

TOWN OF PAGOSA SPRINGS GENERAL IMPROVEMENT DISTRICT

AUDITED FINANCIAL STATEMENTS

FOR THE PERIOD ENDED December 31, 2012

TOWN OF PAGOSA SPRINGS GENERAL IMPROVEMENT DISTRICT

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INDEPENDENT AUDITOR'S REPORT

To the Board of Trustees
Pagosa Springs General Improvement District
Pagosa Springs, Colorado

I have audited the accompanying financial statements of the business type activities of the Pagosa Springs General Improvement District, Pagosa Springs, Colorado as of and for the year ended December 31, 2012 as listed in the table of contents. These financial statements are the responsibility of the Pagosa Springs General Improvement District's management. My responsibility is to express an opinion on these general-purpose financial statements based on my audit.

I conducted my audit in accordance with generally accepted auditing standards. 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 general-purpose financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall general-purpose financial statement presentation. I believe that the audit provides a reasonable basis for my opinion.

In my opinion, the financial statements of the governmental activities referred to above present fairly, in all material respects, the financial position of the Pagosa Springs General Improvement District, Pagosa Springs, Colorado as of December 31, 2012 and the results of its operations for the year then ended in conformity with generally accepted accounting principles.

The management's discussion and analysis on pages 2 through 4 is not a required part of the basic financial statements but is supplementary information required by the Governmental Accounting Standards Board. 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.

Michael C. Branch
Certified Public Accountant
February 5, 2013

Management's Discussion and Analysis

TOWN OF PAGOSA SPRINGS GENERAL IMPROVEMENT DISTRICT

MANAGEMENT'S DISCUSSION AND ANALYSIS

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

FINANCIAL HIGHLIGHTS

On January 3, 2012, the District Board of Directors of Pagosa Area Water and Sanitation District Board of Directors (PAWSD) entered into an Intergovernmental Agreement (IGA) to determine if pumping the Town's sewage to the PAWSD Vista treatment plant is feasible for the Town sewer customers. The PSSGID Board approved spending \$50,000 in 2012 to discover the cost to install a pumping line. The Tulsa Oklahoma Engineering firm of Bartlett and West was hired and produced a feasibility study and Preliminary Engineering Report (PER). The feasibility study indicated a reasonable savings may be realized by town residents by pumping the wastewater to the PAWSD Vista treatment facility. During 2013, construction documents will be completed by Bartlett and West and bids for construction of a pipeline from downtown Pagosa Springs to the Vista treatment plant on Lyn Avenue will be received.

The District withdrew its application with the USDA in its plans to build a wastewater treatment plant and has directed its focus to the wastewater pipeline. The PSSGID is working with all of our Colorado state government partners to transfer grant and loan funding to the pipeline project.

The 2013 budget for the Pagosa Springs Sanitation General Improvement District (PSSGID or the District) was approved on December 13, 2012. The District revenue sources are property tax, service fees and plant investment fees. The District budget includes \$3,250,000 in loans and grants for the proposed treatment plant through Department of Local Government (DOLA), and Colorado Water and Power Authority (CWRPA). Per the IGA, PAWSD has agreed to finance the 2nd phase of the pipeline and the District has agreed to repay PAWSD for principle and loss opportunity on invested funds (LOIF) over a twenty year agreement. The 2013 assessed valuation for the District is \$39,248,186 down from \$39,622,541 in 2012. The 2013 mill levy of 2.301 mills, plus a refund/abatement of .005 mills, will generate \$90,506.

Estimated revenues of \$4,006,454, (includes mill levy and use fees and pipeline potential loans and grants) plus and estimated 2012 fund balance of \$1,467,376 will result in \$5,473,830 bring available for operations and capital improvements. Expenditures including the construction of the pipeline to the PAWSD treatment plant are set not to exceed \$3,319,140 during 2013. The estimated 2013 year-end cash reserve is \$2,154,690. The District will be required to decommission the old lagoon system after the completion of the pipeline project.

