

Town of Paonia
Financial Statements and
Independent Auditor's Report
as of
December 31, 2013

Town of Paonia
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INDEPENDENT AUDITOR'S REPORT

To the Town Council
Town of Paonia, Colorado

We have audited the accompanying financial statements of the governmental activities, the business-type activities, each major fund, and the aggregate remaining fund information of the Town of Paonia, Colorado as of and for the year ended December 31, 2013, and the related notes to the financial statements, which collectively comprise the Town's basic financial statements as listed in the table of contents.

Management's Responsibility for the Financial Statements

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

Auditor's Responsibility

Our responsibility is to express opinions on these financial statements based on our audit. We conducted our audit in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement.

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

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

Opinions

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, the business-type activities, each major fund, and the aggregate remaining fund information of the Town of Paonia, Colorado, as of December 31, 2013, and the respective changes in financial position and, where applicable, cash flows thereof for the year then ended in accordance with accounting principles generally accepted in the United States of America.

Other Matters

Required Supplementary Information

Accounting principles generally accepted in the United States of America require that the management's discussion and analysis and budgetary comparison information on pages 3–11 and 39–44 be presented to supplement the basic financial statements. Such information, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board, who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. We have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements, and other knowledge we obtained during our audit of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

Other Information

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the Town of Paonia, Colorado basic financial statements. The combining and individual nonmajor fund financial statements, schedules, proprietary fund budget to actual, and local highway financial report are presented for purposes of additional analysis and are not a required part of the basic financial statements.

The combining and individual nonmajor fund financial statements, schedules, proprietary fund budget to actual, and local highway financial report are the responsibility of management and were derived from and relate directly to the underlying accounting and other records used to prepare the basic financial statements. Such information has been subjected to the auditing procedures applied in the audit of the basic financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the basic financial statements or to the basic financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the combining and individual nonmajor fund financial statements are fairly stated, in all material respects, in relation to the basic financial statements as a whole.

Blair and Associates, P.C.

Cedaredge, Colorado
March 31, 2013

TOWN OF PAONIA
Management's Discussion and Analysis
Fiscal Year Ended December 31, 2013

As management of the Town of Paonia (the "Town"), we offer readers of the Town's basic financial statements this narrative overview and analysis of the financial activities of the Town for the fiscal year ended December 31, 2013. We encourage readers to consider the information presented here in conjunction with additional information provided in the financial statements.

FINANCIAL HIGHLIGHTS

- The Town's assets exceeded its liabilities by \$9,544,118 (i.e. net assets) as of December 31, 2013, decrease of \$205,530 in comparison to the prior year.
- Governmental funds reported combined ending fund balances of \$466,748, a decrease of \$350,699 in comparison with the prior year.
- The Town's fund balance for the General Fund was \$387,311, decrease of \$293,407 in comparison to the prior year.
- Total long-term liabilities were \$2,360,299 for 2013 with no new debt in 2013.
- General property, sales and franchise taxes totaled \$530,740, or 55% of Governmental Activity revenues.

OVERVIEW OF FINANCIAL STATEMENTS

This discussion and analysis is intended to serve as an introduction to the Town's basic financial statements. The basic statements are comprised of three components: 1) government-wide financial statements, 2) fund financial statements, and 3) notes to the financial statements.

Government-wide Financial Statements

The government-wide financial statements are designed to provide readers with a broad overview of the Town's finances in a manner similar to a private-sector business.

The **statement of net position** presents information on all the Town's position and liabilities, with the difference between the two being reported as net position. Over time, the increases or decreases in net assets may serve as a useful indicator of whether the financial position of the Town is improving or deteriorating.

The **statement of activities** presents information showing how the Town's net position changed during the most recent fiscal year. All changes in net position are reported as soon as the underlying event giving rise to the change occurs, *regardless of the timing of related cash flows*. Thus, revenues and expenses reported in this statement for some items will result in cash flows in future periods (e.g. uncollected taxes and earned but unused personal time).

The government-wide financial statements distinguish functions of the Town that are principally supported by taxes and intergovernmental revenues (*Governmental Activities*) from other functions that are intended to recover all or a significant portion of their costs through user fees and charges (*Business-type Activities*). The Governmental Activities of the Town include general government administration, police, public works, and culture and recreation. The Business-type Activities of the Town include the following utilities: water, sewer, and trash.

Fund Financial Statements

A *fund* is a grouping of related accounts that is used to maintain control over resources that have been segregated for specific activities or objectives. Fund accounting is used to ensure and demonstrate compliance with finance-related legal requirements. The Town's funds can be divided into three categories: Governmental Funds, Proprietary Funds and Fiduciary Funds.

Governmental Funds – *Governmental funds* are used to account for essentially the same functions reported as *governmental activities* in the government-wide financial statements. However, unlike the government-wide financial statements, governmental fund financial statements focus on *short-term inflows and outflows of spendable resources*, as well as on *balances of spendable resources* available at the end of the fiscal year. Such information may be useful in evaluating a government's short-term financing requirements. The accounting method is called *modified accrual* accounting.

Because the focus of governmental funds is narrower than that of the government-wide financial statements, it is useful to compare the information presented for governmental activities in the *governmental funds* with similar information presented for *governmental activities* in the government-wide financial statements. By doing so, readers may better understand the long-term impact of the government's short-term financing decisions. Both the governmental fund balance sheet and the governmental fund statement of revenues, expenditures, and changes in fund balances provide a reconciliation to facilitate this comparison between *governmental funds* and *governmental activities*.

The Town maintains three major government funds, the General, Sales Tax Capital Improvement, and Conservation Trust. Information is presented separately in the governmental fund balance sheet and in the governmental fund statement of revenues, expenditures, and changes in fund balances for the major funds.

Proprietary Funds – The Town maintains one type of proprietary fund. *Enterprise Funds* are used to report the same functions presented as *business-type activities* in the government-wide financial statements. The Town uses a separate enterprise fund to account for each of its utility funds: Water and Sanitation Funds.

Notes to Basic Financial Statements

The notes provide additional information that is essential to a full understanding of the data provided in the financial statements.

GOVERNMENT-WIDE FINANCIAL ANALYSIS

Net Position

As noted previously, net position may serve over time as a useful indicator of the Town's financial position. For the year ended December 31, 2013, the Town's combined assets exceeded liabilities by \$9,544,118. Of this amount, \$1,687,609 is unrestricted and available to meet the Town's ongoing financial obligations.

By far the largest portion of net position is the investment in capital assets (net of related debt) of \$7,748,736 (81% of net assets). This amount reflects the investment in all capital assets (e.g. infrastructure, land, buildings, and equipment) less any related debt used to acquire those assets that are still outstanding. These capital assets are used to provide services to citizens; consequently, these assets are not available for future spending. Although the investment in capital assets is reported net of debt, it should be noted that the resources needed to repay this debt must be provided from other sources since capital assets themselves cannot be used to liquidate these liabilities.

The following table summarizes the Town's governmental and business-type net assets for 2013 and 2012:

	Governmental Activities		Business Type Activities		Totals	
	2012	2013	2012	2013	2012	2013
Assets						
Current and other assets	\$ 1,678,271	\$ 980,058	\$ 1,475,308	\$ 1,369,447	\$ 3,153,579	\$ 2,349,505
Capital assets	2,065,925	2,377,883	7,845,181	7,731,152	9,911,106	10,109,035
Total assets	<u>\$ 3,744,196</u>	<u>\$ 3,357,941</u>	<u>\$ 9,320,489</u>	<u>\$ 9,100,599</u>	<u>\$ 13,064,685</u>	<u>\$ 12,458,540</u>
Current Liabilities	\$ 47,691	\$ 26,077	\$ 28,687	\$ 6,819	\$ 76,378	\$ 32,896
Non-current liabilities						
Compensated absences	22,273	33,994	-	-	22,273	33,994
Loans payable	-	-	2,403,253	2,360,299	2,403,253	2,360,299
Total liabilities	<u>69,964</u>	<u>60,071</u>	<u>2,431,940</u>	<u>2,367,118</u>	<u>2,501,904</u>	<u>2,427,189</u>
Deferred inflows of resources						
Deferred other revenue	723,333	397,333	-	-	723,333	397,333
Deferred property taxes	89,800	89,900	-	-	89,800	89,900
Total deferred inflow of resources:	<u>813,133</u>	<u>487,233</u>	<u>-</u>	<u>-</u>	<u>813,133</u>	<u>487,233</u>
Net Position						
Investment in capital assets						
Net of related debt	2,065,925	2,377,883	5,441,928	5,370,853	7,507,853	7,748,736
Restricted	28,745	32,792	145,201	74,981	173,946	107,773
Unrestricted	766,429	399,962	1,301,420	1,287,647	2,067,849	1,687,609
Total net position	<u>\$ 2,861,099</u>	<u>\$ 2,810,637</u>	<u>\$ 6,888,549</u>	<u>\$ 6,733,481</u>	<u>\$ 9,749,648</u>	<u>\$ 9,544,118</u>

An additional portion of net position, \$107,773, represents resources that are subject to external restrictions on how they may be used.

The remaining balance of unrestricted net position, \$1,687,609 (18% of net position), may be used to meet the government's ongoing obligations to citizens and creditors.

Change in Net Position

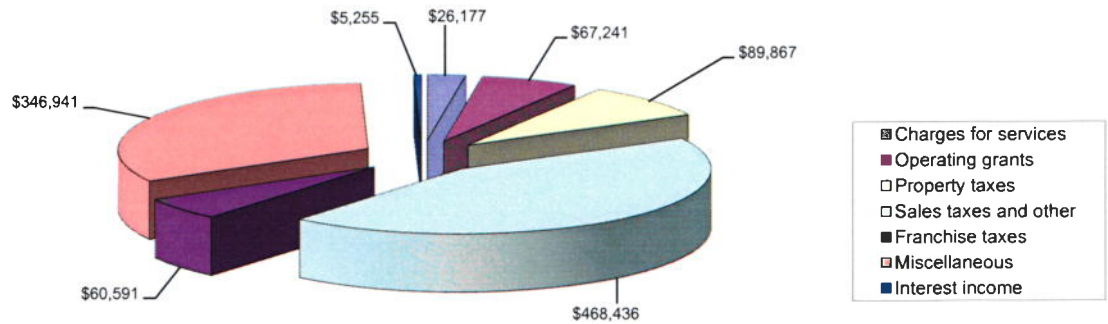
Governmental and business-type activities decreased the Town's net position by \$205,530 in 2013.

