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TOWN OF PAGOSA SPRINGS, COLORADO  
REPORT OF EXAMINATION AND FINANCIAL STATEMENTS  
YEAR ENDED DECEMBER 31, 2009

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## INDEPENDENT AUDITOR'S REPORT

I have audited the accompanying financial statements of the governmental activities, the business-type activities, and each major fund of the Town of Pagosa Springs, Colorado as of and for the year ended December 31, 2009, which collectively comprise the Town's basic financial statements as listed in the table of contents. These financial statements are the responsibility of the Town's management. My responsibility is to express opinions on these financial statements based on my audit.

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

In my opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, the business type activities and each major fund, of the Town of Pagosa Springs, Colorado, as of December 31, 2009, and the respective changes in financial position and cash flows, where applicable, thereof, and the respective budgetary comparison for the General Fund and the Major Special Revenue Funds, for the year then ended in conformity with accounting principles generally accepted in the United States of America.

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

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

  
Michael C. Branch  
Certified Public Accountant  
February 16, 2010

# TOWN OF PAGOSA SPRINGS

## MANAGEMENT DISCUSSION AND ANALYSIS

This section of the Town of Pagosa Springs' annual financial report presents our discussion and analysis of the Town's financial performance during the fiscal year, which ends December 31, 2009. Please read it in conjunction with the Town's financial statements, which follows this section.

### FINANCIAL HIGHLIGHTS

#### PURPOSE/BACKGROUND

Leading indicators nationally suggest an improvement in the economy. While the stock market experienced a rebound in 2009, weakness of the national economy for months continues to be reflected in the layoffs and high unemployment claims. The December unemployment rate is as follows: nation-wide, 10%; Colorado, 7.3%; and Archuleta County, 8%.

Given the downturn in the national economy and in order to be prepared to respond quickly should the local economy experience a downturn, the Town Council found it prudent to pass Resolution 2009-25. This policy statement directs Town expenditures to be reduced in direct proportion to the reduction in revenues and that expenditure reductions should take into account the relative value of specific programs or services provided to the community. Resolution 2009-25 mandates budgeting for a ten percent (10%) reduction in the 2010 sales tax revenues (as compared to the 2009 year-end revenue projections).

The Resolution also directs the Town staff to: 1) Implement a maximum expenditure of three percent (3%) of General Fund revenues in the 2010 budget for service organizations and move the 2010 organizational dues line item and economic development line item to the town manager's budget; 2) Implement a policy to abate the Town's normal planning/development and building permit fees for publicly funded affordable housing organizations for the first three family units built in 2010; 3) Implement a budgeted sales tax revenue reduction of ten percent (10%) in the 2010 budget based on the 2009 projected year-end sales tax revenue; 4) Monitor the Town's revenues on a monthly basis and report fluctuations from prior year revenues to the Town Council; and 5) Deploy a financial stability plan, reducing Town expenditures upon the advent of lower sales tax revenue over two consecutive months (and two of three consecutive months) as compared to the averaged sales tax revenue levels of 2008 and 2009.

The Town's financial stability plan reduces expenditures upon the advent of lower revenues over two consecutive months, and lower revenues over two of three consecutive months. For example, April's expenditure level will be based on the average of February and March 2010 revenue, and the average of January, February and March 2010 revenue. Using this method, the Town will not delay its response to changes in the revenue stream. If this formula shows a 10% reduction in sales tax revenues, the staff will automatically reduce expenditures by 15%.

The Town's 2009 sales tax revenues declined eight and six tenths percent (8.6%) compared to 2008. Therefore, it was important to establish a 2010 budget that holds expenditures levels down to ensure the Town's economic stability. It is vitally important for the Town to respond quickly to economic downturns as they occur. The town manager has recommended that the Town's response to any

down turn should be directly proportional to the reduction in revenues and any criterion for expenditure reductions should take into account the relative value of specific programs or services provided to the community. In 2010, the Town staff will continue to monitor the Town's revenues on a monthly basis and report fluctuations from prior year revenues to the Town Council.

To ensure financial stability, during 2009, the Town staff was diligent to reduce expenditures and accessed additional grant funding (e.g.: an additional \$200,000 for the Veterans Memorial Pedestrian Bridge). As a result, at the end of 2009, the Town staff will have grown financial reserves significantly. The approved 2010 budget estimated growing cash reserves by \$328,188 in the General Fund and \$456,680 in the Capital Improvement Fund. Year-end accounting new estimates that General Fund reserves will grow by \$384,166 (a \$55,978 increase over initial projections) and Capital Improvement Fund reserves will grow by \$472,202 (a \$15,522 increase over initial projections).

The Town Council elected to deploy a budget that anticipates a ten percent (10%) reduction in the 2010 sales tax revenues (as compared to the 2009 year-end revenue projections), along with five percent (5%) incremental reductions if required in response to downturns in sales tax revenues. For every five percent (5%) reduction in expenditures, \$152,000 must be trimmed from the budget (\$76,000 from the General Fund and \$76,000 from the Capital Improvement Fund).

To be fully prepared, the department heads identified expenditures at the ten percent (10%), fifteen percent (15%) and twenty percent (20%) reduction levels. It was recommended by the department heads and town manager that a portion of the reserves gained in 2009 be allocated to expenditures in 2010 if sales tax revenue reductions require implementation of the fifteen percent (15%) or twenty percent (20%) expenditure reduction budgets. The ten percent (10%) budget does not require access to financial reserves.

### **2010 BUDGET**

The 2010 General Fund budget reflects a ten percent (10%) reduction in the 2010 sales tax revenues (as compared to the 2009 year-end revenue projections). The proposed 2010 budget expenditures will create a year-end unrestricted reserve of \$1,054,744.

The Town of Pagosa Springs' November 2009 sales tax revenue declined -7.03% (-16,603) compared to November 2008. Calendar year-to-date (January through November 2009) sales tax revenue is down -8.60% (-\$255,580), compared to 2008. Through November 2009, sales tax revenues total \$2,714,589. While sales tax revenues continue to be below those of 2008, the deficits are much less than several months ago.

The Town's November 2009 lodgers tax revenue shows an increase of 21.81% (\$3,540), compared to 2008. Calendar year-to-date (January through November 2009) lodgers tax revenue is up 8.98% (\$26,118), compared to 2008. Through November 2009, Lodgers Tax revenues total \$352,350.