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 District's:

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

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

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

District-wide Statements

The District-wide statements report information about the District as a whole using accounting methods similar to those used by private companies. The statement of net assets includes all of the District'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 District-wide statements report the District's net assets and how they have changed. Net assets, the difference between the District's assets and liabilities, are one way to measure the District's financial health or *position*.

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

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

Fund Financial Statements

The fund financial statements provide more detailed information about the District's most significant *fund* — not the District 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 Directors establishes other funds to control and manage money for particular purposes or to show that it is properly using certain taxes and grants.

The District has the following fund: *Proprietary funds* – the Enterprise fund and the Sewer fund.

FINANCIAL ANALYSIS OF THE DISTRICT AS A WHOLE

Total net assets increased \$268,745. Cash increased \$384,285 in 2012.

CAPITAL ASSETS AND DEBT ADMINISTRATION

Capital Assets

At the end of 2012, the District had invested in a broad range of capital assets, including land, equipment and buildings.

District's Capital Assets

Sewer	\$ 3,457,144
Right of Way	16,376
Furniture	8,945
Equipment	<u>119,898</u>
Totals	3,602,363
Less Accumulated Depreciation	<u>1,408,236</u>
Net Capital Assets	\$ 2,194,127

CONTACTING THE DISTRICT'S FINANCIAL MANAGEMENT

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

Basic Financial Statements

TOWN OF PAGOSA SPRINGS GENERAL IMPROVEMENT DISTRICT
Statement of Net Assets
December 31, 2012

	Primary Government Business Type Activities	
	Enterprise Fund	Total
ASSETS		
Current Assets		
Cash	\$ 1,484,866	\$ 1,484,866
Accounts receivable (net)	72,142	72,142
Taxes receivable	90,506	90,506
Cash with County	562	562
Total Current Assets	1,648,076	1,648,076
Property, Plant and Equipment (Net)	2,194,128	2,194,128
TOTAL ASSETS	\$ 3,842,204	\$ 3,842,204
LIABILITIES		
Current Liabilities		
Leave time	\$ 1,001	\$ 1,001
Deferred revenue	90,506	90,506
Bonds payable current	42,713	42,713
Total Current Liabilities	134,220	134,220
Note Payable-Long term	140,159	140,159
TOTAL LIABILITIES	\$ 274,379	\$ 274,379
Net Assets		
Non Spendable	\$ 2,011,256	\$ 2,011,256
Unassigned	1,556,569	1,556,569
Total Net Assets	\$ 3,567,825	\$ 3,567,825

See accompanying notes

Town of Pagosa Springs General Improvement District
Statement of Activities
December 31, 2012

Funcitiions/Programs	<u>Expenses</u>	<u>Program Revenues</u> Charges for Services and Sales	<u>Total</u>
Business Type Activities			
Sewer Utility	\$ (533,436)	\$ 646,455	\$ 113,019

General Revenues

Other	48,750
Property Tax	99,854
Interest Expense	(9,613)
Plant Investment Fees	12,233
Interest Income	<u>4,502</u>
Total General Revenues	155,726
Change in Net Assets	268,745
Net Assets Beginning of Year	<u>3,299,080</u>
Net Assets End of Year	<u>\$ 3,567,825</u>

See accompanying notes

TOWN OF PAGOSA SPRINGS GENERAL IMPROVEMENT DISTRICT
Statement of Revenues, Expenses and
Change in Net Assets
December 31, 2012