	Governmental Activities		Business Type Activities		Total	
	2012	2013	2012	2013	2012	2013
Revenues						
Program revenues						
Charges for services	\$ 27,865	\$ 26,177	\$ 1,021,893	\$ 1,034,786	\$ 1,049,758	\$ 1,060,963
Operating grants	67,763	67,241	-	-	67,763	67,241
Capital grants	-	-	155,839	3,750	155,839	3,750
General Revenues						
Property taxes	88,644	89,867	-	-	88,644	89,867
Sales taxes and other	477,378	468,436	-	-	477,378	468,436
Franchise taxes	55,896	60,591	-	-	55,896	60,591
Miscellaneous	62,930	346,941	350	422	63,280	347,363
Interest income	4,495	5,255	55	40	4,550	5,295
Transfers	416,513	-	(416,513)	-	-	-
Totals	<u>1,201,484</u>	<u>1,064,508</u>	<u>761,624</u>	<u>1,038,998</u>	<u>1,963,108</u>	<u>2,103,506</u>
Expenses						
General government	241,022	209,605	-	-	241,022	209,605
Public safety	404,620	426,959	-	-	404,620	426,959
Public works	213,901	191,916	1,071,224	1,114,242	1,285,125	1,306,158
Culture and recreation	141,711	114,261	-	-	141,711	114,261
Total expenses	<u>1,001,254</u>	<u>942,741</u>	<u>1,071,224</u>	<u>1,114,242</u>	<u>2,072,478</u>	<u>2,056,983</u>
Loss on employee fraud	-	(172,229)	-	(79,824)	-	(252,053)
Increase in net position	200,230	(50,462)	(309,600)	(155,068)	(109,370)	(205,530)
Beginning	<u>2,660,869</u>	<u>2,823,137</u>	<u>7,198,149</u>	<u>6,888,549</u>	<u>9,859,018</u>	<u>9,749,648</u>
Ending	<u>\$ 2,861,099</u>	<u>\$ 2,772,675</u>	<u>\$ 6,888,549</u>	<u>\$ 6,733,481</u>	<u>\$ 9,749,648</u>	<u>\$ 9,544,118</u>

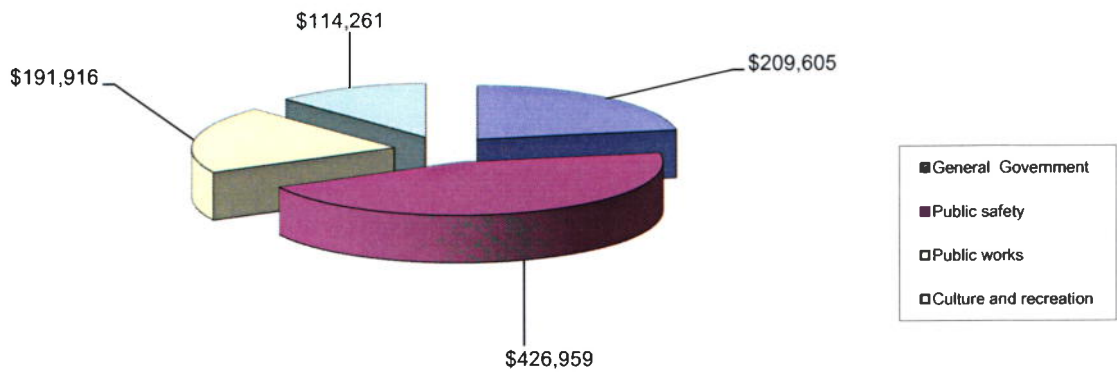
Governmental Activities

Governmental activities decreased the Town's net position by \$50,462.

Governmental Activities revenues for 2013



Governmental Activities expenses for 2013



Business-type Activities

Business-type activities for the year resulted in a decrease in net position of \$155,068. Charges for services accounted for 99% of total revenues.

FINANCIAL ANALYSIS OF GOVERNMENT'S FUNDS

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

As of the end of 2013, the Town's governmental funds reported combined ending fund balances of \$466,748, decrease of \$350,699 in comparison with the prior year. Of the combined ending fund balances for all governmental funds 76% of this total amount, \$354,519, constitutes unreserved fund balance, which is available for appropriation at the Town's discretion. The remainder of the fund balance is restricted or committed to indicate that it is not available for new spending of \$112,229.

The Town has three major governmental funds the General Fund, which is the primary operating fund for the Town, Sales Tax Capital Improvement Fund and Conservation Trust Fund. At the end of 2013, unreserved fund balances of the General Fund and the Sales Tax Capital Improvement Fund were \$354,519 and \$77,980. As a measure of the General Fund's liquidity, it may be useful to compare both unreserved fund balance and total fund balance to total fund expenditures. The fund balance of the Town's General Fund decreased by \$293,407 during 2013.

Proprietary funds. The Town's proprietary fund statements provide the same type of information found in the government-wide financial statements, but in more detail.

The Town has two enterprise funds: Water Fund and Sanitation Fund. At the end of 2013, these funds represented the following net position amounts:

Fund:	Water	Sanitation
Unrestricted net position	\$ 748,610	\$ 539,037
Total net position	\$ 3,138,161	\$ 3,595,320
Decrease in net position	\$ 45,962	\$ 109,106

GENERAL FUND BUDGETARY HIGHLIGHTS

The Town budgeted \$1,123,862 for 2013 expenditures. Actual expenditures were \$1,106,860. There were amendments to the original budget for General Fund.

CAPITAL ASSET AND DEBT ADMINISTRATION

The Town's investment in capital assets for its governmental and business-type activities as of December 31, 2013, was \$10,109,035, increase of \$197,929 from the prior year. As required for this year by GASB 34, the investment in capital assets includes land, buildings, building improvements, and equipment.

	Balance January 1, 2013	Additions	Dispositions	Balance December 31, 2013
Governmental Activities				
Capital assets not being depreciated				
Land	\$ 246,481	\$ -	\$ -	\$ 246,481
	<u>246,481</u>	<u>-</u>	<u>-</u>	<u>246,481</u>
Capital assets being depreciated				
Buildings	609,359	-	-	609,359
Improvements other than buildings	437,576	-	(7,221)	430,355
Infrastructure	1,208,521	437,435	-	1,645,956
Equipment	629,331	14,000	(10,760)	632,571
	<u>2,884,787</u>	<u>451,435</u>	<u>(17,981)</u>	<u>3,318,241</u>
Less accumulated depreciation				
Buildings	(255,771)	(15,878)	-	(271,649)
Improvements	(191,527)	(20,662)	5,416	(206,773)
Infrastructure	(185,393)	(38,802)	-	(224,195)
Equipment	(432,652)	(61,254)	9,684	(484,222)
	<u>(1,065,343)</u>	<u>(136,596)</u>	<u>15,100</u>	<u>(1,186,839)</u>
Capital assets being depreciated, net	<u>1,819,444</u>	<u>314,839</u>	<u>(2,881)</u>	<u>2,131,402</u>
Total Governmental Activities Capital Assets	<u>\$ 2,065,925</u>	<u>\$ 314,839</u>	<u>\$ (2,881)</u>	<u>\$ 2,377,883</u>

	Balance January 1, 2013	Additions	Dispositions	Balance December 31, 2013
Business - Type Activities				
Capital assets not being depreciated				
Land	\$ 767,902	\$ -	\$ -	\$ 767,902
Capital assets being depreciated				
Reservoirs, improvements and water rights	71,736	-	(5,482)	66,254
Distribution system	991,814	61,599	(14,939)	1,038,474
Collection system	440,953	89,564	(1,041)	529,476
Vehicles and equipment	707,972	-	(63,730)	644,242
Treatment plant	8,748,748	8,597	(13,686)	8,743,659
Less accumulated depreciation	(3,883,944)	(273,021)	98,110	(4,058,855)
Capital assets being depreciated, net	<u>7,077,279</u>	<u>(113,261)</u>	<u>(768)</u>	<u>6,963,250</u>
Total Business-Type Activities Capital Assets	<u>\$ 7,845,181</u>	<u>\$ (113,261)</u>	<u>\$ (768)</u>	<u>\$ 7,731,152</u>

Long-term Debt

As of December 31, 2013, the Town had long-term debt as follows:

	Balance January 1, 2013	Additions	Reductions	Balance December 31, 2013	Due within one year
Governmental Activities					
Lease Payable	\$ 22,273	\$ 33,994	\$ 22,273	\$ 33,994	\$ -
Total	<u>\$ 22,273</u>	<u>\$ 33,994</u>	<u>\$ 22,273</u>	<u>\$ 33,994</u>	<u>\$ -</u>
Business- Type Activities					
RUS loan	\$ 1,778,552	\$ -	\$ 23,487	\$ 1,755,065	\$ 24,523
Loan-CWRPDA	335,167	-	19,466	315,701	17,897
Post-employment benefit	289,533	-	-	289,533	-
Total	<u>\$ 2,403,252</u>	<u>\$ -</u>	<u>\$ 42,953</u>	<u>\$ 2,360,299</u>	<u>\$ 42,420</u>

ECONOMIC FACTORS AND NEXT YEAR'S BUDGET AND RATES

- The Town is in good financial condition. The General Fund's unrestricted fund balance is equal to at least 35% of the General Fund's expenditures.
- The Town would like to maintain its General Fund unreserved fund balance to at least six months of approved expenditures.

REQUEST FOR INFORMATION

This financial report is designed to provide a general overview of the Town's finances for all those with an interest in the government's finances. Questions concerning any of the information provided in the report or requests for additional financial information should be addressed to:

Town Clerk
Town of Paonia
Paonia, Co

**Town of Paonia
Statement of Net Position
December 31, 2013**

	Governmental Activities	Business -Type Activities	Total
ASSETS			
Cash and cash equivalents	\$ (586,150)	\$ 1,136,920	\$ 550,770
Investments (Note 5)	1,432,078	-	1,432,078
Restricted Cash (Note 9)	-	74,981	74,981
Property taxes receivable	89,900	-	89,900
Accounts receivables	8,817	96,763	105,580
Due from other governments	35,413	-	35,413
Inventories	-	60,783	60,783
Capital assets: (Note 13)			
Nondepreciable	246,481	767,902	1,014,383
Depreciable, net of accumulated depreciation	2,131,402	6,963,250	9,094,652
Total assets	3,357,941	9,100,599	12,458,540
LIABILITIES			
Accounts payable	4,341	4,295	8,636
Accrued payroll liabilities	21,736	-	21,736
Accrued interest payable	-	2,524	2,524
Non current liabilities:			
Compensated absences (Note 1-J)	33,994	-	33,994
Due within one year (Note 6)	-	42,420	42,420
Due in more than one year (Note 6)	-	2,317,879	2,317,879
Total liabilities	60,071	2,367,118	2,427,189
Deferred inflows of resources			
Deferred other revenue (Note 1-D)	397,333	-	397,333
Deferred property tax revenue (Note 1-D)	89,900	-	89,900
Total deferred inflows of resources	487,233	-	487,233
NET POSITION			
Invested in capital assets, net of related debt	2,377,883	5,370,853	7,748,736
Restricted for:			
Emergencies (Note 3)	32,792	-	32,792
Water storage	-	4,253	4,253
Debt service (Note 6-A)	-	70,728	70,728
Unrestricted	399,962	1,287,647	1,687,609
Total net position	\$ 2,810,637	\$ 6,733,481	\$ 9,544,118

The accompanying notes are an integral part of this statement.