The Town lodging tax rate of 4.9% resulted in \$315,941 in 2006; \$334,149 in 2007; and \$322,666 in 2008. Through November 2009, lodging tax revenues total \$316,894. Expenditure of Lodgers Tax revenues are restricted to tourism related marketing or tourism related capital improvements and are reflected in the Town Tourism Committee budget which is reviewed and approved by the Town Council annually.

## **CAPITAL IMPROVEMENTS**

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

The Town Council's allocation of capital improvement revenues for 2010 placed increased emphasis on improving the Town's street infrastructure. Debt service of Town facilities is also a high priority.

This approach ensures that the Town does not become overextended in new facility/infrastructure projects without considering the cost of maintenance. Therefore, the structure of the proposed capital improvement budget reflects expenditures in maintenance and debt service first, then new projects. After these priorities, the Town will use remaining revenues expand the community's fiber optics and wireless communication capabilities. The fiber optics initiative is a partnership with Archuleta County, other communities in the Southwest economic development region, and the Colorado Department of Local Affairs.

On December 15, 2009, the Town Council approved the Capital Improvement Decision Matrix as a general guide for identifying and prioritizing capital improvement projects. As part of the Town's capital improvement plan, SGM Engineers and Chris Gallegos drafted a five-year plan to improve the Town's streets. The Council then refined the street improvement five-year plan by moving the reconstruction of Lewis Street between North 3<sup>rd</sup> Street and North 4<sup>th</sup> Street from 2012 to 2010. The decision to reconstruct the North 3<sup>rd</sup> through North 4<sup>th</sup> section of Lewis Street in 2010 rather than 2012 adds \$53,349 to the initially \$255,375 projected cost of 2010 street improvements. Therefore, the new estimate for 2010 street construction is \$308,724.

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

## **ASSESSED VALUATION & MILL LEVIES**

The Town of Pagosa Springs assessed valuation for 2010 is \$69,928,916 (an increase of \$4,214,052 from 2009). Staff recommended that the Town Mill Levy be set at 1.557 Mills, generating \$108,879, plus an additional .015 mills of refunds/abatements will generate \$1,049.

## **SPECIAL FUNDS SUMMARY**

Beginning in 2009 and continuing in 2010, the format of the budget changed, reflecting separate fund accounts for all Town resources that are restricted to specific projects. These funds include the Capital Improvement Fund, Lodger's Tax Fund, Conservation Trust Fund, and Impact Fee/Trust Fund. The General Fund and Geothermal Enterprise Fund previously existed.

### **General Fund**

In 2009, the General Fund was split into several different funds. The 2010 Budget shows General Fund beginning reserves of \$707,216 and projects 2010 revenues at \$1,893,598 with expenses of \$1,864,037 creating a year-end surplus of \$1,054,744.

### **Capital Improvement Fund**

The creation of a Capital Fund was required to ensure full accountability in response to the November 2008 ballot initiative in which sales tax collection requires the expenditure of 50% of the town's Sales Tax Revenue to be spent on capital projects and maintenance. The 2010 Budget

estimates Capital Fund beginning reserves of \$456,680; projected revenues of \$2,362,400; expenses of \$2,353,252; and creating a year-end balance of \$465,828

### **Conservation Trust Fund**

These revenues result from an IGA with the State of Colorado and Archuleta County for the receipt of Town and County lottery dollars. These funds can be used specifically for capital improvements and maintenance related to parks, recreation and trails. This fund anticipates revenues of \$96,770 and expenditures of \$80,000 for a budgeted fund balance of \$49,830.

### **Lodger's Tax Fund**

The Town Tourism Committee is the entity designated by the town to budget revenues and expenditures of Lodgers Tax dollars. The town budget reflects general income and expenditures and the recommended TTC budget is provided as an attachment to the town budget. The 2010 budget reflects increasing the TTC executive director position from half-time to a full-time contract position. The budget projects 2010 Lodgers Tax revenue to be \$395,000 with expenditures planned at \$383,042 thus creating a year-end fund balance of \$33,149.

### **Impact Fee/Trust Fund**

This fund has been established to improve the administration of these earmarked funds. The town collects impact fee funds for roads, regional public buildings, regional recreation facilities, Parks and Trails. The town also collects impact fees for the Upper San Juan Fire District (Emergency Service Provider) and the San Juan Water Conservancy District (Water Storage). The 50 JT School District, as an in-lieu dedication, has also been added to this fund, as the dollars are passed through to this taxing district. During the 3<sup>rd</sup> quarter of 2008, the town initiated collection of a 2% administration fee for the pass-through collections to the Water Conservancy, Emergency Management and School Districts. In 2009, the Town Council abated development fees at a 100% rate. In 2010, development fees will be abated at 50%. The 2010 budget reflects revenues of \$117,795 and expenditures of \$131,742 for a total fund balance of \$68,989.

### **Geothermal Enterprise Fund**

The 2009 budget created a separate fund for the Geothermal Enterprise, including the full costs of operating this utility, and added insurance and administration as new line items. The 2010 budget shows an estimated beginning fund balance of \$89,232, revenues of \$63,151 and expenditures of \$55,588.

### **ORGANIZATIONAL CHANGES**

The organizational changes reflected in the 2009 budget will continue in 2010. These include an increased level of detail and separation of multiple line items to improve tracking of expenditures. To improve accountability, a number of line items that were a direct charge against the general fund in prior years have been moved into the department budgets. For example: the cost of legal services has been moved into the Town Manager's budget and the Combined Dispatch Center and actual services provided by the Humane Society of Pagosa Springs have been move into the Police Department budget. General copy costs are accumulated within the Town Clerk's budget, however cell phones were redistributed from the Clerk's Department to each individual department. The cemetery revenues were repositioned to the capital fund along with the associated expenses. Amortization schedules for the town's existing debt service have also been included as attachments to the budget.

## STAFFING

In 2009, the town decreased staffing by 3 full time employees, including Assistant Manager, Director of Planning and Assistant Police Chief. In 2010, the Town will decrease staffing in the police department by 1 position and add an intern (partially funded by the Department of Local Affairs). As is 2009, Town staff will not receive any cost of living increase in 2010. The last Salary Survey was completed in 2005.