	Business-type Activities Enterprise Fund	
	<u>Sewer</u>	<u>Total</u>
Operating Revenue		
Sales	\$ 646,455	\$ 646,455
Total Operating Revenue		
Operating Expenses		
Audit and legal	10,350	10,350
Salaries and benefits	66,641	66,641
Utilities	32,799	32,799
Maintenance and supplies	182,832	182,832
Administration	47,050	47,050
Engineering	86,762	86,762
Depreciation	76,969	76,969
Insurance	30,033	30,033
Total Operating Expenses	<u>533,436</u>	<u>533,436</u>
Profit from Operations	<u>113,019</u>	<u>113,019</u>
Non-Operating Revenues (Expenses)		
Property tax and SOT	99,854	99,854
Interest expense	(9,613)	(9,613)
Interest income	4,502	4,502
Plant investments fees	12,233	12,233
Other	48,750	48,750
Total Non-Operating Revenue	<u>155,726</u>	<u>155,726</u>
Change in Net Assets	<u>268,745</u>	<u>268,745</u>
Net Assets Beginning of Year	<u>3,299,080</u>	<u>3,299,080</u>
Net Assets End of Year	\$ 3,567,825	\$ 3,567,825

See accompanying notes

TOWN OF PAGOSA SPRINGS GENERAL IMPROVEMENT DISTRICT
Statement of Cash Flows
For the Period Ended December 31, 2012

	Business Type Activities
	Enterprise Fund
	Sewer
CASH FLOWS FROM OPERATING ACTIVITIES	
Cash received from customers	\$ 646,500
Cash paid for expenses	<u>(465,913)</u>
Net Cash Provided By (Used In) Operating Activities	180,587
CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES	
Proceeds from tap fees paid	12,233
Principal payments on long-term debt	(40,854)
Interest payments on long-term debt	(9,613)
Interest income and other	53,252
Proceeds from loan reimbursement	88,826
Increase in restricted cash	<u> </u>
Cash Provided By (Used In) Capital and Related Financing Activities	103,844
CASH FLOWS FROM NON-CAPITAL FINANCING ACTIVITIES	
Taxes received	<u>99,854</u>
Cash Provided By Non-Capital Financing Activities	99,854
Net Increase (Decrease) in Cash	<u>384,285</u>
CASH BEGINNING OF YEAR	<u>1,100,581</u>
CASH END OF YEAR	<u>\$ 1,484,866</u>

See accompanying notes

TOWN OF PAGOSA SPRINGS GENERAL IMPROVEMENT DISTRICT
 Comparative Statement of Cash Flows
 For the Year Ended December 31, 2012

RECONCILIATION OF OPERATING INCOME TO NET
 CASH PROVIDED BY OPERATING ACTIVITIES

	Business Type Activities
	Enterprise Fund
	Sewer
Operating Income	\$ 113,019
ADJUSTMENTS TO RECONCILE OPERATING INCOME (LOSS) TO NET CASH PROVIDED BY OPERATING ACTIVITIES	
Depreciation	76,968
Increase in receivables	45
Decrease in payables	(10,539)
Decrease in cash with county	1,094
NET CASH PROVIDED BY (USED IN) OPERATING ACTIVITIES	\$ <u>180,587</u>

See accompanying notes

TOWN OF PAGOSA SPRINGS GENERAL IMPROVEMENT DISTRICT
Schedule of Revenue, Expenses and Changes in Net Assets
Budget and Actual (Non-GAAP)
For The Year Ended December 31, 2012

