015,301</u>	<u>162,598</u>
Excess of revenues over (under) expenditures	<u>25,480</u>	<u>(27,451)</u>	<u>392,413</u>	<u>419,864</u>
Other financing sources (uses):				
Transfer out	(45,000)	(471,955)	(280,455)	191,500
Impact fees	31,005	42,706	88,269	45,563
Total other financing sources (uses)	<u>(13,995)</u>	<u>(429,249)</u>	<u>(192,186)</u>	<u>237,063</u>
Net change in fund balance	11,485	(456,700)	200,227	656,927
Fund balance, beginning of year - restated	2,784,134	2,784,134	2,784,134	-
Prior period adjustment	<u>-</u>	<u>-</u>	<u>(58,328)</u>	<u>(58,328)</u>
Fund balance, end of year	<u>\$ 2,795,619</u>	<u>\$ 2,327,434</u>	<u>\$ 2,926,033</u>	<u>\$ 598,599</u>

TOWN OF PAGOSA SPRINGS, COLORADO
Tourism Special Revenue Fund
Schedule of Revenues, Expenditures and Changes in Fund Balance
Budget and Actual
For the Year Ended December 31, 2017

	Budgeted Amounts		Actual	Variance with Final Budget
	Original	Final		
Revenues				
Lodgers tax	\$ 560,000	\$ 560,000	\$ 613,089	\$ 53,089
Intergovernmental revenue	125,000	125,000	152,031	27,031
Charges for services	1,500	1,500	1,187	(313)
Other revenues	45,000	45,000	45,117	117
Total revenues	<u>731,500</u>	<u>731,500</u>	<u>811,424</u>	<u>79,924</u>
Expenditures				
Community support	746,059	746,059	693,244	52,815
Total expenditures	<u>746,059</u>	<u>746,059</u>	<u>693,244</u>	<u>52,815</u>
Excess of revenue and other sources over (under) expenditures and other uses	<u>(14,559)</u>	<u>(14,559)</u>	<u>118,180</u>	<u>132,739</u>
Other financing sources (uses):				
Transfers out	<u>(25,000)</u>	<u>(107,000)</u>	<u>(107,000)</u>	<u>-</u>
Total other financing sources (uses):	<u>(25,000)</u>	<u>(107,000)</u>	<u>(107,000)</u>	<u>-</u>
Net change in fund balance	(39,559)	(121,559)	11,180	132,739
Fund balance, beginning of year	<u>359,584</u>	<u>359,584</u>	<u>359,584</u>	<u>-</u>
Fund balance, end of year	<u>\$ 320,025</u>	<u>\$ 238,025</u>	<u>\$ 370,764</u>	<u>\$ 132,739</u>

TOWN OF PAGOSA SPRINGS, COLORADO

SUPPLEMENTARY INFORMATION

BUDGETARY COMPARISON SCHEDULES

FOR THE FOLLOWING FUNDS:

Major Capital Project Fund

The **Capital Improvement Fund** accounts for maintenance, acquisition or construction of major capital facilities (other than those belonging to enterprise funds).

Nonmajor Special Revenue Fund

The **Conservation Trust Fund** accounts for the State of Colorado lottery funds to be used for parks and recreation services and capital investment.

Major and Nonmajor Enterprise Funds

Enterprise Funds are used to account for operations that are financed and operated in a manner similar to private business enterprises, where the intent is that the costs of providing goods or services to the general public on a continuing basis be financed or recovered primarily through user charges. The budgets for the enterprise funds have been prepared and presented on a modified accrual basis which is an accounting basis other than GAAP for enterprise funds.

The **Sanitation Fund** accounts for the activities related to the Town's sanitation treatment and distribution operations.

The **Geothermal Fund** is used to account for the Town's geothermal services.