**Town of Paonia
Statement of Activities
For the Year Ended December 31, 2013**

Functions/Programs	Expenses	Program Revenues		
		Charges for Service and Fees	Operating Grants and Contributions	Capital Grants and Contributions
Primary government:				
Governmental activities:				
General government	\$ 209,605	\$ 20,654	\$ -	\$ -
Public Safety	426,959	5,523	-	-
Public Works	191,916	-	59,541	-
Culture and Recreation	114,261	-	7,700	-
Total governmental activities	<u>942,741</u>	<u>26,177</u>	<u>67,241</u>	<u>-</u>
Business-type activities:				
Water	515,782	523,823	-	-
Sanitation	598,460	510,963	-	3,750
Total business- type activities	<u>1,114,242</u>	<u>1,034,786</u>	<u>-</u>	<u>3,750</u>
Total primary government	<u>\$ 2,056,983</u>	<u>\$ 1,060,963</u>	<u>\$ 67,241</u>	<u>\$ 3,750</u>

General Revenues

Taxes:
 Property taxes
 Specific ownership
 Sales taxes and miscellaneous
 Franchise taxes
 Miscellaneous
 Severance tax
 Mineral leasing
 Investment earnings
 Loss on sale of assets
Total General Revenues

Loss on employee fraud (Note 14)

Changes in Net Position

Net Position-January 1

Net Position-December 31

Net (Expense) Revenue and Changes in Net Position
Primary Government

Governmental Activities	Business-Type Activities	Total
\$ (188,951)	\$ -	\$ (188,951)
(421,436)	-	(421,436)
(132,375)	-	(132,375)
(106,561)	-	(106,561)
<u>(849,323)</u>	<u>-</u>	<u>(849,323)</u>
-	8,041	8,041
-	(83,747)	(83,747)
-	(75,706)	(75,706)
<u>(849,323)</u>	<u>(75,706)</u>	<u>(925,029)</u>
89,867	-	89,867
12,698	-	12,698
367,584	-	367,584
60,591	-	60,591
349,822	1,190	351,012
28,836	-	28,836
59,318	-	59,318
5,255	40	5,295
(2,881)	(768)	(3,649)
<u>971,090</u>	<u>462</u>	<u>971,552</u>
<u>(172,229)</u>	<u>(79,824)</u>	<u>(252,053)</u>
(50,462)	(155,068)	(205,530)
<u>2,861,099</u>	<u>6,888,549</u>	<u>9,749,648</u>
<u>\$ 2,810,637</u>	<u>\$6,733,481</u>	<u>\$ 9,544,118</u>

The accompanying notes are an integral part of this statement.

**Town of Paonia
Governmental Funds
Balance Sheet
December 31, 2013**

	<u>General Fund</u>	<u>Sales Tax Improvement Fund</u>	<u>Capital Conservation Trust Fund</u>	<u>Total Governmental Funds</u>
Assets				
Cash and cash equivalents	\$ (656,873)	\$ 69,266	\$ 1,457	\$ (586,150)
Investments	1,432,078	-	-	1,432,078
Taxes receivable	89,900	-	-	89,900
Due from other governments	24,869	10,544	-	35,413
Accounts receivable	8,817	-	-	8,817
Total assets	<u>\$ 898,791</u>	<u>\$ 79,810</u>	<u>\$ 1,457</u>	<u>\$ 980,058</u>
Liabilities, Deferred inflows of resources and Fund Balance				
Liabilities:				
Accounts payable	\$ 2,511	\$ 1,830	\$ -	\$ 4,341
Accrued payroll liabilities	21,736	-	-	21,736
Total liabilities	<u>24,247</u>	<u>1,830</u>	<u>-</u>	<u>26,077</u>
Deferred inflows of resources				
Deferred revenue bridge agreement	397,333	-	-	397,333
Deferred property tax revenue	89,900	-	-	89,900
Total deferred inflows of resources	<u>487,233</u>	<u>-</u>	<u>-</u>	<u>487,233</u>
Fund balances:				
Restricted				
Reserve for emergencies	32,792	-	-	32,792
Parks and recreation	-	-	1,457	1,457
Committed-Capital Acquisition	-	77,980	-	77,980
Unassigned	354,519	-	-	354,519
Total fund balance	<u>387,311</u>	<u>77,980</u>	<u>1,457</u>	<u>466,748</u>
Total Liabilities, Deferred inflows of resources and Fund Balance	<u>\$ 898,791</u>	<u>\$ 79,810</u>	<u>\$ 1,457</u>	<u>\$ 980,058</u>

The accompanying notes are an integral part of this statement.

Town of Paonia
Reconciliation of the Governmental Funds Balance
Sheet to the Statement of Net Position
December 31, 2013

Total fund balance- governmental funds \$ 466,748

Amounts reported for governmental activities in the Statement of Net Position are different because:

Capital assets used in governmental activities are not financial resources and, therefore, are not reported as assets in the governmental funds.

Governmental capital assets	\$ 3,564,722	
Less: accumulated depreciation	<u>(1,186,839)</u>	2,377,883

Long-term liabilities that pertain to governmental funds, including bonds payable, are not due and payable in the current period and therefore are not reported as fund liabilities. All liabilities - both current and long-term - are reported in the statement of net position.

Balances at year-end are:

Compensated absences	<u>(33,994)</u>
----------------------	-----------------

Net Position of Governmental Activities in the Statement of Net Position \$2,810,637

The accompanying notes are an integral part of this statement.

**Town of Paonia
Governmental Funds
Statement of Revenues, Expenditures and Changes in Fund Balances
For the Year Ended December 31, 2013**

	General Fund	Sales Tax Capital Improvement Fund	Conservation Trust Fund	Total Governmental Funds
Revenues				
Taxes	\$ 395,016	\$ 135,724	\$ -	\$ 530,740
Fees and fines	5,323	-	-	5,323
Licenses and permits	20,854	-	-	20,854
Intergovernmental	147,695	-	7,700	155,395
Miscellaneous	355,075	-	2	355,077
Total revenues	<u>923,963</u>	<u>135,724</u>	<u>7,702</u>	<u>1,067,389</u>
Expenditures				
Current:				
General government	189,809	-	-	189,809
Public safety	420,276	-	-	420,276
Public works	108,080	-	-	108,080
Culture and recreation	66,175	-	10,084	76,259
Capital outlay	322,520	128,915	-	451,435
Total expenditures	<u>1,106,860</u>	<u>128,915</u>	<u>10,084</u>	<u>1,245,859</u>
Excess of revenues over expenditures	<u>(182,897)</u>	<u>6,809</u>	<u>(2,382)</u>	<u>(178,470)</u>
Loss on employee fraud	<u>(148,472)</u>	<u>(23,757)</u>	<u>-</u>	<u>(172,229)</u>
Net change to fund balance	(331,369)	(16,948)	(2,382)	(350,699)
Fund balance, January 1	680,718	94,928	41,801	817,447
Residual transfer	37,962	-	(37,962)	-
Fund balance, December 31	<u>\$ 387,311</u>	<u>\$ 77,980</u>	<u>\$ 1,457</u>	<u>\$ 466,748</u>

The accompanying notes are an integral part of this statement.

Town of Paonia
Reconciliation of the Governmental Funds Statement of Revenues, Expenditures,
and Changes in Fund Balances to the Statement of Activities
For the Year Ended December 31, 2013

Net change in fund balances - total governmental funds \$ (350,699)

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

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.

Fixed assets current additions	\$ 451,435	
Depreciation expense	(136,596)	
Excess of capital outlay over depreciation		314,839

Loss on sale of assets are reported in the statement of activities but are not recorded in the governmental funds.

Loss on sale of assets (2,881)

Payment of compensated absences is reported as expenditures in the governmental funds when actually paid. However, on the government-wide statement of changes in net assets compensated absences are expensed as they are accrued. Changes in the compensated absences liability.

(11,721)

Change in net assets of governmental funds

\$ (50,462)

The accompanying notes are an integral part of this statement.

**Town of Paonia
Statement of Net Position
Enterprise Funds
December 31, 2013**

	Enterprise Funds		
	Water Fund	Sanitation Fund	Total Enterprise Funds
ASSETS			
Current Assets:			
Cash and cash equivalents	\$ 655,024	\$ 481,896	\$ 1,136,920
Restricted cash	4,253	70,728	74,981
Accounts receivable, net	42,730	54,033	96,763
Inventories	51,879	8,904	60,783
Total current assets	<u>753,886</u>	<u>615,561</u>	<u>1,369,447</u>
Capital assets:			
Land and improvements	269,776	564,380	834,156
Utility system	5,040,831	5,270,778	10,311,609
Equipment and furniture	337,665	306,576	644,241
Less accumulated depreciation	<u>(2,657,740)</u>	<u>(1,401,114)</u>	<u>(4,058,854)</u>
Total capital assets	<u>2,990,532</u>	<u>4,740,620</u>	<u>7,731,152</u>
Total assets	<u>\$ 3,744,418</u>	<u>\$ 5,356,181</u>	<u>\$ 9,100,599</u>
LIABILITIES			
Current liabilities:			
Accounts payable	\$ 1,023	\$ 3,272	\$ 4,295
Accrued interest payable	-	2,524	2,524
Current portion of long term debt	<u>17,897</u>	<u>24,523</u>	<u>42,420</u>
Total current liabilities	<u>18,920</u>	<u>30,319</u>	<u>49,239</u>
Long term debt	<u>587,337</u>	<u>1,730,542</u>	<u>2,317,879</u>
NET POSITION			
Invested in capital assets, net of related debt	2,385,298	2,985,555	5,370,853
Restricted for water storage	4,253	-	4,253
Restricted for debt service	-	70,728	70,728
Unrestricted	<u>748,610</u>	<u>539,037</u>	<u>1,287,647</u>
Total net position	<u>\$ 3,138,161</u>	<u>\$ 3,595,320</u>	<u>\$ 6,733,481</u>

The accompanying notes are an integral part of this statement.