	Budget		Actual	Variance- Favorable (Unfavorable)
	Original	Final		
OPERATING REVENUE				
Sanitation revenue	\$ 647,548	\$ 647,548	\$ 646,455	\$ (1,093)
Total Operating Revenue	647,548	647,548	646,455	(1,093)
OPERATING EXPENSES				
Audit and legal	12,500	12,500	10,350	2,150
Salary and benefits	100,920	100,920	66,641	34,279
Utilities	30,000	30,000	32,799	(2,799)
Maintenance and supply	195,500	195,500	182,832	12,668
Administration	51,524	51,524	47,050	4,474
Engineering	10,000	10,000	86,762	(76,762)
Insurance	42,500	42,500	30,033	12,467
Total Operating Expenses	442,944	442,944	456,467	(13,523)
Income (Loss) from Operation	204,604	204,604	189,988	(14,616)
NON-OPERATING REVENUE (EXPENSES)				
Property tax and SOT	96,205	96,205	99,854	3,649
Debt service	(295,396)	(295,396)	(50,467)	244,929
Interest income and Miscellaneous	8,600	8,600	53,252	44,652
Plant investment fees	7,800	7,800	12,233	4,433
Capital Outlay	(7,000,000)	(7,000,000)		7,000,000
Grants and loans	7,179,000	7,179,000		(7,179,000)
Total Non-Operating Revenue (Expenses)	(3,791)	(3,791)	114,872	118,663
Change in net assets	\$ 200,813	\$ 200,813	\$ 304,860	\$ 104,047
ADJUSTMENTS TO GAAP				
Depreciation, Net				
Principal Payments			(76,969)	
			40,854	
Net Assets Beginning of Year			3,299,080	
Net Assets End of Year			\$ 3,567,825	

See accompanying notes

Notes to Financial Statements

TOWN OF PAGOSA SPRINGS GENERAL IMPROVEMENT DISTRICT
Notes to Financial Statements
For the Year Ended December 31, 2012

NOTE (1) SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

On May 2, 2002, the Pagosa Springs Sanitation District held an election on the question of dissolution of the Pagosa Springs Sanitation District. The qualified voters of the Pagosa Springs Sanitation District voted in favor of dissolution. On December 5, 2001, the Town of Pagosa Springs adopted Ordinance No. 555, establishing the Town of Pagosa Springs General Improvement District to operate contingent upon the electors of the General Improvement District approving the question of assuming the debt of the Pagosa Springs Sanitation District. On April 2, 2002, the voters of the Town of Pagosa Springs voted to allow the General Improvement District to assume the debt.

The Pagosa Springs Sanitation District and the Town of Pagosa Springs entered into an agreement on March 1, 2001, which provided for the conveyance of all tangible and intangible assets and existing debt to the Town of Pagosa Springs General Improvement District.

Effective June 30, 2002, the Pagosa Springs Sanitation District ceased to exist, for any purpose.

The accounting policies of the Town of Pagosa Springs General Improvement District conform to generally accepted accounting principles as applicable to governmental enterprise funds. The following is a summary of the more significant policies:

Principles Determining Scope of Reporting Entity

The District's combined financial statements include the accounts of all District operations. The criteria for including organizations as component units within the District'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; District holds the corporate powers of the organization; the District appoints a voting majority of the organization's board; the District is able to impose its will on the organization; the organization has the potential to impose a financial benefit/burden on the District; there is fiscal dependency by the organization on the District.

Based on the aforementioned criteria, the Town of Pagosa Springs General Improvement District is a component unit of the Town of Pagosa Springs.

Proprietary Fund Types:

Enterprise Funds--Enterprise Funds are used to account for operations (a) that are financed and operated in a manner similar to private business enterprises - where the intent of the governing body is that the costs (expenses, including depreciation) of providing goods or services to the general public on a continuing basis be financed or recovered primarily

TOWN OF PAGOSA SPRINGS GENERAL IMPROVEMENT DISTRICT

Notes to Financial Statements
For the Year Ended December 31, 2012

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

through user charges or (b) where the governing body has decided that periodic determination of revenue earned, expenses incurred, and/or net income is appropriate for capital maintenance, public policy, management control, accountability, or other purposes.

Sewer Fund – accounts for all activities of the Sanitation department.

(C) Basis of Accounting

Basis of accounting refers to when revenue and expenses are recognized in the accounts and reported in the financial statements. Basis of accounting relates to the timing of the measurements made, regardless of the measurement focus applied.

All proprietary funds are accounted for using the accrual basis of accounting. Revenue is recognized when it is earned, and expenses are recognized when they are incurred.