## AUDIT OF TOWN EXPENDITURES

Available for public review is an audit of the Town's 2008 expenditures dated January 27, 2009.

## OVERVIEW OF THE FINANCIAL STATEMENTS

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

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

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

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

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

### Town-wide Statements

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

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

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

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

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

## Fund Financial Statements

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

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

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

The Town has the following funds:

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

## FINANCIAL ANALYSIS OF THE TOWN AS A WHOLE

Total net assets increased by \$1,815,186. Cash decreased \$957,219, but only because the \$1,500,000 loan was paid off

The Town's total governmental revenues were \$4,728,865. Over 64% of the Town's revenues came from sales taxes.

### Governmental Activities

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

### General Fund Budgetary Highlights

Actual expenditures (including reserves) were \$205,420 below budget amounts. Actual revenues were more than budgeted amounts, by \$29,655.

## CAPITAL ASSETS

At the end of 2009, the Town had invested in a broad range of capital assets, including land, equipment and buildings.

Town's Capital Assets	
Land	\$ 1,016,376
Streets	9,470,537
Buildings	2,608,438
Equipment	764,937
Geothermal	1,182,419
Sanitation	<u>3,457,144</u>
Totals	18,499,851
Less Accumulated Depreciation	<u>(3,102,304)</u>
Net Capital Assets	\$15,397,547

## CONTACTING THE TOWN'S FINANCIAL MANAGEMENT

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

## Basis Financial Statements

TOWN OF PAGOSA SPRINGS  
 Statements of Net Assets  
 December 31, 2009

	Primary Government		Total
	Governmental Activities	Business Type Activities	
<b>ASSETS</b>			
Current assets			
Cash	\$ 1,642,864	\$ 884,146	\$ 2,527,010
Cash held by County	1,119	548	1,667
Account receivables	919,904	54,015	973,919
Tax receivables	108,879	100,431	209,310
Total Current Assets	<u>2,672,766</u>	<u>1,039,140</u>	<u>3,711,906</u>
Capital Assets			
Fixed assets net of depreciation	12,444,681	2,952,866	15,397,547
Total Assets	<u>\$ 15,117,447</u>	<u>\$ 3,992,006</u>	<u>\$ 19,109,453</u>
<b>LIABILITIES</b>			
Current liabilities			
Accounts Payable and Accrued	\$ 164,080	\$ 10,299	\$ 174,379
Deferred revenue	108,879	100,431	209,310
Current portion of long term debt	188,086	47,375	235,461
Impact fees	169,802		169,802
Total Current Liabilities	<u>630,847</u>	<u>158,105</u>	<u>788,952</u>
Long term liabilities			
Debt payable	<u>850,375</u>	<u>262,802</u>	<u>1,113,177</u>
Total Liabilities	<u>\$ 1,481,222</u>	<u>\$ 420,907</u>	<u>\$ 1,902,129</u>
Net Assets			
Capital assets net of related debt	\$ 11,406,220	\$ 2,642,689	\$ 14,048,909
Reserved for emergencies	55,916		55,916
Designated for Health	138,263		138,263
Unrestricted	<u>2,035,826</u>	<u>928,410</u>	<u>2,964,236</u>
Total Net Assets	<u>\$ 13,636,225</u>	<u>\$ 3,571,099</u>	<u>\$ 17,207,324</u>

See accompanying notes

TOWN OF PAGOSA SPRINGS  
Statement of Activities  
For the Year Ended December 31, 2009

Functions/Programs	Program Revenues			Net (Expense) Revenues and Changes in Net Assets		
	Expenses	Charges for Services	Miscellaneous Grants	Governmental Activities	Business- Type Activities	Total
<b>Governmental Activities:</b>						
General Government	\$ (834,306)	\$ 299,223	\$ 217,417	\$ (317,666)		\$ (317,666)
Public safety	(645,906)			(645,906)		(645,906)
Public works	(1,621,324)		462,876	(1,158,445)		(1,158,445)
Total	<u>(3,101,536)</u>	<u>299,223</u>	<u>680,293</u>	<u>(2,122,017)</u>		<u>(2,122,017)</u>
<b>Business-type Activities:</b>						
Enterprise funds	<u>(685,053)</u>	<u>812,849</u>			<u>127,796</u>	<u>127,796</u>
Total	<u>(685,053)</u>	<u>812,849</u>			<u>127,796</u>	<u>127,796</u>
<b>Governmental and Business- Type Activities Totals</b>	<b>\$ <u>(3,786,589)</u></b>	<b>\$ <u>1,112,072</u></b>	<b>\$ <u>680,293</u></b>	<b>\$ <u>(2,122,017)</u></b>	<b>\$ <u>127,796</u></b>	<b>\$ <u>(1,994,221)</u></b>
<b>General revenues:</b>						
Taxes				3,690,770	82,094	3,772,864
Other				39,939		39,939
Interest income				18,637	23,683	42,320
Plant investment					101,500	101,500
Interest expense				<u>(57,497)</u>	<u>(89,719)</u>	<u>(147,216)</u>
Total General Revenues				<u>3,691,849</u>	<u>117,558</u>	<u>3,809,407</u>
Changes in net assets				1,569,832	245,354	1,815,186
Net assets, January 1, 2009				<u>15,637,492</u>	<u>3,325,745</u>	<u>18,963,237</u>
Net assets, December 31, 2009				<u>\$ 17,207,324</u>	<u>\$ 3,571,099</u>	<u>\$ 20,778,423</u>

See accompanying notes

TOWN OF PAGOSA SPRINGS, COLORADO  
 Balance Sheet  
 Governmental Funds  
 December 31, 2009