Town of Paonia
Statement of Revenues, Expenses and Changes in Fund Net Position
Enterprise Funds
Year Ended December 31, 2013

	Enterprise Funds		
	Water Fund	Sanitation Fund	Total
Operating revenues:			
Charges for services	\$ 523,823	\$ 510,963	\$ 1,034,786
Total operating revenues	523,823	510,963	1,034,786
Operating expenses:			
Personal services	202,563	228,180	430,743
Contractual services	14,878	29,534	44,412
Utilities	15,655	36,966	52,621
Repairs and maintenance	53,330	59,992	113,322
Other supplies and expenses	45,410	50,010	95,420
Insurance claims and expenses	15,835	5,575	21,410
Depreciation	162,339	110,682	273,021
Total operating expenses	510,010	520,939	1,030,949
Operating income (loss)	13,813	(9,976)	3,837
Nonoperating revenues (expenses):			
Interest income	40	-	40
Interest expense	(5,772)	(77,521)	(83,293)
Miscellaneous revenue	1,190	-	1,190
Loss on sale of assets	(768)	-	(768)
Total nonoperating revenues (expenses)	(5,310)	(77,521)	(82,831)
Income (loss) before transfers and capital contributions	8,503	(87,497)	(78,994)
Capital contributions-Tap fees	-	3,750	3,750
Loss on employee fraud	(54,465)	(25,359)	(79,824)
Change in net position	(45,962)	(109,106)	(155,068)
Total net position, January 1	3,184,123	3,704,426	6,888,549
Total net position, December 31	\$ 3,138,161	\$ 3,595,320	\$ 6,733,481

The accompanying notes are an integral part of this statement.

**Town of Paonia
Statement of Cash Flows
Enterprise Funds
Year Ended December 31, 2013**

	<u>Water Fund</u>	<u>Sanitation Fund</u>	<u>Total Enterprise Funds</u>
Cash Flows From Operating Activities			
Cash received from charges for services	\$ 527,265	\$ 511,564	\$ 1,038,829
Cash payments for goods and services	(134,661)	(197,784)	(332,445)
Cash payments to employees for services	(202,563)	(228,180)	(430,743)
Net cash provided (used) by operating activities	<u>190,041</u>	<u>85,600</u>	<u>275,641</u>
Cash Flows from Noncapital Financing Activities			
Miscellaneous revenues	<u>1,190</u>	<u>-</u>	<u>1,190</u>
Net cash provided (used) by noncapital financing activities	<u>1,190</u>	<u>-</u>	<u>1,190</u>
Cash Flows from Capital and Related Financing Activities			
Tap fees	-	3,750	3,750
Acquisition of capital assets	(70,196)	(89,564)	(159,760)
Principal paid on loans and leases	(19,466)	(23,487)	(42,953)
Interest expense	(5,772)	(77,521)	(83,293)
Net cash provided (used) by capital and related financing activities	<u>(95,434)</u>	<u>(186,822)</u>	<u>(282,256)</u>
Cash Flows from Investing Activities			
Interest on investments	<u>40</u>	<u>-</u>	<u>40</u>
Net increase (decrease) in cash and equivalents	95,837	(101,222)	(5,385)
Cash balances, January 1	<u>563,440</u>	<u>653,846</u>	<u>1,217,286</u>
Cash balances, December 31	<u>\$ 659,277</u>	<u>\$ 552,624</u>	<u>\$ 1,211,901</u>
Reconciliation of operating income (loss) to net cash provided (used) by operating activities:			
Operating income (loss)	<u>\$ 13,813</u>	<u>\$ (9,976)</u>	<u>\$ 3,837</u>
Adjustments to reconcile operating income (loss) to net cash provided (used) by operating activities:			
Depreciation expense	162,339	110,682	273,021
Assets (increase) decrease:			
Accounts receivables	3,442	601	4,043
Inventory	14,025	2,584	16,609
Liabilities increase (decrease):			
Accounts payable	(3,578)	(18,257)	(21,835)
Accrued interest payable	-	(34)	(34)
Total adjustments	<u>176,228</u>	<u>95,576</u>	<u>271,804</u>
Net cash provided (used) by operating activities	<u>\$ 190,041</u>	<u>\$ 85,600</u>	<u>\$ 275,641</u>

See accompanying notes to the basic financial statements.

Town of Paonia
Notes to Basic Financial Statements
December 31, 2013

Note 1 - Summary of Significant Accounting Policies

The financial statements of the Town of Paonia, Colorado (the Town) have been prepared in conformity with accounting principles generally accepted in the United States of America (GAAP) as applied to government units. The Governmental Accounting Standards Board (GASB) is the accepted standard-setting body for establishing governmental accounting and financial reporting principles.

The more significant of the Town's accounting policies are described below:

A. Financial Reporting Entity

The Town is a statutory municipality with a mayor – council form of government with seven elected Council members. As required by accounting principles generally accepted in the United States of America, these financial statements present the Town of Paonia (the primary government). The Town has no oversight responsibility for any other governmental entity since no other entities are considered to be controlled by or dependent on the Town. Control or dependence is determined on the basis of budget adoption, taxing authority, funding, and appointment of the respect governing body.

B. Government-wide Financial Statements

The government-wide financial statements (i.e., the statement of net position and the statement of changes in net position) report information on all of the activities of the Town and its component unit. For the most part, the effect of inter-fund activity has been removed from these statements. Governmental activities, which normally are supported by taxes, charges for services and intergovernmental revenues, are reported separately from business-type activities, which rely to a significant extent on user charges for support.

The statement of activities demonstrates the degree to which the direct expenses of a given function or segment is offset by program revenues. Direct expenses are those that are clearly identifiable with a specific function or segment. Program revenues include 1) charges to those who purchase, use, or directly benefit from goods, services, or privileges provided by a given function or segment, and 2) grants and contributions that are restricted to meeting the operational or capital requirements of a particular function or segment. Taxes and other items not properly included among program revenues are reported instead as general revenues.

Town of Paonia
Notes to Basic Financial Statements
December 31, 2013

Note 1 - Summary of Significant Accounting Policies - (continued)

C. Fund Financial Statements

The accounts of the Town are organized on the basis of funds and account groups, 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, revenues, 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.

All governmental funds are accounted for on a flow of current financial resources basis. Balance sheets for these funds generally include only current assets and current liabilities. Reported fund balances are considered a measure of available, spendable resources. Operating statements for these funds present a summary of available, spendable resources and expenditures for the period.

Separate financial statements are provided for governmental funds and proprietary funds. Major individual governmental funds and major individual enterprise funds are reported as separate columns in the fund financial statements.

The Town reports the following major governmental funds:

- The *General Fund* is the Town's primary operating fund. It accounts for all financial resources of the Town, except those required to be accounted for in another fund.
- The *Sales Tax Capital Improvement Fund*, which accounts for the Town's additional sales tax that is to be used for capital improvements.
- The *Conservation Trust Fund*, which accounts for State of Colorado lottery funds to be used for parks and recreation services and capital investment.

Enterprise Funds account for operations that are financed and operated in a manner similar to private business enterprises, where the intent is that the costs of providing goods or services to the general public on a continuing basis be financed or recovered primarily through user charges. Enterprise funds are considered major funds because of community interests in the activities and sources of funding supporting these operations.

Town of Paonia
Notes to Basic Financial Statements
December 31, 2013

Note 1 - Summary of Significant Accounting Policies - (continued)

C. Fund Financial Statements - (continued)

The Town reports the following major enterprise fund business-type activities:

- *Water and Sanitation Funds*, which account for all operations of the Town's water, sewer and refuse services. They are primarily financed by user charges.

D. Measurement Focus and Basis of Accounting

The government-wide financial statements are reported using the economic resources measurement focus and the accrual basis of accounting, as are the enterprise fund financial 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.

The modified accrual basis of accounting is used by all governmental funds. Under the modified accrual basis of accounting, revenues are recognized when susceptible to accrual (i.e., when they become 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 be used to pay liabilities of the current period. Expenditures are recorded when the related fund liability is incurred. Exceptions to this general rule include principal and interest on general long-term debt which is recognized when due, and compensated absences which are recognized when the obligations are expected to be liquidated with expendable available resources.

Those revenues susceptible to accrual are interest revenue and charges for services. Entitlement revenues are not susceptible to accrual because generally, they are not measurable until received. Grant revenues are recognized as they are earned.

The accrual basis of accounting is utilized by enterprise funds. Under this method, revenues are recorded when earned and expenses are recorded at the time liabilities are incurred.

Deferred Outflows / Inflows of Resources-In addition to assets, the statement of net position will sometimes report a separate section of deferred outflows of resources. This separate financial statement element, deferred outflows of resources, represents a consumption of net position that applies to a future period(s) and will not recognize as an outflow of resources (expense/ expenditure) until then.

Town of Paonia
Notes to Basic Financial Statements
December 31, 2013

Note 1 - Summary of Significant Accounting Policies - (continued)

D. Measurement Focus and Basis of Accounting

In addition to liabilities, the statement of net position will sometimes report a separate section of deferred inflows of resources. This separate financial statement element, deferred inflows of resources, represents an acquisition of net position that applies to a future period(s) and will not be recognize as an inflow of resources (revenue) until that time. Property taxes revenue that are related to a future period have been recorded as deferred inflows. Grants and entitlements received before eligibility requirements are met (e.g., cash advances) are recorded as deferred inflows. These amounts are deferred and will be recognized as an inflow of resources in the period that the amounts become available.

E. Cash and Cash Equivalents

For the purposes of the statement of cash flows of the enterprise funds, cash and cash equivalents consist of operating and restricted cash and highly liquid securities with an initial maturity of three months or less.

F. Use of Estimates

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

G. Property Taxes

Property taxes for the current year are levied and attach as a lien on property the following January 1. They are payable in full by April 30 or in two equal installments due February 28 and June 15. Property taxes levied in the current year and collected in the following year are reported as a receivable at December 31. However, since the taxes are not available to pay current liabilities, the receivable is recorded as deferred inflows of resources in the governmental and enterprise funds.

Town of Paonia
Notes to Basic Financial Statements
December 31, 2013

Note 1 - Summary of Significant Accounting Policies - (continued)

H. Capital Assets

Capital assets, which include property, equipment and infrastructure assets, are reported in the applicable governmental or business-type activities columns in the government-wide financial statements. Capitalized assets are defined by the Town as assets that have a useful life of one or more years, and for which the initial, individual value equals or exceeds \$ 5,000.

All purchased assets are valued at cost where historical records are available and at estimated historical costs where no historical records exist. Donated assets are valued at their estimated fair market value on the date received. The cost of normal maintenance and repairs that does not add to the value of an asset or materially extend asset life is not capitalized.

Depreciation on all assets is provided on the straight-line basis over the following estimated useful lives:

<u>Asset Class</u>	<u>Useful Life</u>
Building and Other Improvements	25-40 years
Water and Sewer Systems	15-40 years
Furniture and Equipment	5-10 years
Infrastructure	15-40 years

Public domain assets consisting of roads, bridges, curbs and gutters, streets and sidewalks, drainage systems and lighting systems are examples of infrastructure assets. Infrastructure assets are distinguished from other capitalized assets as their useful life often extends beyond most other capital assets and are stationary in nature. General infrastructure assets are those associated with or arising from governmental activities. Prior to GASB 34 governments were not required to report general infrastructure assets.