Fund Accounting

The accounts of the District 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.

The District reports the following major funds:

Sanitation Fund is the District's primary operating fund. It accounts for all financial resources of the District.

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.

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

TOWN OF PAGOSA SPRINGS GENERAL IMPROVEMENT DISTRICT
Notes to Financial Statements
For the Year Ended December 31, 2012

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

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

subsequent private-sector guidance for their business-type activities and enterprise funds, subject to this same limitation. The District 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 use 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 due for collection in the following year and determined to be available.

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.

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

(D) Budgets and Budgetary Accounting

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

Prior to December 31, the Treasurer submits to the Board of Directors a proposed operating budget for the fiscal year commencing the following January 1. The operating budget includes proposed expenditures and the means of financing them. Public hearings are conducted to obtain taxpayer comments.

TOWN OF PAGOSA SPRINGS GENERAL IMPROVEMENT DISTRICT

Notes to Financial Statements
For the Year Ended December 31, 2012

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

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

Prior to December 31, the budget is adopted by the Board of Directors. A certified copy is then filed with the Division of Local Government.

Budgets are prepared on a Non-GAAP basis. Depreciation is not budgeted, but principal payments and capital outlay are budgeted.

The local governing body shall enact an ordinance or resolution making appropriations for the ensuing fiscal year.

Appropriations are adopted by resolution in total. Over expenditures are not deemed to exist unless the fund, as a total, has expenditures in excess of appropriations. All appropriations lapse at year-end. There was a supplemental budget approved during the year.

(E) Cash and Deposits

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

Deposits	\$ <u>1,484,866</u>
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Deposits

The Colorado Public Deposit Protection Act (PDPA) requires that all units of local government deposit cash in eligible public depositories. Eligibility is determined by state regulations. At December 31, 2012, the State regulatory commissioners had indicated that all financial institutions holding deposits for the District are eligible public depositories.

Amounts on deposit in excess of federal insurance levels must be collateralized by eligible collateral as determined by the PDPA. PDPA allows the financial institution to create a single collateral pool for all public funds held. The pool is to be maintained by another institution, or held in trust for all the uninsured public deposits as a group. The market value of the collateral must be at least equal to 102% of the uninsured deposits. At December 31, 2012, the District had bank deposits of \$1,484,860, 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

TOWN OF PAGOSA SPRINGS GENERAL IMPROVEMENT DISTRICT
Notes to Financial Statements
For the Year Ended December 31, 2012

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

(E) Cash and Investments (continued)

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

(F) Encumbrances

Encumbrance accounting, under which purchase orders, contracts, and other commitments for the expenditure of monies are recorded in order to reserve that portion of the applicable appropriations, is not employed.

NOTE (2) FIXED ASSETS

The District's property, plant equipment and infrastructure with useful lives of more than one year are stated at historical cost and comprehensively reported in the government-wide financial statements. The District maintains infrastructure asset records consistent with all other capital assets. Proprietary and component unit capital assets are also reported in their respective fund and combining component unit's financial statements. Donated assets are stated at fair market value on the date donated. The District 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.

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

Sewer System	50
Equipment	10
Furniture and fixtures	10

Depreciation expense was \$76,969 in the Sanitation Fund.

TOWN OF PAGOSA SPRINGS GENERAL IMPROVEMENT DISTRICT
Notes to Financial Statements
For the Year Ended December 31, 2012

NOTE (2) FIXED ASSETS (continued)

	Balance January 1, 2012	Additions	Deletions	Balance December 31, 2012
Sewer System	\$ 3,457,144	\$	\$	\$ 3,457,144
Right of Way	16,376			16,376
Furniture and Fixtures	8,945			8,945
Equipment	119,898			119,898
	<u>3,602,363</u>			<u>3,602,363</u>
Accumulated Depreciation (1,331,267)		(76,969)		(1,408,236)
Net Assets	<u>\$ 2,271,096</u>	<u>\$ (76,969)</u>	<u>\$</u>	<u>\$ 2,194,127</u>

NOTE (3) BONDS PAYABLE

Bonds payable at December 31, 2012 are comprised of the following:

A note payable to Water Pollution Control Revolving Fund in the original amount of \$640,000. Balance of note was \$182,872 at December 31, 2012. Note is payable in semi-annual payments of \$25,234 including interest at 4.5%.