TOWN OF PAGOSA SPRINGS, COLORADO
Capital Improvement Capital Project Fund
Schedule of Revenues, Expenditures and Changes in Fund Balance
Budget and Actual
For the Year Ended December 31, 2017

	Budgeted Amounts		Actual	Variance with Final Budget
	Original	Final		
Revenues				
Sales taxes	\$ 2,352,997	\$ 2,352,997	\$ 2,476,756	\$ 123,759
Highway users tax	76,540	76,540	74,421	(2,119)
Intergovernmental revenue	1,630,007	1,630,007	552,143	(1,077,864)
Charges for services	35,655	35,655	43,341	7,686
Other income	11,000	11,000	30,418	19,418
Total revenue	<u>4,106,199</u>	<u>4,106,199</u>	<u>3,177,079</u>	<u>(929,120)</u>
Expenditures				
General government	186,817	186,817	181,752	5,065
Public safety	23,000	23,000	17,329	5,671
Public works/streets	739,650	739,650	767,232	(27,582)
Parks and recreation	363,490	363,490	392,674	(29,184)
Community support	2,500	2,500	-	2,500
Debt service				
Principal	240,020	240,020	147,437	92,583
Interest	-	-	91,293	(91,293)
Capital outlay	<u>5,750,450</u>	<u>6,259,405</u>	<u>3,603,992</u>	<u>2,655,413</u>
Total expenditures	<u>7,305,927</u>	<u>7,814,882</u>	<u>5,201,709</u>	<u>2,613,173</u>
Excess of revenue and other sources over (under) expenditures and other uses	<u>(3,199,728)</u>	<u>(3,708,683)</u>	<u>(2,024,630)</u>	<u>1,684,053</u>
Other financing sources (uses):				
Transfers in	<u>70,000</u>	<u>579,955</u>	<u>388,455</u>	<u>(191,500)</u>
Total other financing sources (uses):	<u>70,000</u>	<u>579,955</u>	<u>388,455</u>	<u>(191,500)</u>
Net change in fund balance	(3,129,728)	(3,128,728)	(1,636,175)	1,492,553
Fund balance, beginning of year	<u>3,905,518</u>	<u>3,905,518</u>	<u>3,905,518</u>	<u>-</u>
Fund balance, end of year	<u>\$ 775,790</u>	<u>\$ 776,790</u>	<u>\$ 2,269,343</u>	<u>\$ 1,492,553</u>

TOWN OF PAGOSA SPRINGS, COLORADO
Nonmajor Conservation Trust Special Revenue Fund
Schedule of Revenues, Expenditures and Changes in Fund Balance
Budget and Actual
For the Year Ended December 31, 2017

	Budgeted Amounts		Actual	Variance with Final Budget
	Original	Final		
Revenues				
Intergovernmental revenue	\$ 47,000	\$ 72,000	\$ 72,877	\$ 877
Total revenues	47,000	72,000	72,877	877
Expenditures				
Capital outlay	71,000	100,000	92,676	7,324
Total expenditures	71,000	100,000	92,676	7,324
Excess of revenue and other sources over (under) expenditures and other uses	(24,000)	(28,000)	(19,799)	8,201
Other financing sources (uses):				
Transfers out	-	-	(1,000)	(1,000)
Total other financing sources (uses):	-	-	(1,000)	(1,000)
Net change in fund balance	(24,000)	(28,000)	(20,799)	7,201
Fund balance, beginning of year	64,174	64,174	64,174	-
Fund balance, end of year	<u>\$ 40,174</u>	<u>\$ 36,174</u>	<u>\$ 43,375</u>	<u>\$ 7,201</u>

TOWN OF PAGOSA SPRINGS, COLORADO
Sanitation Fund
Schedule of Revenues, Expenses and Changes in Net Position
Budget and Actual
For the Year Ended December 31, 2017