I. Long-Term Liabilities

In the government-wide financial statements, and enterprise fund types in the fund financial statements, long-term debt and other long-term obligations are reported as liabilities in the applicable government activities, business-type activities, or enterprise fund type statement of net assets. The long-term compensated absences are serviced from revenues of the General Fund from future appropriations.

Town of Paonia
Notes to Basic Financial Statements
December 31, 2013

Note 1 - Summary of Significant Accounting Policies - (continued)

J. Compensated Absences

Vacation time is accumulated at the rate of 12 days a year for employees with one to ten years of service. After 10 years of service, 13.5 days per year and 15 years of service and after, 15 days per year, with a maximum accumulation of vacation time of 96 hours. Sick leave accumulates at 5 days per year with a maximum unused sick leave accumulated at 40 days. Sick leave will be paid at a rate of \$ 12.00 per day upon termination.

K. Net Position

Net position represent the difference between assets, deferred outflows of resources, liabilities and deferred inflows of resources. Net position invested in capital assets, net of related debt consists of capital assets, net of accumulated depreciation, reduced by the outstanding balances of any borrowing used for the acquisition or construction of improvements on those assets.

Net position are reported as restricted when there are limitations imposed on their use either through the enabling legislation adopted by the Town or through external restrictions imposed by creditors, grantors, laws or regulations of other governments.

L. Interfund Transactions

Interfund receivables and payables arise from interfund transactions and are recorded by all funds affected in the period in which transactions are executed. At year end, outstanding balances between funds are reported as "due to/from other funds." Nonrecurring or nonroutine permanent transfers of equity are reported as residual equity transfers. All other interfund transfers are reported as operating transfers. Any residual balances outstanding between the governmental activities and business-type activities are reported in the government-wide financial statements as "internal balances."

M. Encumbrances

The Town does not use an encumbrance system for budgetary control.

Town of Paonia
Notes to Basic Financial Statements
December 31, 2013

Note 1 - Summary of Significant Accounting Policies - (continued)

N. Inventory

Inventory is valued at lower of cost (first-in, first-out) or market. Reported inventories are equally offset by a fund balance reserve which indicates that they do not constitute "available spendable resources" even though they are a component of net current assets.

O. Fund Balance

In the fund financial statements, governmental funds report the following classification of fund balance:

- *Non-spendable fund balance* amounts that are not in spendable form (such as inventory) or are required to be maintained intact;
- *Restricted fund balance*-amounts constrained to specific purposes by their providers (such as grantors, bondholders, and higher levels of government), through constitutional provisions or by enabling legislation;
- *Committed fund balance*-amounts constrained to specific purposes by a government itself, using its highest level of decision-making authority; to be reported as committed, amounts cannot be used for any other purpose unless the government takes the same highest level action to remove or change the constraint;
- *Assigned fund balance*-amounts a government intends to use for a specific purpose; intent can be expressed by the governing body or by an official or body to which the governing body delegates the authority;
- *Unassigned fund balance*-amounts that are available for any purpose; positive amounts are reported only in the general fund.

When an expenditure is incurred for purposes for which both restricted and unrestricted fund balance is available, Town of Paonia considers restricted funds to have been spent first. When an expenditure is incurred for which committed, assigned, or unassigned fund balances are available, Town of Paonia considers amounts to have been spent first out of committed funds, then assigned funds, and finally unassigned funds, as needed, unless Town Council has provided otherwise in its commitment or assignment actions.

Town of Paonia
Notes to Basic Financial Statements
December 31, 2013

Note 2 - Reconciliation of Government-wide and Fund Financial Statements

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

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

Note 3 - Tax, Spending and Debt Limitations

Colorado voters passed an amendment to the State Constitution, Article X, Section 20, which has several limitations, including revenue raising, spending abilities, and other specific requirements of state and local governments, excluding "enterprises." The Town's voters on November 8, 1994, approved a ballot measure to permit the Town to collect, retain and expend the full proceeds of the Town's sales tax and non federal grants.

The Amendment is complex and subject to judicial interpretation. The Town believes it is in compliance with the requirements of the amendment.

The Amendment requires that an emergency reserve be maintained at three percent of fiscal year spending. A portion of the General Fund's fund balance is classified as restricted for emergencies as required by the Amendment. The amount restricted at December 31, 2013 was \$32,792.

Town of Paonia
Notes to Basic Financial Statements
December 31, 2013

Note 4 - Budgets

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

- A. By mid August of each year, the Town Clerk gives public notice of the budget calendar for the next fiscal year. The Town Clerk asks that all Town departments, boards, commissions or citizens submit within thirty days from the notice, any request for funds under the budget being prepared. The Town Clerk, with assistance from the Town Finance Officer, then prepares a proposed budget for the ensuing fiscal year and submits it to the Council no later than forty-five days prior to any date required by state law for the certification to the County of the tax levy.
- B. The budget provides a complete financial plan of all Town funds and activities for the ensuing fiscal year indicating anticipated revenues, proposed operating and capital expenditures, a provision for contingencies, and anticipated net surplus or deficit for the ensuing fiscal year.
- C. A public hearing on the proposed budget is held by the Council in early December.
- D. The Council adopts the budget by resolution on or before the final day established by law for the certification of the ensuing year's tax levy to the County. Adoption of the budget by the Council shall constitute appropriations of the amounts specified therein as expenditures from the funds indicated and shall constitute a levy of the property tax therein proposed.
- E. If during the fiscal year the Town Finance Officer determines that there are expenses in excess of those estimated in the budget, the Council by resolution may make supplemental appropriations for the year up to the amount of such excess. To meet an emergency affecting public property, health, peace or safety, the Council may make emergency appropriations. If at any time during the fiscal year it appears probable to the Town Finance Officer that the revenues available will be insufficient to meet the amount appropriated, the Town Finance Officer reports to the Council, indicating the estimated amount of deficit, any remedial action already taken, and a recommendation as to any other steps to be taken. Any time during the fiscal year the Town Finance Officer may transfer part or all of any unencumbered appropriation balance within a department.

Town of Paonia
Notes to Basic Financial Statements
December 31, 2013

Note 4 – Budgets - (continued)

- F. Budget appropriations lapse at the end of each year.
- G. Expenditures may not exceed appropriations at the fund level. Budget amounts included in the financial statements are based on the final amended budget. There were several revisions made to the original budget.
- H. Budgets for governmental funds are adopted on a basis consistent with accounting principles generally accepted in the United States of America (GAAP), except for long-term receivables and advances and capital lease financing which are budgeted when liquidated rather than when the receivable/liability is incurred. Budgets for enterprise funds are adopted on a basis consistent with the spending measurement focus of the governmental funds.

Note 5 - Deposits and Investments

A. 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 regulators. Amounts on deposit in excess of federal insurance levels must be collateralized. The eligible collateral is determined by the PDPA. PDPA allows the institution to create a single collateral pool for all public funds. The pool is to be maintained by another institution or held in trust for all the uninsured public deposits as a group.

The market value of the collateral must be at least equal to the aggregate uninsured deposits. Collateral in the pool is considered to be equal to depository insurance pursuant to definitions listed in GASB Statement No. 40.

At December 31, 2013, the bank balance of the Town's deposits was \$683,126 of which \$ 500,000 was covered by federal depository insurance and \$ 183,126 was collateralized under PDPA.

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

Town of Paonia
Notes to Basic Financial Statements
December 31, 2013

Note 5 - Deposits and Investments- (continued)

The Town had invested \$ 526,427 in the Colorado Government Liquid Asset Trust (COLOTRUST) and \$400,440 in the Colorado Statewide Investment Program (CSIP), which are investment vehicles established for local government entities in Colorado to pool surplus funds. COLOTRUST and CSIP operates similarly to money market funds and each share are equal in value to \$1.00. Investments of COLOTRUST and CSIP consist of U.S. Treasury bills, notes and note strips and repurchase agreements collateralized by U.S. Treasury securities. A designated custodial bank provides safekeeping and depository services to COLOTRUST and CSIP in connection with the direct investment and withdrawal functions of COLOTRUST and CSIP. Substantially all securities owned by COLOTRUST and CSIP are held by the Federal Reserve Bank in the account maintained for the custodial bank. The custodian's internal records identify the investments owned by COLOTRUST and CSIP. These pools are not required to and are not registered with the SEC. COLOTRUST and CSIP funds are rated AAAM by Standard and Poor's, Fitch's and Moody's rating services.

Investments in First Financial Equity Corporation at December 31, 2013 is as follows:

	<u>Rating</u>	<u>Fair Value</u>
FHLB	AA+	\$ 172,422
FHLMC	AA+	160,136
FNMA STEP CPN	AA+	170,865
Money Market Account	Unrated	<u>1,788</u>
Total		<u>\$505,211</u>

Interest rate risk-The town does not have a formal policy limiting investment maturities, other than that established by the state statute of five years, which would help manage its exposure to fair value losses from increasing interest rates.

Credit risk-Credit risk is the risk that the issuer or other counterparty to an investment will not fulfill its obligations. It is the Town's policy to limit its investments to U.S. Treasury obligations, certain U.S. government agencies securities, commercial paper, local government investment pools, repurchase agreements and money market funds.

Custodial Credit Risk- For an investment, custodial credit risk is the risk that, in the event of the failure of the counterparty, the Town will not be able to recover the value of its investment or collateral securities that are in the possession of an outside party.

Town of Paonia
Notes to Basic Financial Statements
December 31, 2013

Note 5 - Deposits and Investments- (continued)

The Town maintains a cash pool that is available to the General Fund, Special Revenue Funds and Enterprise Funds.