	Governmental Fund Types			Total Governmental Funds
	General	Capital Improvement	Conservation Trust	
<b>ASSETS</b>				
Cash	\$ 1,289,863	\$ 295,017	\$ 57,984	\$ 1,642,864
Cash held by County	1,119			1,119
Account receivables	469,887	450,017		919,904
Taxes receivable	108,879			108,879
<b>Total Assets</b>	<b>\$ 1,869,748</b>	<b>\$ 745,034</b>	<b>\$ 57,984</b>	<b>\$ 2,672,766</b>
<b>LIABILITIES</b>				
Accrued expenses	\$ 115,185	\$ 41,192		\$ 156,377
Account payables	7,703			7,703
Deferred revenue	108,879			108,879
Impact fees	169,802			169,802
<b>Total Liabilities</b>	<b>401,569</b>	<b>41,192</b>		<b>442,761</b>
<b>FUND EQUITY</b>				
Fund Balances:				
Reserved for parks			57,984	57,984
Reserved for emergencies	55,916			55,916
Designated for health	138,263			138,263
Undesignated	1,274,000	703,842		1,977,842
<b>Total Fund Equity</b>	<b>1,468,179</b>	<b>703,842</b>	<b>57,984</b>	<b>2,230,005</b>
<b>TOTAL LIABILITIES AND FUND EQUITY</b>	<b>\$ 1,869,748</b>	<b>\$ 745,034</b>	<b>\$ 57,984</b>	<b>\$ 2,672,766</b>

See accompanying notes

TOWN OF PAGOSA SPRINGS  
 Reconciliation of the Governmental Funds Balance Sheet  
 To the Statement of Net Assets  
 For the Year Ended December 31, 2009

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

Total fund balance - governmental funds	\$ 2,230,005
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Capital assets used in governmental activities are not financial resources and therefore are not reported as assets in governmental funds.

	\$ 13,724,815	
The cost of capital assets is		
Accumulated depreciation is	<u>(1,280,134)</u>	
		12,444,681

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

Capital Lease	<u>(1,038,461)</u>
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Total net assets - governmental activities	\$ <u>13,636,225</u>
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See accompanying notes

TOWN OF PAGOSA SPRINGS, COLORADO  
Statement of Revenue, Expenditures and  
Changes in Fund Balances  
Governmental Funds  
Year Ended December 31, 2009

	<u>General</u>	<u>Capital Improvement</u>	<u>Conservation Trust</u>	<u>Total Governmental Funds</u>
<b>REVENUE</b>				
Taxes	\$ 2,110,393	\$ 1,580,377	\$	\$ 3,690,770
Licenses & permits	73,598			73,598
Intergovernmental and grants	171,177	462,876	46,243	680,296
Charges for services	183,318			183,318
Fines and forfeits	42,307			42,307
Interest	18,186		451	18,637
Other	6,240	33,699		39,939
	<u>2,605,219</u>	<u>2,076,952</u>	<u>46,694</u>	<u>4,728,865</u>
<b>EXPENDITURES</b>				
General government	664,421	228,813		893,234
Public safety and Courts	791,848	2,964		794,812
Public works		396,328		396,328
Tourism	386,517			386,517
Parks and recreation	319,521	187,327		506,848
Public support	88,089			88,089
Capital outlay and debt service		805,892	75,000	880,892
	<u>2,250,396</u>	<u>1,621,324</u>	<u>75,000</u>	<u>3,946,720</u>
<b>EXCESS (DEFICIENCY) OF REVENUE OVER EXPENDITURES</b>	354,823	455,628	(28,306)	782,145
<b>FUND BALANCE BEGINNING OF YEAR</b>	<u>1,113,357</u>	<u>248,214</u>	<u>86,290</u>	<u>1,447,861</u>
<b>FUND BALANCE END OF YEAR</b>	<u>\$ 1,468,179</u>	<u>\$ 703,842</u>	<u>\$ 57,984</u>	<u>\$ 2,230,005</u>

See accompanying notes

TOWN OF PAGOSA SPRINGS  
 Reconciliation of the Statement of Revenues, Expenditures and Changes  
 In Fund Balances of Governmental Funds to the Statement of Activities  
 For the Year Ended December 31, 2009

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

Net change in fund balances – total government funds	\$ 782,144
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Governmental funds report capital outlays as expenditures. However, in the statement of activities the cost of those assets is allocated over their estimated useful lives and reported as depreciation expense. This is the amount by which capital outlays exceeded depreciation in the current period.	880,892
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The net effect of various miscellaneous transactions involving capital assets (depreciation) is to increase net assets.	(272,401)
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The issuance of long-term debt (e.g., bonds, leases) provides current financial resources to governmental funds, while the repayment of the principal of long-term debt consumes the current financial resources of governmental funds. Neither transaction, however, has any effect on net assets. Also, governmental funds report the effect of issuance costs, premiums, discounts and similar items when debt is first issued, whereas these amounts are deferred and amortized in the statement of activities. This amount is the net effect of these differences in the treatment of long-term debt and related items.	<u>179,197</u>
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Change in net assets of governmental activities	<u>\$ 1,569,832</u>
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TOWN OF PAGOSA SPRINGS, COLORADO  
Statement of Revenue, Expenditures and Changes in  
Fund Balance Budget and Actual  
General Fund  
Year Ended December 31, 2009

	General Fund			
	Budgeted Amounts		Actual	Variance Favorable (Unfavorable)
	Original	Final		
REVENUE				
Taxes	\$ 2,160,921	\$ 2,160,921	\$ 2,110,393	\$ (50,528)
Licenses & permits	108,063	108,063	73,598	(34,465)
Intergovernmental	108,625	108,625	171,177	62,552
Charges for services	142,258	142,258	183,318	41,060
Fines and forfeits	20,500	20,500	42,307	21,807
Interest	10,000	10,000	18,186	8,186
Other	25,197	25,197	6,240	(18,957)
	2,575,564	2,575,564	2,605,219	29,655
EXPENDITURES				
General government	820,676	846,426	664,421	182,005
Public safety and Courts	835,128	835,128	791,848	43,280
Tourism	337,950	337,950	386,517	(48,567)
Parks and recreation	334,290	334,290	319,521	14,769
Public support	102,022	102,022	88,089	13,933
	2,430,066	2,455,816	2,250,396	205,420
EXCESS (DEFICIENCY) OF REVENUE OVER EXPENDITURES	145,498	119,748	354,823	235,075
FUND BALANCE BEGINNING OF YEAR	1,113,357	1,113,357	1,113,357	-
FUND BALANCE END OF YEAR OF YEAR	\$ 1,258,855	\$ 1,233,105	\$ 1,468,180	\$ 235,075