	Budgeted Amounts		Actual Amounts	Variance with Final Budget
	Original	Final		
Operating revenues				
Charges for services	\$ 667,500	\$ 667,500	\$ 673,278	\$ 5,778
Other revenues	300	300	12,905	12,605
Total operating revenues	<u>667,800</u>	<u>667,800</u>	<u>686,183</u>	<u>18,383</u>
Operating expenses				
Salaries and wages	74,818	74,818	77,452	(2,634)
Operating system	301,312	351,312	355,266	(3,954)
Administrative	30,757	30,757	28,554	2,203
Professional fees	33,000	78,000	75,029	2,971
Total operating expenses	<u>439,887</u>	<u>534,887</u>	<u>536,301</u>	<u>(1,414)</u>
Operating income (loss)	<u>227,913</u>	<u>132,913</u>	<u>149,882</u>	<u>16,969</u>
Non-operating revenues (expenses)				
Interest income	2,500	2,500	2,619	119
Property and specific ownership tax	41,080	41,080	37,823	(3,257)
Connection and tap fees	63,000	63,000	41,100	(21,900)
Capital Outlay	(607,521)	(881,521)	-	881,521
Debt service	(287,657)	(287,657)	(6,480)	281,177
Grant revenue	435,265	435,265	434,104	(1,161)
Total non-operating revenues (expenses)	<u>(353,333)</u>	<u>(627,333)</u>	<u>509,166</u>	<u>1,136,499</u>
Change in net position -budget basis	<u>\$ (125,420)</u>	<u>\$ (494,420)</u>	659,048	<u>\$ 1,153,468</u>
GAAP Basis Adjustments				
Depreciation			<u>(233,860)</u>	
Change in net position - GAAP basis			425,188	
Net position, beginning of year			<u>7,110,816</u>	
Net position, end of year			<u>\$ 7,536,004</u>	

TOWN OF PAGOSA SPRINGS, COLORADO
Geothermal Fund
Schedule of Revenues, Expenses and Changes in Net Position
Budget and Actual
For the Year Ended December 31, 2017

	Budgeted Amounts		Actual Amounts	Variance with Final Budget
	Original	Final		
Operating revenues				
Charges for services	\$ 41,697	\$ 41,697	\$ 43,193	\$ 1,496
Total operating revenues	<u>41,697</u>	<u>41,697</u>	<u>43,193</u>	<u>1,496</u>
Operating expenses				
Operating system	31,350	31,350	21,406	9,944
Administrative	3,000	3,000	4,023	(1,023)
Professional fees	<u>6,000</u>	<u>6,000</u>	<u>5,231</u>	<u>769</u>
Total operating expenses	<u>40,350</u>	<u>40,350</u>	<u>30,660</u>	<u>9,690</u>
Operating income (loss)	<u>1,347</u>	<u>1,347</u>	<u>12,533</u>	<u>11,186</u>
Change in net position-budget basis	<u>\$ 1,347</u>	<u>\$ 1,347</u>	12,533	<u>\$ 11,186</u>
GAAP Basis Adjustments				
Depreciation			<u>(23,648)</u>	
Change in net position - GAAP basis			(11,115)	
Net position, beginning of year			<u>434,420</u>	
Net position, end of year			<u>\$ 423,305</u>	

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SUPPLEMENTARY INFORMATION
LOCAL HIGHWAY FINANCE REPORT

Section 43-2-132 of the Colorado Revised Statutes requires municipalities receiving Highway User Tax Funds to include a schedule of highway receipts and expenditures with the audit report. The said report is presented on the following two pages.

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

LOCAL HIGHWAY FINANCE REPORT	City or County: Town of Pagosa Springs, CO
	YEAR ENDING : December 2017
	Prepared By: April Hessman, Town Clerk Phone: 1-970-264-4151 ext 237

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

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

II. RECEIPTS FOR ROAD AND STREET PURPOSES**III. DISBURSEMENTS FOR ROAD AND STREET PURPOSES**

ITEM	AMOUNT	ITEM	AMOUNT
A. Receipts from local sources:		A. Local highway disbursements:	
1. Local highway-user taxes		1. Capital outlay (from page 2)	1,676,213
a. Motor Fuel (from Item I.A.5.)		2. Maintenance:	563,229
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	0	b. Snow and ice removal	
3. Other local imposts (from page 2)	2,388,261	c. Other	158,440
4. Miscellaneous local receipts (from page 2)	120,426	d. Total (a. through c.)	158,440
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)	2,397,882
b. Bonds - Refunding Issues		B. Debt service on local obligations:	
c. Notes		1. Bonds:	
d. Total (a. + b. + c.)	0	a. Interest	85,226
7. Total (1 through 6)	2,508,687	b. Redemption	100,000
B. Private Contributions		c. Total (a. + b.)	185,226
C. Receipts from State government (from page 2)	74,421	2. Notes:	
D. Receipts from Federal Government (from page 2)	0	a. Interest	
E. Total receipts (A.7 + B + C + D)	2,583,108	b. Redemption	
		c. Total (a. + b.)	0
		3. Total (1.c + 2.c)	185,226
		C. Payments to State for highways	
		D. Payments to toll facilities	
		E. Total disbursements (A.6 + B.3 + C + D)	2,583,108