Cash and Cash equivalents	
Cash on Hand	\$ 150
Cash with County Treasurer	\$ 1,294
Deposits	624,307
Investments:	
First Financial Equity Corporation	505,211
ColoTrust	526,427
CSIP	400,440
Total	<u>\$ 2,057,829</u>

Statement of Net Position	
Cash and Cash equivalents	\$ 550,770
Investments	\$ 1,432,078
Restricted cash	74,981
Total	<u>\$ 2,057,829</u>

Note 6 - Long-term Liabilities

	Balance January 1, 2013	Additions	Reductions	Balance December 31, 2013	Due within one year
Governmental Activities					
Compensated absences	\$ 22,273	\$ 33,994	\$ 22,273	\$ 33,994	\$ -
Total	<u>\$ 22,273</u>	<u>\$ 33,994</u>	<u>\$ 22,273</u>	<u>\$ 33,994</u>	<u>\$ -</u>
Business- Type Activities					
RUS loan	\$ 1,778,552	\$ -	\$ 23,487	\$ 1,755,065	\$ 24,523
Loan-CWRPDA	335,167	-	19,466	315,701	17,897
Post employment benefit obligations	289,533	-	-	289,533	-
Total	<u>\$ 2,403,252</u>	<u>\$ -</u>	<u>\$ 42,953</u>	<u>\$ 2,360,299</u>	<u>\$ 42,420</u>

Town of Paonia
Notes to Basic Financial Statements
December 31, 2013

Note 6 - Long-term Liabilities- (continued)

A. RUS loan payable

The Town of Paonia has an obligation to United States of America (Rural Utilities Service) RUS bearing interest at 4.375%. The bonds are payable in semi-annual installments of \$ 50,521.00, including interest, and is collateralized by the sewer system. Principal and interest payments for the years following December 31, 2013 are as follows:

	<u>Principal</u>	<u>Interest</u>
2014	\$ 24,523	\$ 76,519
2015	25,608	75,434
2016	26,740	74,302
2017	27,923	73,119
2018	29,158	71,884
2019 to 2023	166,314	338,896
2024 to 2028	206,494	298,716
2029 to 2033	256,381	248,829
2034 to 2038	318,319	186,891
2039 to 2043	395,221	109,989
2044 to 2046	<u>278,384</u>	<u>21,526</u>
Total	<u>\$ 1,755,065</u>	<u>\$1,576,105</u>

B. CWRPDA Loan

The town has a loan agreement with the Colorado Water Resources and Power Development Authority to borrow up to \$448,200 at 1.75% interest annually, with payments of \$27,133 per year.

As of 2013, the town borrowed \$395,969 of which the town has made principal payments of \$80,268 for a remaining loan balance of \$315,701.

	<u>Principal</u>	<u>Interest</u>
2014	\$ 17,897	\$ 5,447
2015	18,211	5,132
2016	18,531	4,812
2017	18,857	4,486
2018	19,188	4,155
2019 to 2023	101,121	15,596
2024 to 2029	<u>121,896</u>	<u>6,492</u>
Total	<u>\$ 315,701</u>	<u>\$ 46,120</u>

Town of Paonia
Notes to Basic Financial Statements
December 31, 2013

Note 7 - Retirement Plans

Defined Contribution Plan

The Town provides pension benefits for all its employees through a defined contribution plan (401) (B) through Dreyfus Company. The employer contributes 5% (Town) and there are no matching requirements for the employees. Total wages subject to pension benefits was \$ 393,540 of which total contributions were \$ 19,677. The employees are 100% vested at all times and are eligible for the plan after the probation period.

The Town contributes to a defined benefit retirement plan administered by the Fire and Police Pension Association, an agent multiple employer public employee retirement system that acts as a common investment and administrative agent for employers of policemen and firemen who elect to participate in the system in the State of Colorado. The system administers a separate fund for police officers. The Town's payroll for policemen covered by the system was \$ 242,700 of a total police payroll of \$ 275,579 for the year ended December 31, 2013. A contribution of \$ 38,423 was made to the plan in 2013. This contribution consisted of the Town's contribution of \$ 24,755 and the employee's contribution of \$ 19,416 which is 8% of the covered payroll per group of contributor.

Police officer's benefits become vested after twenty years of service and age 55 or after twenty-five years of service. Vested employees who retire are entitled to receive an annual retirement benefit, payable monthly for life, in an amount equal to one half of one month's salary at the time of retirement, plus any vested rank escalation. Rank escalation benefits allow for increases in benefits equal to one half of any salary increases given to current Town employees in the retiree's last position. Benefits vested are limited to increases of 3% per year for inflation, as determined by the state.

The system also provides death and disability benefits. These benefit provisions and all other requirements are established by state statute. The Town and the State of Colorado are required to contribute the remaining amounts necessary to fund the system, using the aggregate actuarial cost method specified by statute. The Town also is required to fund prior commitments for (4) employees at \$ 0.

There are no securities or loans of the Town or any related party included in the assets of the plans.

Town of Paonia
Notes to Basic Financial Statements
December 31, 2013

Note 8 - Risk Management

The Town is exposed to various risks of loss related to torts; theft of, damage to and destruction of assets; errors and omissions; injuries to employees; and natural disasters.

The Town is a member of the Colorado Intergovernmental Risk Sharing Agency (CIRSA), a public entity risk pool currently operating as a common risk management and insurance program for property/casualty and workers' compensation coverage. CIRSA is to be self-sustaining through member premiums and reinsures through commercial companies for claims in excess of certain limits for each insured event. CIRSA members are subject to a supplemental assessment in the event of a deficiency.

Note 9 – Restricted Cash

The Town has restricted cash in the Sanitation Fund of \$70,728 for the RUS loan and \$4,253 for the Water Fund for water storage.

Note 10 – Other Postemployment Benefits

The Town annual other post-employment benefit (OPEB) cost (expense) is calculated based on the annual contribution of the employer (ARC), an amount actuarially determined in accordance with the parameters of GASB Statement 45. The ARC represents a level of funding that, if paid on an ongoing basis, is projected to cover normal cost each year and amortize any unfunded actuarial liabilities (or funding excess) over a period not to exceed thirty years. As of 2013 the total unfunded cost was \$289,533. The Town is paying the retirement benefits each year at \$18,480 out of the Water Fund and has not established a formal level of funding to cover any unfunded actuarial liabilities.

Note 11 – Employee Fraud

In 2013, the Town received insurance proceeds of \$148,472 from its insurance carrier (CIRSA) for employee fraud. The Town decided that the remaining amount of \$252,053 employee fraud receivable not be shown on the financial statements. The Town will receive additional monies from restitution payments ordered by the Criminal Court as part of the defendant's sentencing conditions and will recorded those payments as other income in the year they are received.

Note 12 - Commitments

The Town has reserved monies received for out of town taps to be used for water storage facilities or studies.

Town of Paonia
Notes to Basic Financial Statements
December 31, 2013

Note 13 - Capital Assets

	Balance January 1, 2013	Additions	Dispositions	Balance December 31, 2013
Governmental Activities	<u> </u>	<u> </u>	<u> </u>	<u> </u>
Capital assets not being depreciated				
Land	\$ 246,481	\$ -	\$ -	\$ 246,481
	<u>246,481</u>	<u>-</u>	<u>-</u>	<u>246,481</u>
Capital assets being depreciated				
Buildings	609,359	-	-	609,359
Improvements other than buildings	437,576	-	(7,221)	430,355
Infrastructure	1,208,521	437,435	-	1,645,956
Equipment	629,331	14,000	(10,760)	632,571
	<u>2,884,787</u>	<u>451,435</u>	<u>(17,981)</u>	<u>3,318,241</u>
Less accumulated depreciation				
Buildings	(255,771)	(15,878)	-	(271,649)
Improvements	(191,527)	(20,662)	5,416	(206,773)
Infrastructure	(185,393)	(38,802)	-	(224,195)
Equipment	(432,652)	(61,254)	9,684	(484,222)
	<u>(1,065,343)</u>	<u>(136,596)</u>	<u>15,100</u>	<u>(1,186,839)</u>
Capital assets depreciated, net	<u>1,819,444</u>	<u>314,839</u>	<u>(2,881)</u>	<u>2,131,402</u>
 Total Governmental Activities Capital Assets	 <u>\$ 2,065,925</u>	 <u>\$ 314,839</u>	 <u>\$ (2,881)</u>	 <u>\$ 2,377,883</u>

Town of Paonia
Notes to Basic Financial Statements
December 31, 2013

Note 13 - Capital Assets (continued)

	Balance January 1, 2013	Additions	Dispositions	Balance December 31, 2013
Business - Type Activities				
Capital assets not being depreciated				
Land and water rights	\$ 767,902	\$ -	\$ -	\$ 767,902
Capital assets being depreciated				
Reservoirs, improvements and other	71,736	-	(5,482)	66,254
Distribution system	991,814	61,599	(14,939)	1,038,474
Collection system	440,953	89,564	(1,041)	529,476
Vehicles and equipment	707,972	-	(63,730)	644,242
Treatment plant	8,748,748	8,597	(13,686)	8,743,659
Less accumulated depreciation	<u>(3,883,944)</u>	<u>(273,021)</u>	<u>98,110</u>	<u>(4,058,855)</u>
Capital assets being depreciated, net	<u>7,077,279</u>	<u>(113,261)</u>	<u>(768)</u>	<u>6,963,250</u>
Total Business-Type Activities Capital Assets	<u>\$ 7,845,181</u>	<u>\$ (113,261)</u>	<u>\$ (768)</u>	<u>\$ 7,731,152</u>

Depreciation charged to governmental activities by department is as follows:

General government	\$ 8,075
Public safety	6,683
Public works	83,836
Culture and recreation	<u>38,002</u>
Total	<u>\$ 136,596</u>

Note 14 - Reconciliation of Budget Basis to GAAP Basis for Enterprise Funds

	Final Budget	Actual	Variance Favorable (Unfavorable)
Expenditures			
GAAP-based expenses	\$	\$ 1,114,242	\$
Add (deduct):			
Depreciation		(273,021)	
Acquisition and construction of capital assets		159,760	
Principal on loan payments		42,953	
Total budgetary-based expenditures	<u>\$ 1,067,318</u>	<u>\$ 1,043,934</u>	<u>\$ 23,384</u>

Town of Paonia
Notes to Basic Financial Statements
December 31, 2013

Note 15 – Budget Compliance

There were no funds that had expenditures in excess of budgeted appropriations during the year ending December 31, 2013.

Note 16 – Contingent Liabilities

The Town is subject to various claims arising from events occurring in its ordinary operations. Town management believes that the disposition of these matters will not have a material adverse effect on the financial position of the Town.

Note 17 – Subsequent Events

On November 5, 2013, the voters approved the ballot issue to allow the Town to create a dedicated fund for the construction and maintenance of existing sidewalks within the Town limits to be paid via utility billing at a rate of three dollars per month, per account, starting January 1, 2014 and remain in effect until December 31, 2024.

The Town has received funding to construct a two million gallon water treatment project that will probably start in late 2014.