<u>Year</u>	<u>Payment</u>	<u>Principal</u>	<u>Interest</u>	<u>Balance</u>
2013	\$ 50,467	\$ 42,714	\$ 7,753	\$ 140,158
2014	50,467	44,657	5,810	95,501
2015	50,467	46,689	3,778	48,812
2016	50,467	48,812	1,654	
	<u>\$ 201,868</u>	<u>\$ 182,872</u>	<u>\$ 18,995</u>	\$

Net Change in Debt Beginning of Year	Additions	Deletions	End of Year
<u>\$ 223,727</u>	<u>\$</u>	<u>\$ 40,855</u>	<u>\$ 182,872</u>

TOWN OF PAGOSA SPRINGS GENERAL IMPROVEMENT DISTRICT

Notes to Financial Statements
For the Year Ended December 31, 2012

On August 29, 2008, The Sanitation District entered into a loan agreement with The Water Pollution Control Revolving Fund for a \$2,000,000 loan to build a new sewer treatment plant. No draws were made and no interest accrued. On November 1, 2010, the District paid \$3,125 to the Revolving Fund which the District booked as an availability fee. However, in 2012, the Revolving Fund notified the District that this loan should not be accounted for as a construction loan but that the District is responsible for the principal balance regardless of how much has been drawn against the loan. The balance of unexpended loan proceeds are recorded as restricted cash.

In 2012, the District decided not to build a new sewer treatment plant and therefore will not need the \$2,000,000 loan. The loan was cancelled and interest and principle paid by the District was returned to the District. A total of \$126,054 was paid back. Of that amount, \$85,826 was return of principle and \$40,228 was return of interest. The return of interest was recorded as miscellaneous income.

NOTE (4) ACCUMULATED SICK \ VACATION PAY

The District has only one employee. An accrual of \$1,001 existed at December 31, 2012 for vacation and comp time.

NOTE (5) RECEIVABLES

Receivables at December 31, 2012 consist of the following:

Accounts receivable	\$ 84,175
Property tax receivable	\$ 90,506

NOTE (6) PROPERTY TAXES

Property taxes attach as an enforceable lien on property as of January 1. Taxes are levied January 1 and are due in full by April 30th or one-half due on the last day of February and the second half due on June 15th. The County bills and collects the property taxes, and remits them to the District. Property tax revenue is recognized when levied to the extent that it results in current receivables with an offset to deferred revenue.

NOTE (7) STATEMENT OF CASH FLOWS

For purposes of the statement of cash flows, the District considers all highly liquid investments (including restricted assets) with an original maturity of three months or less when purchased to be cash equivalents.

TOWN OF PAGOSA SPRINGS GENERAL IMPROVEMENT DISTRICT
Notes to Financial Statements
For the Year Ended December 31, 2012

NOTE (8) RISK MANAGEMENT

The District is exposed to various risks of loss related to injuries of employees while on the job and to property and casualty losses. The District 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 District 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.

NOTE (8) RISK MANAGEMENT (continued)

Summary of financial information:

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

The December 31, 2012 financial statement was not available when this report was issued.

NOTE (9) RISK MANAGEMENT-WORKMAN'S COMPENSATION

The District is exposed to various risks of loss related to injuries of employees while on the job. The District has purchased insurance through a commercial company for protection from said risk.

NOTE (10) 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 District believes it is in compliance with the requirements of the amendment. However, the District has made certain interpretations of the amendment's language in order to determine its compliance.