See accompanying notes

TOWN OF PAGOSA SPRINGS, COLORADO  
Statement of Revenue, Expenditures and Changes in  
Fund Balance Budget and Actual  
Capital Improvement Fund  
Year Ended December 31, 2009

	General Fund			
	Budgeted Amounts		Actual	Variance Favorable (Unfavorable)
	Original	Final		
REVENUE				
Taxes	\$ 1,680,248	\$ 1,680,248	\$ 1,580,377	\$ (99,871)
Intergovernmental and grants	648,540	648,540	462,876	(185,664)
Other			33,699	33,699
 Total Revenue	<u>2,328,788</u>	<u>2,328,788</u>	<u>2,076,952</u>	<u>(251,836)</u>
EXPENDITURES				
General government	281,082	281,082	228,813	52,269
Public safety and Courts	4,000	4,000	2,964	1,036
Public works	419,392	419,392	396,328	23,064
Parks and recreation	191,938	191,938	187,327	4,611
Capital outlay and debt service	1,272,819	1,272,819	805,892	466,927
 Total Expenditures	<u>2,169,231</u>	<u>2,169,231</u>	<u>1,621,324</u>	<u>547,907</u>
 EXCESS (DEFICIENCY) OF REVENUE OVER EXPENDITURES	<u>159,557</u>	<u>159,557</u>	<u>455,628</u>	<u>296,071</u>
 FUND BALANCE BEGINNING OF YEAR	<u>248,214</u>	<u>248,214</u>	<u>248,214</u>	<u>-</u>
 FUND BALANCE END OF YEAR OF YEAR	<u>\$ 407,771</u>	<u>\$ 407,771</u>	<u>\$ 703,842</u>	<u>\$ 296,071</u>

See accompanying notes

TOWN OF PAGOSA SPRINGS, COLORADO  
Statement of Revenue, Expenditures and Changes in  
Fund Balance Budget and Actual  
Conservation Trust  
For Year Ended December 31, 2009

	Budgeted Amounts		Actual	Variance Favorable (Unfavorable)
	Original	Final		
REVENUE				
Intergovernmental	\$ 46,500	\$ 46,500	46,243	\$ (257)
Interest			451	451
	<u>46,500</u>	<u>46,500</u>	<u>46,694</u>	<u>194</u>
Total Revenue				
EXPENDITURES				
Parks	100,000	100,000	75,000	25,000
	<u>100,000</u>	<u>100,000</u>	<u>75,000</u>	<u>25,000</u>
Total Expenditures				
EXCESS (DEFICIENCY) OF REVENUE OVER EXPENDITURES	(53,500)	(53,500)	(28,306)	25,194
FUND BALANCE BEGINNING OF YEAR	86,290	86,290	86,290	-
FUND BALANCE END OF YEAR OF YEAR	\$ <u>32,790</u>	\$ <u>32,790</u>	\$ <u>57,984</u>	\$ <u>25,194</u>

See accompanying notes

TOWN OF PAGOSA SPRINGS, COLORADO  
Proprietary Funds  
Statement of Net Assets  
December 31, 2009

	Business-type Activities Enterprise Funds		
	Sanitation Fund	Geothermal Fund	Totals
<b>ASSETS</b>			
<b>Current Assets</b>			
Cash	\$ 686,634	\$ 197,512	\$ 884,146
Account receivables	39,766	14,249	54,015
Taxes receivable	100,431		100,431
Cash with County	548		548
<b>Total Current Assets</b>	<b>827,379</b>	<b>211,761</b>	<b>1,039,140</b>
<b>Capital Assets</b>			
Fixed assets, net	2,421,115	531,751	2,952,866
<b>Total Assets</b>	<b>3,248,494</b>	<b>743,512</b>	<b>3,992,006</b>
<b>LIABILITIES</b>			
<b>Current liabilities</b>			
Leave time	\$ 10,299	\$	\$ 10,299
Deferred revenue	100,431		100,431
Bonds payable, current	47,375		47,375
<b>Total Current Liabilities</b>	<b>158,105</b>		<b>158,105</b>
Long term liabilities	262,802		262,802
<b>Total Liabilities</b>	<b>420,907</b>		<b>420,907</b>
<b>Net Assets</b>			
Capital assets net of debt	2,110,938	531,751	2,642,689
Unrestricted	716,649	211,761	928,410
<b>Total Net Assets - Fund Level</b>	<b>\$ 2,827,587</b>	<b>\$ 743,512</b>	<b>\$ 3,571,099</b>

See accompanying notes

TOWN OF PAGOSA SPRINGS, COLORADO  
Proprietary Funds  
Statement of Revenues, Expenses and  
Changes in Fund Net Assets  
December 31, 2009

	Business-type Activities Enterprise Funds		
	Sanitation Fund	Geothermal Fund	Totals
Operating Revenue:			
Service fees and leases	\$ 615,642	\$ 197,207	\$ 812,849
Total Revenue	<u>615,642</u>	<u>197,207</u>	<u>812,849</u>
Operating Expenses:			
Personnel	62,393	9,110	71,503
Commodities	274,874	40,938	315,812
Contractual	192,144	38,854	230,998
Depreciation	43,092	23,648	66,740
Total Expenses	<u>572,503</u>	<u>112,550</u>	<u>685,053</u>
Income (Loss) From Operations	<u>43,139</u>	<u>84,657</u>	<u>127,796</u>
Non-Operating Revenue (Expense)			
Property tax	82,094		82,094
Interest expense	(89,719)		(89,719)
Interest income	23,683		23,683
Plant investments	101,500		101,500
Total Non-Operating Revenue	117,558	-	117,558
Changes in Net Assets	160,697	84,657	245,354
Net Assets Beginning of Year	<u>2,666,890</u>	<u>658,855</u>	<u>3,325,745</u>
Net Assets End of Year	<u>\$ 2,827,587</u>	<u>\$ 743,512</u>	<u>\$ 3,571,099</u>

See accompanying notes

TOWN OF PAGOSA SPRINGS, COLORADO  
Proprietary Funds  
Statement of Cash Flows  
For the Year Ended December 31, 2009