**Town of Paonia
General Fund
Schedule of Revenues - Actual and Budget
Year Ended December 31, 2013**

	Original Budget	Final Budget	Actual	Favorable (Unfavorable)
Taxes				
General property taxes	\$ 89,900	\$ 89,900	\$ 89,867	\$ (33)
Specific ownership taxes	12,000	12,700	12,698	(2)
Sales tax - Town	160,000	135,650	135,724	74
Sales tax - County	110,000	93,150	93,570	420
Franchise taxes	60,000	59,725	60,591	866
Cigarette taxes	2,400	2,150	2,117	(33)
Delinquent taxes	-	-	42	42
Interest on delinquent taxes	550	500	407	(93)
Total taxes	<u>434,850</u>	<u>393,775</u>	<u>395,016</u>	<u>1,241</u>
Licenses and permits				
Liquor licenses	2,000	4,700	4,700	-
Building permits	13,000	13,575	13,550	(25)
Miscellaneous permits	800	1,475	1,461	(14)
Special reviews	500	975	943	(32)
VIN inspection	200	200	200	-
Total licenses and permits	<u>16,500</u>	<u>20,925</u>	<u>20,854</u>	<u>(71)</u>
Intergovernmental revenue				
State shared:				
Highway user's tax	45,000	47,375	47,568	193
Motor vehicle fees	6,125	5,875	5,829	(46)
Severance tax	30,000	28,850	28,836	(14)
Mineral leasing	80,000	59,325	59,318	(7)
Other governmental units:				
Road and bridge	6,000	6,200	6,144	(56)
Total intergovernmental revenue	<u>\$ 167,125</u>	<u>\$ 147,625</u>	<u>\$ 147,695</u>	<u>\$ 70</u>

**Town of Paonia
General Fund
Schedule of Revenues - Actual and Budget
Year Ended December 31, 2013**

	<u>Original Budget</u>	<u>Final Budget</u>	<u>Actual</u>	<u>Favorable (Unfavorable)</u>
Fines and forfeitures				
Court fines	\$ -	\$ -	\$ -	\$ -
Police fines	8,500	5,000	5,223	223
Miscellaneous	200	350	100	(250)
Total fines and forfeitures	<u>8,700</u>	<u>5,350</u>	<u>5,323</u>	<u>(27)</u>
Miscellaneous revenues				
Earnings on investments	2,500	5,275	5,253	(22)
Rents	9,000	5,600	5,597	(3)
Contributions	1,500	425	410	(15)
Billing interest	-	3,600	3,584	(16)
Community center	1,500	1,235	1,235	-
Other	600	250	242	(8)
Motor fuel tax refunds	1,500	2,200	2,197	(3)
Refunds	-	6,175	6,169	(6)
Bridge revenue earned	40,000	326,000	326,000	-
Law enforcement cost allocation	300	600	576	(24)
Sale of assets	-	3,825	3,812	(13)
Total miscellaneous revenue	<u>56,900</u>	<u>355,185</u>	<u>355,075</u>	<u>(110)</u>
Transfers	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>
Total revenues	<u>\$ 684,075</u>	<u>\$ 922,860</u>	<u>\$ 923,963</u>	<u>\$ 1,103</u>

Town of Paonia
General Fund
Schedule of Expenditures - Actual and Budget
Year Ended December 31, 2013

	Original Budget	Final Budget	Actual	Favorable (Unfavorable)
General government				
Mayor and trustee	\$ 9,600	\$ 9,600	\$ 9,500	\$ 100
Salaries and wages	59,191	61,925	61,914	11
Employee benefits	15,458	14,150	13,885	265
Supplies	5,000	4,000	3,945	55
Repairs and maintenance	1,200	25	8	17
Legal & professional fees	23,000	27,500	27,179	321
Telephone	2,000	2,300	2,189	111
Travel and meetings	2,000	4,000	3,893	107
Insurance and bonds	3,710	4,800	4,737	63
Utilities	4,700	3,500	3,384	116
Janitorial services	-	7,800	7,800	-
Building inspector	1,000	2,500	2,442	58
Publishing ads	2,000	2,000	1,864	136
Dues and subscriptions	7,200	6,350	6,205	145
Cultural events	-	1,000	1,000	-
Audit fees	14,250	4,500	4,500	-
Postage	1,000	1,700	1,560	140
Human services	-	10,250	10,150	100
Miscellaneous	1,000	1,000	1,000	-
Vehicle expense	3,000	2,500	2,120	380
Town Hall expense	3,600	3,600	3,545	55
Elections	3,000	3,000	446	2,554
Data processing	4,000	12,000	11,689	311
HR Consulting	13,500	3,000	3,000	-
Total general government	179,409	193,000	187,955	5,045
Public safety:				
Police department				
Salaries and wages	284,597	284,597	275,579	9,018
Judge	2,646	2,646	2,646	-
Employee benefits	51,154	51,154	51,887	(733)
Supplies	6,400	5,650	5,600	50
Repairs and maintenance	2,000	350	323	27
Legal services	1,000	1,450	1,440	10
Telephone	5,200	3,875	3,860	15
Travel and meetings	2,000	50	37	13
Insurance and bonds	4,391	4,391	4,391	-
Utilities	2,000	2,350	2,386	(36)
Vehicle expense	15,000	24,000	24,006	(6)
Dues and subscriptions	800	250	230	20
Miscellaneous	1,750	1,650	1,646	4
Uniforms	2,500	2,500	2,483	17
Publishing and ads	100	50	-	50
Officer's training	2,500	2,500	-	2,500
Juvenile diversion	2,000	1,500	1,394	106
Data processing	8,000	10,700	10,699	1
FPPA	25,707	25,707	31,319	(5,612)
Total police department	\$ 419,745	\$ 425,370	\$ 419,926	\$ 5,444

**Town of Paonia
General Fund
Schedule of Expenditures - Actual and Budget
Year Ended December 31, 2013**

	Original Budget	Final Budget	Actual	Favorable (Unfavorable)
Animal control				
Operating supplies	\$ 300	\$ -	\$ -	\$ -
Vet fees	1,200	350	350	-
Total animal control	<u>1,500</u>	<u>350</u>	<u>350</u>	<u>-</u>
Public works				
Salaries and wages	48,488	48,488	44,336	4,152
Employee benefits	12,880	12,880	11,711	1,169
Supplies	2,300	1,525	1,417	108
Repairs and maintenance	22,000	322,500	322,371	129
Legal and engineering	500	275	255	20
Telephone	900	1,275	1,203	72
Insurance and bonds	573	573	573	-
Utilities	1,650	1,350	1,266	84
Snow removal	15,000	9,300	9,289	11
Street lighting	21,000	21,200	21,145	55
Street cleaning	1,300	1,375	1,363	12
Vehicle expense	11,000	10,550	10,538	12
Miscellaneous	2,600	3,357	3,243	114
Shop expense	1,000	1,900	1,890	10
Total public works	<u>141,191</u>	<u>436,548</u>	<u>430,600</u>	<u>5,948</u>
Culture and recreation				
Salaries and wages	3,562	3,562	3,672	(110)
Employee benefits	788	788	849	(61)
Supplies	5,000	6,050	6,008	42
Repairs and maintenance	5,000	4,700	4,547	153
Legal fees	50	50	45	5
Telephone	475	475	456	19
Travel and meetings	-	-	67	(67)
Insurance and bonds	3,619	3,619	3,619	-
Utilities	6,180	6,700	6,683	17
Contract services	36,000	38,500	38,318	182
Vehicle expense	1,200	1,000	866	134
Capital outlay	-	-	-	-
Miscellaneous	1,350	1,200	1,045	155
Total culture and recreation	<u>63,224</u>	<u>66,644</u>	<u>66,175</u>	<u>469</u>
Treasurer's fees	2,000	1,950	1,854	96
Totals	<u>\$ 807,069</u>	<u>\$ 1,123,862</u>	<u>\$ 1,106,860</u>	<u>\$ 17,002</u>

Town of Paonia
Sales Tax Capital Improvements
Statement of Revenues, Expenditures and Changes in Fund Balance
Actual and Budget
Year Ended December 31, 2013

	<u>Original Budget</u>	<u>Final Budget</u>	<u>Actual</u>	<u>Favorable (Unfavorable)</u>
Revenues				
Sales tax	\$ 160,000	\$ 136,250	\$ 135,724	\$ (526)
Total revenues	<u>160,000</u>	<u>136,250</u>	<u>135,724</u>	<u>(526)</u>
Expenditures				
Capital outlay	<u>155,168</u>	<u>129,500</u>	<u>128,915</u>	<u>585</u>
Total expenditures	<u>155,168</u>	<u>129,500</u>	<u>128,915</u>	<u>585</u>
Excess of revenues over (under) expenditures	4,832	6,750	6,809	59
Loss on employee fraud	<u>-</u>	<u>-</u>	<u>(23,757)</u>	<u>(23,757)</u>
Net change in fund balances	4,832	6,750	(16,948)	(23,698)
Fund balance, January 1	<u>86,261</u>	<u>86,261</u>	<u>94,928</u>	<u>8,667</u>
Fund balance, December 31	<u>\$ 91,093</u>	<u>\$ 93,011</u>	<u>\$ 77,980</u>	<u>\$ (15,031)</u>

**Town of Paonia
Conservation Trust Fund
Statement of Revenues, Expenditures and Changes in Fund Balance
Actual and Budget
Year Ended December 31, 2013**

	<u>Original Budget</u>	<u>Final Budget</u>	<u>Actual</u>	<u>Favorable (Unfavorable)</u>
Revenues				
Lottery	\$ 8,000	\$ 7,750	\$ 7,700	\$ (50)
Interest	50	25	2	(23)
Total revenues	<u>8,050</u>	<u>7,775</u>	<u>7,702</u>	<u>(73)</u>
Expenditures				
Parks	11,000	11,000	10,084	916
Total expenditures	<u>11,000</u>	<u>11,000</u>	<u>10,084</u>	<u>916</u>
Excess of revenues over (under) expenditures	(2,950)	(3,225)	(2,382)	843
Fund balance, January 1	16,802	16,802	41,801	24,999
Residual transfer	-	-	(37,962)	(37,962)
Fund balance, December 31	<u>\$ 13,852</u>	<u>\$ 13,577</u>	<u>\$ 1,457</u>	<u>\$ (12,120)</u>

**Town of Paonia
Water Fund
Schedule of Revenues, Expenditures and Changes in Available
Resources-Actual and Budget
(Non-GAAP Budgetary Basis)
Year Ended December 31, 2013**

Available resources	Original Budget	Final Budget	Actual	Favorable (Unfavorable)
January 1	\$ 681,220	\$ 681,220	\$ 725,381	\$ 44,161
Revenues				
Water charges	512,000	487,250	486,198	(1,052)
Water taps	18,000	-	-	-
Sales and service	3,500	4,600	4,534	(66)
Water tank	3,500	1,700	1,690	(10)
Standby tap fees	30,000	31,500	31,401	(99)
Penalties	600	1,200	1,190	(10)
Interest income	50	50	40	(10)
Total revenues	<u>567,650</u>	<u>526,300</u>	<u>525,053</u>	<u>(1,247)</u>
Total available resources	<u>1,248,870</u>	<u>1,207,520</u>	<u>1,250,434</u>	<u>42,914</u>
Expenditures				
Salaries and wages	156,271	156,271	149,534	6,737
Employee benefits	38,999	38,999	34,549	4,450
Supplies	24,100	10,000	23,977	(13,977)
Legal and engineering	10,000	4,500	4,460	40
Repairs and maintenance	35,000	42,000	42,293	(293)
Professional fees	7,500	5,750	5,750	-
Telephone	2,800	2,100	2,076	24
Postage	1,500	2,250	2,237	13
Travel and meetings	1,000	1,000	976	24
Insurance and bonds	15,508	15,850	15,835	15
Utilities	10,800	15,800	15,655	145
Vehicle expense	8,500	11,050	11,037	13
Dues and subscriptions	500	1,025	1,020	5
Shop expense	1,300	2,700	2,695	5
Capital outlay	-	70,600	70,196	404
Miscellaneous	6,150	6,850	5,791	1,059
Fees and permits	6,500	6,650	6,638	12
Contract services	17,600	4,700	4,668	32
John Norris retirement	20,160	20,160	18,480	1,680
Debt service	23,475	25,240	25,238	2
Total expenditures	<u>387,663</u>	<u>443,495</u>	<u>443,105</u>	<u>390</u>
Loss on employee fraud	<u>-</u>	<u>-</u>	<u>(54,465)</u>	<u>(54,465)</u>
Available resources December 31	<u>\$ 861,207</u>	<u>\$ 764,025</u>	<u>\$ 752,864</u>	<u>\$ (11,161)</u>

**Town of Paonia
Sanitation Fund
Schedule of Revenues, Expenditures and Changes in Available
Resources-Actual and Budget
(Non-GAAP Budgetary Basis)
Year Ended December 31, 2013**

Available resources	Original Budget	Final Budget	Actual	Favorable (Unfavorable)
January 1	\$ 413,136	\$ 413,136	\$ 721,240	\$ 308,104
Revenues				
Sewer charges	355,000	339,000	338,166	(834)
Garbage charges	181,000	173,000	172,797	(203)
Sewer taps	8,000	3,750	3,750	-
Total revenues	544,000	515,750	514,713	(1,037)
Total available resources	957,136	928,886	1,235,953	307,067
Expenditures				
Sewer:				
Salaries and wages	72,199	72,199	67,322	4,877
Employee benefits	18,671	18,671	15,484	3,187
Supplies	15,100	15,500	17,817	(2,317)
Repairs and maintenance	95,000	35,000	34,131	869
Professional fees	15,000	6,150	6,126	24
Telephone	2,800	1,900	1,841	59
Postage	1,100	1,950	1,913	37
Travel and meetings	1,000	1,000	789	211
Insurance and bonds	4,468	5,100	5,045	55
Utilities	28,840	35,250	34,838	412
Vehicle expense	8,500	10,000	9,909	91
Capital outlay	-	89,000	89,564	(564)
Fees and permits	5,000	6,600	5,758	842
Debt Service payments	102,000	102,000	101,008	992
Gaging station	3,500	3,500	6,553	(3,053)
Miscellaneous	14,000	13,700	9,373	4,327
Total Sewer	387,178	417,520	407,471	10,049

**Town of Paonia
Sanitation Fund
Schedule of Revenues, Expenditures and Changes in Available
Resources-Actual and Budget
(Non-GAAP Budgetary Basis)
Year Ended December 31, 2013**

	<u>Original Budget</u>	<u>Final Budget</u>	<u>Actual</u>	<u>Favorable (Unfavorable)</u>
Garbage:				
Salaries and wages	123,344	123,344	115,656	7,688
Employee benefits	32,279	32,279	29,718	2,561
Supplies	3,350	1,375	1,266	109
Repairs and maintenance	1,500	4,500	4,343	157
Legal and engineering services	100	100	-	100
Telephone	2,800	900	809	91
Postage	650	1,000	941	59
Insurance and bonds	530	530	530	-
Utilities	2,250	2,200	2,128	72
Vehicle expense	16,000	12,000	11,609	391
Landfill fees	24,000	24,000	23,408	592
Miscellaneous	4,175	4,075	2,950	1,125
Total garbage	<u>210,978</u>	<u>206,303</u>	<u>193,358</u>	<u>12,945</u>
Total Expenditures	<u>598,156</u>	<u>623,823</u>	<u>600,829</u>	<u>22,994</u>
Loss on employee fraud	<u>-</u>	<u>-</u>	<u>(25,359)</u>	<u>(25,359)</u>
Available resources December 31	<u>\$ 358,980</u>	<u>\$ 305,063</u>	<u>\$ 609,765</u>	<u>\$ 304,702</u>

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

LOCAL HIGHWAY FINANCE REPORT		City or County:	Paonia
		YEAR ENDING :	December 2013
This Information From The Records Of (example - City of or County of Town of Paonia)	Prepared By:	Barbara Peterson	Town Clerk
	Phone:	970/527-4101	

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

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

II. RECEIPTS FOR ROAD AND STREET PURPOSES

III. DISBURSEMENTS FOR ROAD AND STREET PURPOSES

ITEM	AMOUNT	ITEM	AMOUNT
A. Receipts from local sources:		A. Local highway disbursements:	
1. Local highway-user taxes		1. Capital outlay (from page 2)	337,899
a. Motor Fuel (from Item I.A.5.)		2. Maintenance:	10,846
b. Motor Vehicle (from Item I.B.5.)		3. Road and street services:	
c. Total (a.+b.)		a. Traffic control operations	770
2. General fund appropriations	318,217	b. Snow and ice removal	9,289
3. Other local imposts (from page 2)	12,698	c. Other	504
4. Miscellaneous local receipts (from page 2)	9,235	d. Total (a. through c.)	
5. Transfers from toll facilities		4. General administration & miscellaneous	5,252
6. Proceeds of sale of bonds and notes:		5. Highway law enforcement and safety	35,131
a. Bonds - Original Issues		6. Total (1 through 5)	399,691
b. Bonds - Refunding Issues		B. Debt service on local obligations:	
c. Notes		1. Bonds:	
d. Total (a. + b. + c.)	0	a. Interest	
7. Total (1 through 6)	340,150	b. Redemption	
B. Private Contributions		c. Total (a. + b.)	0
C. Receipts from State government (from page 2)	59,541	2. Notes:	
D. Receipts from Federal Government (from page 2)	0	a. Interest	
E. Total receipts (A.7 + B + C + D)	399,691	b. Redemption	
		c. Total (a. + b.)	0
		3. Total (1.c + 2.c)	0
		C. Payments to State for highways	
		D. Payments to toll facilities	
		E. Total disbursements (A.6 + B.3 + C + D)	399,691

IV. LOCAL HIGHWAY DEBT STATUS

(Show all entries at par)

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

V. LOCAL ROAD AND STREET FUND BALANCE

	A. Beginning Balance	B. Total Receipts	C. Total Disbursements	D. Ending Balance	E. Reconciliation
		399,691	399,691		0

Notes and Comments:

LOCAL HIGHWAY FINANCE REPORT

STATE:
Colorado
YEAR ENDING (mm/yy):
December 2013

II. RECEIPTS FOR ROAD AND STREET PURPOSES - DETAIL

ITEM	AMOUNT	ITEM	AMOUNT
A.3. Other local imposts:		A.4. Miscellaneous local receipts:	
a. Property Taxes and Assessments		a. Interest on investments	
b. Other local imposts:		b. Traffic Fines & Penalties	5,223
1. Sales Taxes		c. Parking Garage Fees	
2. Infrastructure & Impact Fees		d. Parking Meter Fees	
3. Liens		e. Sale of Surplus Property	3,812
4. Licenses		f. Charges for Services	200
5. Specific Ownership &/or Other	12,698	g. Other Misc. Receipts	
6. Total (1. through 5.)	12,698	h. Other	
c. Total (a. + b.)	12,698	i. Total (a. through h.)	9,235
	(Carry forward to page 1)		(Carry forward to page 1)

ITEM	AMOUNT	ITEM	AMOUNT
C. Receipts from State Government		D. Receipts from Federal Government	
1. Highway-user taxes	47,568	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	5,829	d. Federal Transit Admin	
d. Other (Specify) -Road & Bridge	6,144	e. U.S. Corps of Engineers	
e. Other (Specify)		f. Other Federal	
f. Total (a. through e.)	11,973	g. Total (a. through f.)	0
4. Total (1. + 2. + 3.f)	59,541	3. Total (1. + 2.g)	
			(Carry forward to page 1)

III. DISBURSEMENTS FOR ROAD AND STREET PURPOSES - DETAIL

	ON NATIONAL HIGHWAY SYSTEM (a)	OFF NATIONAL HIGHWAY SYSTEM (b)	TOTAL (c)
A.I. Capital outlay:			
a. Right-Of-Way Costs			0
b. Engineering Costs			0
c. Construction:			
(1). New Facilities			0
(2). Capacity Improvements		310,412	310,412
(3). System Preservation		27,487	27,487
(4). System Enhancement & Operation			0
(5). Total Construction (1) + (2) + (3) + (4)	0	337,899	337,899
d. Total Capital Outlay (Lines 1.a. + 1.b. + 1.c.5)	0	337,899	337,899
			(Carry forward to page 1)

Notes and Comments:

Third Street Emergency Repair - Sewer line collapsed - replaced road from Grand Ave to bridge
Second Street Culvert Emergency Repair - Culvert collapsed

INDEPENDENT AUDITOR'S REPORT ON INTERNAL CONTROL OVER FINANCIAL REPORTING AND ON COMPLIANCE AND OTHER MATTERS BASED ON AN AUDIT OF FINANCIAL STATEMENTS PERFORMED IN ACCORDANCE WITH *GOVERNMENT AUDITING STANDARDS*

To the Town Council
Town of Paonia, Colorado

We have audited, in accordance with the auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States, the financial statements of the governmental activities, the business-type activities, each major fund, and the aggregate remaining fund information of Town of Paonia, Colorado, as of and for the year ended December 31, 2013, and the related notes to the financial statements, which collectively comprise Town of Paonia, Colorado's basic financial statements, and have issued our report thereon dated March 31, 2013.

Internal Control over Financial Reporting

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

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

Our consideration of internal control was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control that might be material weaknesses or, significant deficiencies. Given these limitations, during our audit we did not identify any deficiencies in internal control that we consider to be material weaknesses. However, material weaknesses may exist that have not been identified.

Compliance and Other Matters

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

Purpose of this Report

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

Blair and Associates, P.C.

Cedaredge, Colorado
March 31, 2013

Town of Paonia
Summary Schedule of Prior Audit Findings
December 31, 2013

Significant deficiency

2011-03

Condition: Currently, the Town does not have a capital asset ledger.

Effect: Capital assets and depreciation expense are not being record to the accounting records.

Resolution: The Town is working on the capital asset list and should be completed before the end of the year.

Resolved.

2011-05

Condition: Currently, the Town did not take a physical inventory of supplies for the Water and Sewer Funds at year end.

Effect: Inventory of supplies were not posted properly on the financial statements.

Resolution: The Town has now started taking inventory of supplies at year end on an excel spreadsheet.

Resolved.