IV. LOCAL HIGHWAY DEBT STATUS

(Show all entries at par)

	Opening Debt	Amount Issued	Redemptions	Closing Debt
A. Bonds (Total)	2,660,000		100,000	2,560,000
1. Bonds (Refunding Portion)				
B. Notes (Total)	0		0	0

V. LOCAL ROAD AND STREET FUND BALANCE

	A. Beginning Balance	B. Total Receipts	C. Total Disbursements	D. Ending Balance	E. Reconciliation
	0	2,583,108	2,583,108	0	(0)

Notes and Comments:

In 2016, a refunding bond was issued and the bond information was not available at the time the Highway Finance Report was submitted. The bonds opening debt balance in section IV corrects the amount that should have been reported in 2016.

LOCAL HIGHWAY FINANCE REPORT

STATE:
Colorado
YEAR ENDING (mm/yy):
December 2017

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	2,388,261	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. Other Misc. Receipts	
6. Total (1. through 5.)	2,388,261	h. Other - Road and Bridge	120,426
c. Total (a. + b.)	2,388,261	i. Total (a. through h.)	120,426
	(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	74,421	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 -		e. U.S. Corps of Engineers	
e. Other - Road and bridge		f. Other Federal	
f. Total (a. through e.)	0	g. Total (a. through f.)	0
4. Total (1. + 2. + 3.f)	74,421	3. Total (1. + 2.g)	
			(Carry forward to page 1)

III. DISBURSEMENTS FOR ROAD AND STREET PURPOSES - DETAIL

	ON NATIONAL HIGHWAY SYSTEM (a)	OFF NATIONAL HIGHWAY SYSTEM (b)	TOTAL (c)
A.1. Capital outlay:			
a. Right-Of-Way Costs			0
b. Engineering Costs		158,518	158,518
c. Construction:			
(1). New Facilities			0
(2). Capacity Improvements			0
(3). System Preservation		1,517,695	1,517,695
(4). System Enhancement & Operation		0	0
(5). Total Construction (1) + (2) + (3) + (4)	0	1,517,695	1,517,695
d. Total Capital Outlay (Lines 1.a. + 1.b. + 1.c.5)	0	1,676,213	1,676,213
			(Carry forward to page 1)

Notes and Comments:

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HINTONBURDICK
CPAs & ADVISORS

**Independent Auditors' Report on Internal Control
over Financial Reporting and on Compliance and Other
Matters Based on an Audit of Financial Statements
Performed in Accordance with *Government Auditing Standards***

The Honorable Mayor and Council
Town of Pagosa Springs, Colorado

We have audited, in accordance with the auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States, the financial statements of the governmental activities, the business-type activities, each major fund, and the aggregate remaining fund information of the Town of Pagosa Springs, Colorado, as of and for the year ended December 31, 2017, and the related notes to the financial statements, which collectively comprise the Town of Pagosa Springs, Colorado's basic financial statements and have issued our report thereon dated June 14, 2018.

Internal Control over Financial Reporting

In planning and performing our audit of the financial statements, we considered the Town of Pagosa Springs, Colorado's internal control over financial reporting (internal control) to determine the audit procedures that are appropriate in the circumstances for the purpose of expressing our opinions on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the Town of Pagosa Springs, Colorado's internal control. Accordingly, we do not express an opinion on the effectiveness of the Town of Pagosa Springs, Colorado's internal control.

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

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

2015-001 Accounting Adjustments

Compliance and Other Matters

As part of obtaining reasonable assurance about whether the Town's financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit, and accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards*.

Purpose of this Report

The purpose of this report is solely to describe the scope of our testing of internal control and compliance and the results of that testing, and not to provide an opinion on the effectiveness of the entity's internal control or on compliance. This report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the entity's internal control and compliance. Accordingly, this communication is not suitable for any other purpose.

A handwritten signature in black ink that reads "Hinton Burdick, PLLC". The signature is written in a cursive, flowing style.

HintonBurdick, PLLC
St. George, Utah
June 14, 2018