	Business-type Activities Enterprise Funds		
	Sanitation	Geothermal	Totals
<b>CASH FLOWS FROM OPERATING ACTIVITIES:</b>			
Cash Received from Customers	\$ 646,915	\$ 183,305	\$ 830,220
Cash Paid for Expenses	<u>(528,140)</u>	<u>(88,902)</u>	<u>(617,042)</u>
 NET CASH PROVIDED (USED) BY OPERATING ACTIVITIES	 118,775	 94,403	 213,178
 <b>CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES:</b>			
Payment on Bonds	(1,625,468)		(1,625,468)
Net Change in Inter Company		(3,257)	(3,257)
Tap Fees	101,500		101,500
Interest and Grants	23,683		23,683
Purchase of Fixed Assets	<u>(29,417)</u>		<u>(29,417)</u>
 CASH FLOWS FROM (USED) IN CAPITAL AND RELATED FINANCING ACTIVITIES	 (1,529,702)	 (3,257)	 (1,532,959)
 <b>CASH FLOWS FROM NON CAPITAL ACTIVITIES:</b>			
Taxes	<u>82,040</u>		<u>82,040</u>
 CASH FLOWS FROM NON CAPITAL ACTIVITIES	 82,040		 82,040
 NET INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS	 (1,328,887)	 91,146	 (1,237,741)
 <b>CASH AND CASH EQUIVALENTS:</b>			
Beginning of Year	<u>2,015,521</u>	<u>106,366</u>	<u>2,121,887</u>
 End of Year	 <u>\$ 686,634</u>	 <u>\$ 197,512</u>	 <u>\$ 884,146</u>

TOWN OF PAGOSA SPRINGS, COLORADO  
Proprietary Funds  
Combining Statement of Cash Flows  
For The Year Ended December 31, 2009

(continued)

RECONCILIATION OF OPERATING INCOME TO NET CASH  
PROVIDED BY OPERATING ACTIVITIES

	<u>Sanitation</u>	<u>Geothermal</u>	<u>Totals</u>
Operating Income (Loss)	\$ 43,139	\$ 84,657	\$ 127,796
Adjustments to Reconcile Operating Income to Net Cash Provided by Operating Activities:			
Increase Cash with County			0
Depreciation	43,092	23,648	66,740
Decrease in Accounts Payable	30,973		30,973
(Increase) Decrease in Accounts Receivable	<u>1,571</u>	<u>(13,902)</u>	<u>(12,331)</u>
NET CASH PROVIDED (USED) BY OPERATING ACTIVITIES	<u>\$ 118,775</u>	<u>\$ 94,403</u>	<u>\$ 213,178</u>

See accompanying notes

TOWN OF PAGOSA SPRINGS, COLORADO  
Notes to Financial Statements  
Year Ended December 31, 2009

NOTE (1) SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

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

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

Principles Determining Scope of Reporting Entity

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

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

Fund Accounting

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

They report the following major funds:

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

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

Measurement Focus, Basis of Accounting, and Financial Statements Presentations

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

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

TOWN OF PAGOSA SPRINGS, COLORADO  
Notes to Financial Statements  
December 31, 2009

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

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

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

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

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

All governmental fund types used the modified accrual basis of accounting. Revenues are recognized as soon as they are both measurable and available. "Measurable" means the amount of the transaction can be determined and "available" means collectible within the current period, or soon enough thereafter, to pay liabilities of the current period. Revenues are considered to be available if collected within 60 days after year-end.

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

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

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

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

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

TOWN OF PAGOSA SPRINGS, COLORADO  
Notes to Financial Statements  
December 31, 2009

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

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

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

Budgets and Budgetary Accounting

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

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

Joint Ventures

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

TOWN OF PAGOSA SPRINGS, COLORADO  
Notes to Financial Statements  
December 31, 2009

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

Colorado Intergovernmental Risk-Sharing Agency

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

Reserves

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

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

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

Revenue Recognition - Property Taxes

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

Cash Deposits and Cash Equivalents

Cash deposits at December 31, 2009, consisted of certificates of deposit with banks and savings and loans and cash in demand deposit accounts. For purposes of the statements of cash flows, the Water and Garbage Funds consider all such highly liquid deposits with an original maturity of less than three months to be cash equivalents.

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

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

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

TOWN OF PAGOSA SPRINGS, COLORADO

Notes to Financial Statements

December 31, 2009

NOTE (3) CAPITAL ASSETS, DEPRECIATION AND AMORTIZATION

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

In 2009, depreciation was \$272,401 for the General Fund, \$43,092 for the Sanation Fund and \$23,648 in the Geothermal Fund.

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

Buildings	50
Furniture, machinery and equipment	5-10

	Balance January 1, 2009	Additions	Deletions	Balance December 31, 2009
Non-depreciable Assets:				
Land	\$ 1,000,000	\$	\$	\$ 1,000,000
Total non-depreciable Assets	1,000,000			1,000,000
Depreciable Assets:				
Buildings	2,608,438			2,608,438
Equipment and vehicles	645,840			645,840
Infrastructure	8,832,739	637,798		9,470,537
Total Depreciable Assets	12,087,017	637,798		12,724,815
Less Accumulated Depreciation	(1,007,733)	(272,401)		(1,280,134)
Total Net Assets	\$ 12,079,284	\$ 365,397	\$	\$ 12,444,681

Business-Type Activities

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

	Balance January 1, 2009	Additions	Deletions	Balance December 31, 2009
Sewer Fund:				
Land	\$ 16,376	\$	\$	\$ 16,376
Sewer system	3,457,144			3,457,144
Equipment and vehicles	87,426	29,417		116,843
Accumulated Depreciation	(1,126,156)	(43,092)		(1,169,248)
Total Sewer Fund, net	\$ 2,434,790	\$ (13,675)	\$	\$ 2,421,115

TOWN OF PAGOSA SPRINGS, COLORADO  
Notes To Financial Statements  
December 31, 2009

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

Geothermal Fund:	Balance Jan. 1, 2009	<u>Additions</u>	<u>Deletions</u>	Balance Dec. 31, 2009
Geothermal System	\$ 1,182,419	\$	\$	\$ 1,182,419
Equipment & vehicles	2,254			2,254
Accumulated Depreciation	<u>(629,274)</u>	<u>(23,648)</u>	<u>          </u>	<u>(652,922)</u>
Total Geothermal Fund, net	<u>\$ 555,399</u>	<u>\$ (23,648)</u>	<u>\$</u>	<u>\$ 531,751</u>

The depreciation charged to the General Fund in 2009 was \$259,646, \$79,687 to the Sewer Fund and \$23,648 to the Geothermal Fund.

NOTE (4) CASH AND DEPOSITS

At December 31, 2009, the District had the following cash and investments:

Deposits \$ 2,527,010

Deposits

The Colorado Public Deposit Protection Act (PDPA) requires that all units of local government deposit cash in eligible public depositories. Eligibility is determined by state regulations. At December 31, 2009, the State regulatory commissioners had indicated that all financial institutions holding deposits for the District are eligible public depositories.

Amounts on deposit in excess of federal insurance levels must be collateralized by eligible collateral as determined by the PDPA. PDPA allows the financial institution to create a single collateral pool for all public funds held. The pool is to be maintained by another institution, or held in trust for all the uninsured public deposits as a group. The market value of the collateral must be at least equal to 102% of the uninsured deposits. At December 31, 2009, the District had bank deposits of \$2,635,750 collateralized with securities held by the financial institutions' agents but not in the District's name.

Cash and Investments

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

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

TOWN OF PAGOSA SPRINGS, COLORADO  
Notes to Financial Statements  
Year Ended December 31, 2009

NOTE (5) PENSION PLANS

Policemen's Pension

The New Hire fund is administered by the Fire and Police Pension Association (of Colorado), which is a multi-employer comprehensive plan. An actuarial study is performed annually. All new hire employees are covered by the plan and contribute 8% of their base salary. The Town is required to at least match the employee contributions. As of December 31, 2009 all police are eligible and participating in the plan.

The Town's total pension contributions for 2009 were \$28,119 for a payroll of \$351,488.

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

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

NOTE (6) RECEIVABLES

Receivables at December 31, 2009 consist of the following:

	<u>General Fund</u>	<u>Enterprise Fund</u>
Accounts Receivable	\$ 60,016	\$ 54,015
Property tax	108,879	
Sales tax	774,258	
Cigarette tax	1,573	
Source Gas	1,312	
Cable TV	7,280	
HUFT	5,483	
Telephone	11,424	
Grants	<u>58,558</u>	
	\$ 1,028,783	<u>\$ 54,015</u>

TOWN OF PAGOSA SPRINGS, COLORADO  
Notes to Financial Statements  
Year Ended December 31, 2009

NOTE (7) PROPERTY TAX

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

NOTE (8) RISK MANAGEMENT

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

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

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

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

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

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

TOWN OF PAGOSA SPRINGS, COLORADO  
Notes To Financial Statements  
Year Ended December 31, 2009

NOTE (8) RISK MANAGEMENT (continued)

Summary of financial information:	
Balance sheet date	12/31/08
Total assets	\$ 66,291,264
Total liabilities	<u>32,691,419</u>
Total equity	\$ 33,599,845
Revenue	\$ 26,490,950
Expenses	<u>18,997,029</u>
Excess of revenue over expenses	<u>\$ 7,493,921</u>

The December 31, 2009 financial statement was not available when this report was issued.

NOTE (9) CCOERA RETIREMENT PLAN

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

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

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

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 \$60,793 for a payroll of \$1,215,860

TOWN OF PAGOSA SPRINGS, COLORADO  
Notes to Financial Statements  
Year Ended December 31, 2009

NOTE (9) CCOERA RETIREMENT PLAN (continued)

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

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

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

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

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

Summary of financial information:	
Balance sheet date	06-30-09
	(000)
Total assets	\$ 814,321,009
Total liabilities	<u>428,229</u>
Total availability for benefits	813,892,780
Revenues and contributions	\$ 92,568,917
Expenses and benefits	<u>155,866,393</u>
Excess of revenue over expenses	<u>\$ ( 63,297,476)</u>

TOWN OF PAGOSA SPRINGS, COLORADO  
Notes to Financial Statements  
Year Ended December 31, 2009

NOTE (10) BUDGET APPROPRIATION

There was a supplemental budget in 2009.

NOTE (11) DEFICIT RETAINED EARNINGS

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

NOTE (12) TAX, SPENDING, AND DEBT LIMITATIONS

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

NOTE (13) LEASES AND COMMITMENTS

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

Ground Lease Agreement

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

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

Lease Between Coalition and Archuleta County

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

TOWN OF PAGOSA SPRINGS, COLORADO  
Notes to Financial Statements  
Year Ended December 31, 2009

NOTE (13) LEASES AND COMMITMENTS (continued)

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

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

NOTE (14) CAPITAL LEASE

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

<u>Long Term Debt</u>	<u>Beginning Of Year</u>	<u>Additions</u>	<u>Deletions</u>	<u>End of Year</u>
Capital Lease	\$ 1,217,657	\$	\$ 179,197	\$ 1,038,460
	<u>Year</u>	<u>Principal</u>	<u>Interest</u>	<u>Remaining Balance</u>
	2010	\$ 188,086	\$ 48,608	\$ 850,375
	2011	197,414	39,280	652,960
	2012	207,206	29,488	445,754
	2013	217,483	19,211	228,271
	2014	228,271	8,423	
		<u>\$ 1,038,460</u>	<u>\$ 145,010</u>	<u>\$</u>

NOTE (15) BONDS PAYABLE

Bonds payable at December 31, 2009 are comprised of the following:

General Obligation Sewer Bonds, issued May, 1977, are due in annual installments of \$15,000 plus 5% interest through 1989. The bonds were due and payable in 1989 and were paid when coupons were turned in to Pagosa Springs Sanitation. Bonds totaling \$10,000 are still outstanding as of December 31, 2009 and are currently due and payable.

A note payable to Water Pollution Control Revolving Fund in the original amount of \$640,000. Total loan is \$370,118. Note is payable in semi-annual payments of \$25,234 including interest at 4.5%.

TOWN OF PAGOSA SPRINGS, COLORADO  
Notes to Financial Statements  
Year Ended December 31, 2009

NOTE (15) BONDS PAYABLE (continued)

Note to State of Colorado Energy and Mineral Impact assistance program in the amount of \$15,000,000 payable \$120,364 per year at 5% interest until 2028. This note was paid off in 2009.

<u>Year</u>	<u>Payment</u>	<u>Principal</u>	<u>Interest</u>	<u>Balance</u>
2010	\$ 50,467	\$ 37,375	\$ 13,092	\$ 262,802
2011	50,467	39,075	11,392	223,727
2012	50,467	40,854	9,613	182,873
2013	50,467	42,714	7,753	140,159
2014	50,467	44,657	5,810	95,502
2015-2016	100,934	95,502	5,432	
	<u>\$ 353,269</u>	<u>\$ 300,177</u>	<u>\$ 53,092</u>	

Net Change in Debt

<u>Beginning of Year</u>	<u>Additions</u>	<u>Deletions</u>	<u>End of Year</u>
\$ 1,845,926	\$	\$ 1,535,749	\$ 310,177

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

NOTE (16) BUDGET LAW

There was no violation of budget law.

## Supplementary Information

GEOHERMAL				TOTALS			
Budgeted Amounts		Actual	Variance-Favorable (Unfavorable)	Budgeted Amounts		Actual	Variance-Favorable (Unfavorable)
Original	Final			Original	Final		
\$ 62,000	\$ 62,000	\$ 197,207	\$ 135,207	\$ 684,500	\$ 684,500	\$ 812,849	\$ 128,349
62,000	62,000	197,207	135,207	684,500	684,500	812,849	128,349
9,138	9,138	9,110	28	93,527	93,527	71,503	22,024
79,600	79,600	40,938	38,662	325,000	325,000	315,812	9,188
14,000	14,000	38,854	(24,854)	96,500	96,500	230,998	(134,498)
102,738	102,738	88,902	13,836	515,027	515,027	618,313	(103,286)
(40,738)	(40,738)	108,305	149,043	169,473	169,473	194,536	25,063
				1,250,000	1,250,000		(1,250,000)
				106,236	106,236	82,094	(24,142)
				(190,896)	(190,896)	(1,619,421)	(1,428,525)
				64,800	64,800	101,500	36,700
				2,000,000	2,000,000		(2,000,000)
				(5,210,420)	(5,210,420)	(29,417)	5,181,003
				(1,980,280)	(1,980,280)	(1,465,244)	515,036
(40,738)	(40,738)	108,305	149,043	(1,810,807)	(1,810,807)	(1,270,708)	540,099
		(23,648)				(66,740)	
						1,529,702	
						29,417	
		658,855				3,325,745	
		\$ 743,512				\$ 3,547,416	

SUPPORTING SCHEDULE OF COUNTIES, CITIES AND TOWNS ANNUAL  
STATEMENT OF RECEIPTS AND EXPENDITURES FOR ROADS,  
BRIDGES AND STREETS

**LOCAL HIGHWAY FINANCE REPORT**

City or County:  
Pagosa Springs, Colorado  
YEAR ENDING :  
December 2009

This Information From The Records Of (example - City of \_ or County of \_)  
Pagosa Springs

Prepared By:  
April Hessman  
Phone:  
970-264-4151

**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**

II. RECEIPTS FOR ROAD AND STREET PURPOSES		III. DISBURSEMENTS FOR ROAD AND STREET PURPOSES	
ITEM	AMOUNT	ITEM	AMOUNT
<b>A. Receipts from local sources:</b>		<b>A. Local highway disbursements:</b>	
1. Local highway-user taxes		1. Capital outlay (from page 2)	118,929
a. Motor Fuel (from Item I.A.5.)		2. Maintenance:	369,109
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	449,557	b. Snow and ice removal	
3. Other local imposts (from page 2)		c. Other	
4. Miscellaneous local receipts (from page 2)		d. Total (a. through c.)	
5. Transfers from toll facilities		4. General administration & miscellaneous	
6. Proceeds of sale of bonds and notes:		5. Highway law enforcement and safety	
a. Bonds - Original Issues		6. Total (1 through 5)	515,257
b. Bonds - Refunding Issues		<b>B. Debt service on local obligations:</b>	
c. Notes		1. Bonds:	
d. Total (a. + b. + c.)		a. Interest	
7. Total (1 through 6)	449,557	b. Redemption	
<b>B. Private Contributions</b>		c. Total (a. + b.)	
<b>C. Receipts from State government (from page 2)</b>	62,700	2. Notes:	
<b>D. Receipts from Federal Government (from page 2)</b>		a. Interest	
<b>E. Total receipts (A.7 + B + C + D)</b>	512,257	b. Redemption	
		c. Total (a. + b.)	
		3. Total (1.c + 2.c)	
		<b>C. Payments to State for highways</b>	
		<b>D. Payments to toll facilities</b>	
		<b>E. Total disbursements (A.6 + B.3 + C + D)</b>	515,257

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

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

**V. LOCAL ROAD AND STREET FUND BALANCE**

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

Notes and Comments:

**LOCAL HIGHWAY FINANCE REPORT**

STATE:  
Colorado  
YEAR ENDING (mm/yy):  
December 2009

**II. RECEIPTS FOR ROAD AND STREET PURPOSES - DETAIL**

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

ITEM	AMOUNT	ITEM	AMOUNT
<b>C. Receipts from State Government</b>		<b>D. Receipts from Federal Government</b>	
1. Highway-user taxes	62.700	1. FHWA (from Item I.D.5.)	
2. State general funds		2. Other Federal agencies:	
3. Other State funds:		a. Forest Service	
a. State bond proceeds		b. FEMA	
b. Project Match		c. HUD	
c. Motor Vehicle Registrations		d. Federal Transit Admin	
d. Other (Specify)		e. U.S. Corps of Engineers	
e. Other (Specify)		f. Other Federal	
f. Total (a. through e.)		g. Total (a. through f.)	0
4. Total (1. + 2. + 3.f)	62.700	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)
<b>A.1. Capital outlay:</b>			0
a. Right-Of-Way Costs			0
b. Engineering Costs			
c. Construction:			0
(1). New Facilities			0
(2). Capacity Improvements		118,929	118,929
(3). System Preservation			0
(4). System Enhancement & Operation			0
(5). Total Construction (1) + (2) + (3) + (4)	0		0
d. Total Capital Outlay (Lines 1.a. + 1.b. + 1.c.5)	0	118,929	118,929
			(Carry forward to page 1)

Notes and Comments:

