



Archuleta County, Colorado

Financial Statements and Supplementary Information

For the Year Ended December 31, 2012



ARCHULETA COUNTY, COLORADO

TABLE OF CONTENTS

December 31, 2012

	<u>PAGE</u>
Independent Auditor's Report	1
Management's Discussion and Analysis	i
Basic Financial Statements:	
Government-wide Financial Statements:	
Statement of Net Position	3
Statement of Activities	4
Governmental Fund Financial Statements:	
Balance Sheet	5
Reconciliation of Total Governmental Fund Balances to the Statement of Net Position	6
Statement of Revenues, Expenditures and Changes in Fund Balances	7
Reconciliation of the Statement of Revenues, Expenditures and Changes in Fund Balances of Governmental Funds to the Statement of Activities	8
Proprietary Fund Financial Statements:	
Statement of Net Position	9
Statement of Revenues, Expenses and Changes in Net Position	10
Statement of Cash Flows	11
Fiduciary Fund Financial Statements:	
Statement of Fiduciary Net Position	12
Notes to the Basic Financial Statements	13
Required Supplementary Information:	
Schedules of Revenues, Expenditures and Changes in Fund Balance–	
Budget and Actual General Fund and Major Special Revenue Funds:	
General Fund	34
Road and Bridge Fund	35
Human Services Fund	36
Other Supplementary Information:	
Listing of Nonmajor Governmental Funds	37
Combining Balance Sheet - Nonmajor Governmental Funds	38
Combining Schedule of Revenues, Expenditures and Changes in Fund Balance - Nonmajor Governmental Funds	39
Other Schedules and Reports:	
Schedule of Expenditures and Transfers Out - All Non-Major Governmental Funds, and All Proprietary Funds - Budget and Actual	40
Schedule of Expenditures of Federal Awards	41
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	42
Independent Auditor's Report on Compliance For Each Major Federal Program; Report on Internal Control Over Compliance; and Report on the Schedule of Expenditures of Federal Awards Required by OMB Circular A-133	44
Schedule of Findings and Questioned Costs	46
Local Highway Finance Report	49



Independent Auditor's Report

To the Board of County Commissioners of Archuleta County, Colorado
Pagosa Springs, Colorado

We have audited the accompanying financial statements of the governmental activities, the business-type activities, the discretely presented component units, each major fund, and the aggregate remaining fund information of Archuleta County, Colorado (the "County") as of and for the year ended December 31, 2012, and the related notes to the financial statements, which collectively comprise the County'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 did not audit the financial statements of the Archuleta County Housing Authority and Casa De Los Arcos, which represent 100 percent of the activities of the discretely presented component units. Those statements were audited by other auditors whose report has been furnished to us, and our opinion, insofar as it relates to the amounts included for discretely presented component units, is based solely on the report of the other auditors. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of the 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, based on our audit and the report of other auditors, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, the business-type activities, the discretely presented component units, each major fund, and the aggregate remaining fund information of the County as of December 31, 2012, 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.



Emphasis of Matter

As discussed in Note 2 to the basic financial statements, the County incorporated deferred outflows of resources and deferred inflows of resources into the definitions of the required components of the residual measure of net position, and changed its method for accounting and reporting certain items previously reported as assets or liabilities due to the adoption of new accounting principles. Our opinion is not modified with respect to this matter.

As discussed in Note 3 to the basic financial statements, the County elected to report its airport activities in a separate enterprise fund in 2012 where it was previously reported within the general fund. The beginning net position and fund balance has been adjusted for the governmental activities, the general fund and the business-type activities to reflect this correction. Our opinion is not modified with respect to this matter.

Other Matters

Required Supplementary Information

Accounting principles generally accepted in the United States of America require that the management's discussion and analysis on pages i through xi and the budgetary comparison information on Pages 31 through 33 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 and the other auditors 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.

Supplementary and Other Information

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the County's basic financial statements. The other supplementary information as listed in the table of contents, the Local Highway Finance Report, and the schedule of expenditures of federal awards, as required by Office of Management and Budget Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations* are presented for purposes of additional analysis and are not a required part of the financial statements.

The other supplementary information as listed in the table of contents, the Local Highway Finance Report, and the schedule of expenditures of federal awards 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. This 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 by us and the other auditors. In our opinion, the information is fairly stated, in all material respects, in relation to the basic financial statements taken as a whole.

Other Reporting Required by Government Auditing Standards

In accordance with *Governmental Auditing Standards*, we have also issued our report dated October 15, 2013 on our consideration of the County's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the County's internal control over financial reporting and compliance.

Anton Collins Mitchell LLP

Greeley, Colorado
October 15, 2013

ARCHULETA COUNTY, COLORADO
MANAGEMENT'S DISCUSSION AND ANALYSIS
For the Year Ended December 31, 2012

The following discussion and analysis of Archuleta County's financial performance provides an overview of the County's financial activities for the fiscal year ended December 31, 2012. Management encourages readers to consider the information presented here in conjunction with the County's financial statements.

FINANCIAL HIGHLIGHTS

- The assets of Archuleta County exceeded its liabilities at December 31, 2012 by \$40,797,509. Of this amount, \$9,339,541 is unrestricted and may be used to meet the County's ongoing obligations to citizens and creditors.
- The County's total net position increased by \$3,251,700 or 8.7% during 2012. The governmental net position increased by \$4,055,578 or 10.9% and the business-type net position decreased by (\$803,878) or (168.9%). These fluctuations in 2012 are largely due to the reclassification of the Airport Fund from the General Fund into its own enterprise fund.
- The combined governmental funds report fund balances at December 31, 2012 of \$11,393,504, this is comprised of an increase of \$1,372,590 in comparison to 2011 as well as a decrease of (\$306,617) due to a prior period adjustment to reclassify the airport fund to an enterprise fund. The unassigned combined fund balance is \$3,010,653 and is available for spending.
- The unassigned fund balance in the General Fund is \$3,010,653 and is 35.5% of the total General Fund expenditures.
- The County's total long term liabilities decreased (\$801,121).
- The County reclassified the Airport Fund as an enterprise fund in 2012. Previously the activity of the airport was included in the General Fund. A prior period adjustment was reported in the 2012 financial statements to show the effect of this reclassification of the beginning net position and fund balances.

USING THIS ANNUAL REPORT

This discussion and analysis is intended to serve as an introduction to the Archuleta County's basic financial statements. The County's basic financial statements comprise three components: 1) the government-wide financial statements, 2) fund financial statements, and 3) notes to the financial statements. This report also contains required and other supplementary information in addition to the basic financial statements themselves.

Government-wide Financial Statements

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

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

The *statement of activities* presents information showing how Archuleta County'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,

ARCHULETA COUNTY, COLORADO
MANAGEMENT'S DISCUSSION AND ANALYSIS
For the Year Ended December 31, 2012

revenues and expenditures reported in this statement for some items will result in cash flows in future fiscal periods (e.g., uncollected taxes and earned but unused vacation leave).

Government-wide financial statements distinguish functions of Archuleta County 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 Archuleta County include general government, public safety, highway & streets, health & welfare, economic development and recreation. The Business-type Activities of Archuleta County include Solid Waste and Airport.

The government-wide financial statements include not only Archuleta County, but also two component unit, the Archuleta County Housing Authority (ACHA) and CASA De Los Arcos. These component units were created to provide management of housing assistance projects to low income elderly individuals. Financial information for these component units are reported separately from the financial information presented for the County itself.

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. Some funds are required to be established by State law or bond covenants. All of the County's funds can be divided into three categories: governmental funds, proprietary funds, and fiduciary funds.

Governmental funds – Most of the County's basic services are reported in governmental funds, which focus on how spendable resources flow into and out of those funds and the balances left at year-end that are available for future years. The funds are reported using an accounting method called *modified accrual* accounting, which measures cash and all other financial assets that can readily be converted to cash. The governmental funds statements provide a detailed short-term view to cash, the governmental fund operations and the basic services it provides. Governmental fund information helps you determine whether there are more or fewer financial resources that can be spent in the near future to finance the County's programs. We describe the relationship (or differences) between governmental activities (reported in the Statement of Net Position and the Statement of Activities) and governmental funds in reconciliations.

Proprietary funds – When the County charges customers for the services it provides – whether to outside customers or to other units of the County – these services are generally reported in proprietary funds. Proprietary funds are reported in the same way that all activities are reported in the Statement of Net Position and the Statement of Activities. In fact the County's enterprise funds (components of proprietary funds) are the same as the business-type activities we report in the government-wide statements but provide more detail and additional information, such as cash flows, for proprietary funds. The County uses internal service funds (the other component of proprietary funds) to account for its fleet of vehicles. Because these services predominantly benefit governmental rather than business-type functions, they have been included within governmental activities in the governmental-wide financial statements.

Fiduciary funds – Resources held for the benefit of parties outside the government are reported in fiduciary funds. Fiduciary funds are *not* reflected in the government-wide financial statements because the resources of those funds are *not* available to support the County's operations. The accounting used for fiduciary funds is similar to that used for proprietary funds.

The basic fiduciary fund financial statements can be found within the basic financial statements, just before the Notes to the Financial Statements.

ARCHULETA COUNTY, COLORADO
MANAGEMENT'S DISCUSSION AND ANALYSIS
For the Year Ended December 31, 2012

Notes to Financial Statements

The notes provide additional information that is essential to a full understanding of the data provided in the government-wide and fund financial statements. The notes to the financial statements can be found immediately after the basic financial statements.

Other Information

In addition to the basic financial statements and accompanying notes, this report also presents the combining statements referred to earlier in connection with non-major Governmental Funds and Internal Service Funds. Schedules that compare actual revenues and expenditures/expenses to budget amounts are also included. Combining and individual fund statements and schedules can be found after the notes in the financial section.

FINANCIAL ANALYSIS OF THE COUNTY AS A WHOLE

As noted earlier, net position may serve over time as a useful indicator of a government's financial position. For the County, assets exceeded liabilities by \$40,797,509 at December 31, 2012.

The following table provides a summary comparison of the County's governmental and business-type net position at December 31, 2012.

	<u>Net Position</u>					
	<u>Governmental Activities</u>		<u>Business-type Activities</u>		<u>Total Primary Government</u>	
	<u>2012</u>	<u>2011</u>	<u>2012</u>	<u>2011</u>	<u>2012</u>	<u>2011</u>
Current and other assets	\$ 19,589,050	\$ 17,601,948	\$ 172,822	\$ 129,599	\$ 19,761,872	\$ 17,731,547
Capital assets	10,447,301	33,778,699	25,408,051	808,085	35,855,352	34,586,784
Total assets	<u>30,036,351</u>	<u>51,380,647</u>	<u>25,580,873</u>	<u>937,684</u>	<u>55,617,224</u>	<u>52,318,331</u>
Other liabilities	2,702,894	8,576,363	583,844	434,916	3,286,738	9,011,279
Long-term debt outstanding	4,952,826	5,734,330	739,016	26,913	5,691,842	5,761,243
Total liabilities	<u>7,655,720</u>	<u>14,310,693</u>	<u>1,322,860</u>	<u>461,829</u>	<u>8,978,580</u>	<u>14,772,522</u>
Deferred inflows of resources	5,841,135	-	-	-	5,841,135	-
Net position:						
Net investment in capital assets	5,305,991	27,404,926	24,715,517	385,080	30,021,508	27,790,006
Restricted	1,436,460	1,175,497	-	-	1,436,460	1,175,497
Unrestricted	9,797,045	8,489,531	(457,504)	90,775	9,339,541	8,580,306
Total net position	<u>\$ 16,539,496</u>	<u>\$ 37,069,954</u>	<u>\$ 24,258,013</u>	<u>\$ 475,855</u>	<u>\$ 40,797,509</u>	<u>\$ 37,545,809</u>

The largest portion of Archuleta County's net position, 73.6%, reflect its investment in capital assets (e.g. land, buildings, equipment, etc.), less any related debt still outstanding (current and long-term), that was used to acquire those assets. The County uses these capital assets to provide services to citizens; consequently these assets are not available for future spending. Although the County's investment in its capital assets is reported net of related debt, it should be noted that the resources needed to repay this debt must be provided from other sources, since the capital assets themselves cannot be used to liquidate these liabilities.

There are 3.5% of the County's net position that are subject to restrictions on how they may be used. The remaining 22.9% is unrestricted and may be used to meet the County's ongoing obligations to citizens and creditors.

ARCHULETA COUNTY, COLORADO
MANAGEMENT'S DISCUSSION AND ANALYSIS
For the Year Ended December 31, 2012

Governmental Activities

The Governmental Activities total revenues of \$21,223,779 exceeded expenditures including transfers out of \$17,168,201, resulting in an increase in net assets of \$4,055,578 at December 31, 2012.

The following table provides a summary comparison of the County's governmental and business-type net position at December 31, 2012.

	<u>Changes in Net Position</u>					
	Governmental Activities		Business-type Activities		Total Primary Government	
	<u>2012</u>	<u>2011</u>	<u>2012</u>	<u>2011</u>	<u>2012</u>	<u>2011</u>
Program revenues:						
Charges for services	\$ 2,165,527	\$ 1,832,305	\$ 726,969	\$ 513,221	\$ 2,892,496	\$ 2,345,526
Operating grants	6,288,662	6,431,729	-	-	6,288,662	6,431,729
Capital grants/Contributions	1,854,645	359,580	229,444	-	2,084,089	359,580
General revenues:						
Property taxes	6,316,237	8,129,762	-	-	6,316,237	8,129,762
Sales and use taxes	3,261,353	3,287,547	-	-	3,261,353	3,287,547
Other taxes	1,028,900	958,946	-	-	1,028,900	958,946
Other general revenues	308,455	497,734	-	335	308,455	498,069
Total revenues	<u>21,223,779</u>	<u>21,497,603</u>	<u>956,413</u>	<u>513,556</u>	<u>22,180,192</u>	<u>22,011,159</u>
Program expenses:						
General Government	4,496,094	7,079,405	-	-	4,496,094	7,079,405
Public Safety	4,056,087	3,188,240	-	-	4,056,087	3,188,240
Health and Welfare	4,298,358	4,230,414	-	-	4,298,358	4,230,414
Highways and Streets	4,016,513	5,476,904	-	-	4,016,513	5,476,904
Economic Development	104,722	81,357	-	-	104,722	81,357
Recreation and Culture	181,126	109,885	-	-	181,126	109,885
Interest Expense	15,301	282,098	-	-	15,301	282,098
Airport	-	-	1,125,253	-	1,125,253	-
Solid Waste	-	-	635,038	627,949	635,038	627,949
Total expenses	<u>17,168,201</u>	<u>20,448,303</u>	<u>1,760,291</u>	<u>627,949</u>	<u>18,928,492</u>	<u>21,076,252</u>
Change in net position	4,055,578	1,049,300	(803,878)	(114,393)	3,251,700	934,907
Beginning net position	<u>37,069,954</u>	<u>36,020,654</u>	<u>475,855</u>	<u>590,248</u>	<u>37,545,809</u>	<u>36,610,902</u>
Prior Period Adjustment	<u>(24,586,036)</u>	<u>-</u>	<u>24,586,036</u>	<u>-</u>	<u>-</u>	<u>-</u>
Ending net position	<u>\$ 16,539,496</u>	<u>\$ 37,069,954</u>	<u>\$ 24,258,013</u>	<u>\$ 475,855</u>	<u>\$ 40,797,509</u>	<u>\$ 37,545,809</u>

Expenditures exceeded Program Revenues for Governmental Activities by \$6.9 million in 2012. In 2011 expenditures exceeded Program Revenues by \$11.8 million.

Total revenues for governmental activities are made up of 48.6% of program revenues and 51.4% general revenues. In 2011 program revenues were 40.1% of the total revenues and general revenues represented 59.9%.

Governmental Activities Program Revenues increased \$1,685,220 or (19.5%) in 2012 compared to 2011. The increase in program revenues is mostly due to the increase in Capital Grants.

General revenues, primarily property taxes and sales taxes, were used to pay for \$6,859,367 of expenses that were not covered by program revenues.

ARCHULETA COUNTY, COLORADO
MANAGEMENT'S DISCUSSION AND ANALYSIS
For the Year Ended December 31, 2012

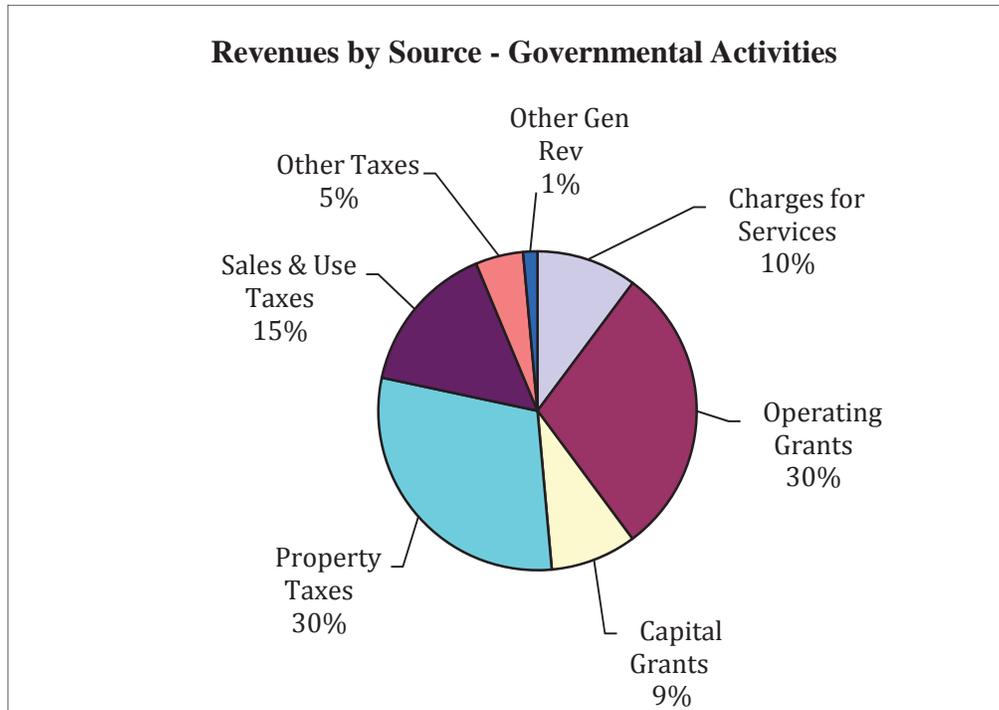
The following illustrates program revenues, expenses, and amounts covered by general revenues, by function:

Net Program Cost to Taxpayers

Governmental Activities	Program		Net (Expense)
	Revenues	Expenses	Revenue
General Gov't	2,673,715	4,496,094	(1,822,379)
Public Safety	452,023	4,056,087	(3,604,064)
Health & Welfare	3,672,342	4,298,358	(626,016)
Highways & Streets	3,407,502	4,016,513	(609,011)
Economic Dev	-	104,722	(104,722)
Recreation & Culture	103,252	181,126	(77,874)
Interest Exp	-	15,301	(15,301)
Totals	10,308,834	17,168,201	(6,859,367)

Governmental Activities total revenues decreased (\$273,824) or (1.3%) in 2012. The decrease in Property Taxes is the result of a reassessment in property tax valuations in 2011. The County Assessor reported that assessed valuations declined approximately 25%. The first year to be affected by the decreased valuations was 2012 resulting in significantly less property tax revenue to the county.

The following illustrate revenues by sources:



ARCHULETA COUNTY, COLORADO
MANAGEMENT'S DISCUSSION AND ANALYSIS
For the Year Ended December 31, 2012

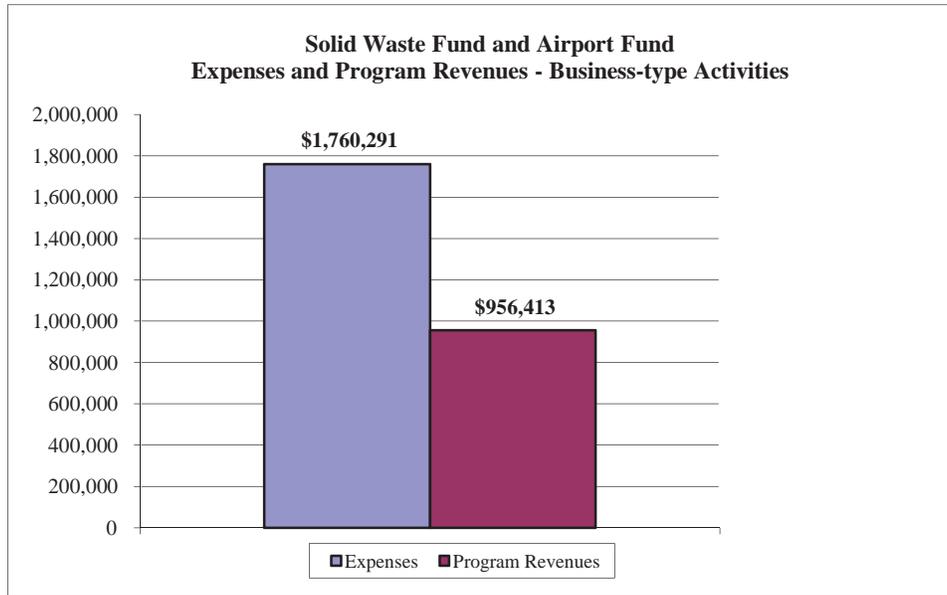
The percentages of total County expenses in each function are as follows:

	<u>2012</u>	<u>2011</u>
General Government	26.2%	34.6%
Public Safety	23.6%	15.6%
Health & Welfare	25.0%	20.7%
Highways & Streets	23.4%	26.8%
Economic Dev	0.6%	0.4%
Recreation & Cult	1.1%	0.5%
Interest Expense	0.1%	1.4%

Business-type Activities

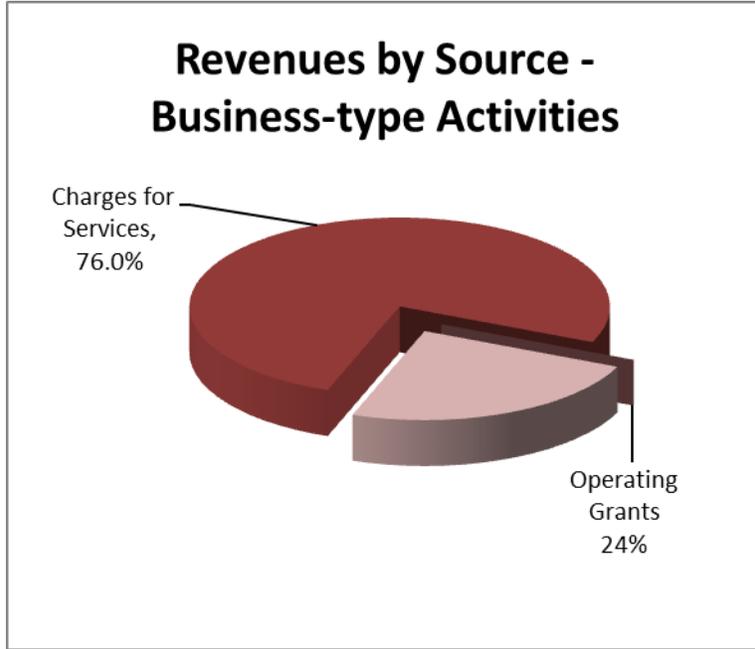
Net position in Business-type Activities increased by \$23,782,158 in 2012. This is due to the reclassification of the Airport Fund as an Enterprise Fund. This resulted in a prior period adjustment of \$24,586,036 increasing net position in the Business-type Activities.

The following illustrates the Business-type Activities revenues and expenses:



Business-type activities Charges for Services for business-type activities represents 76.0% of revenues with the remaining 24.0% of operating grant revenue.

ARCHULETA COUNTY, COLORADO
MANAGEMENT'S DISCUSSION AND ANALYSIS
For the Year Ended December 31, 2012



THE COUNTY'S FUNDS

At year end, the County's Governmental Funds reported a combined fund balance of \$11,393,504, an increase of \$1,065,973 compared to 2011. Fund balances in the Governmental Funds are as follows:

	Governmental Fund Balances Comparison				
	2012	2011	2010	2009	2008
General Government Fund	7,188,345	5,353,684	3,409,926	1,231,710	544,953
Road & Bridge Fund	2,828,501	3,501,459	3,839,783	4,439,481	3,137,896
Dept. of Human Services Fund	366,262	317,350	193,810	86,289	(618,072)
Other Governmental Funds	1,010,396	1,155,038	1,029,755	941,204	977,236
Combined Governmental Fund Balance	11,393,504	10,327,531	8,473,274	6,698,684	4,042,013

The Proprietary Funds ended 2012 with total unrestricted net position of (\$315,748) a decrease of (\$548,279) from 2011. The decrease is due to the Solid Waste Fund reporting an operating loss of (\$49,499) in 2012 and the Airport Fund reporting an operating loss of (\$993,972).

Proprietary Funds Net Positions are as follows:

Solid Waste Fund	\$ 349,164
Airport Fund	\$23,782,334
Fleet Fund (Internal Service)	\$ 810,996

ARCHULETA COUNTY, COLORADO
MANAGEMENT'S DISCUSSION AND ANALYSIS
For the Year Ended December 31, 2012

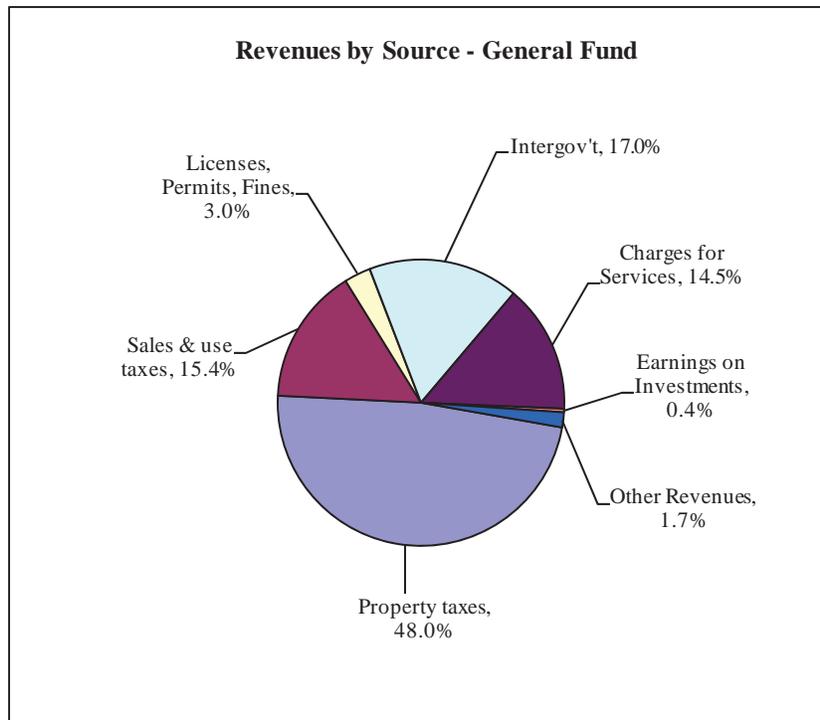
GENERAL FUND BUDGETARY HIGHLIGHTS

The General Fund accounts for all of the general services provided by Archuleta County. At the end of 2012, the General Fund's fund balance totaled \$7,188,345. This is an increase of \$1,834,661 compared to 2011.

A comparison of unreserved fund balance to total fund expenditures is often a useful measure of the ability to continue financial operations. At December 31, 2012 the unassigned fund balance in the General Fund represented 35.5% of the General Fund expenditures.

2012 General Fund revenues decreased (\$945,835) from 2011. Property Taxes decreased approximately \$864,000 in 2012 compared to 2011 due to decreased property assessments.

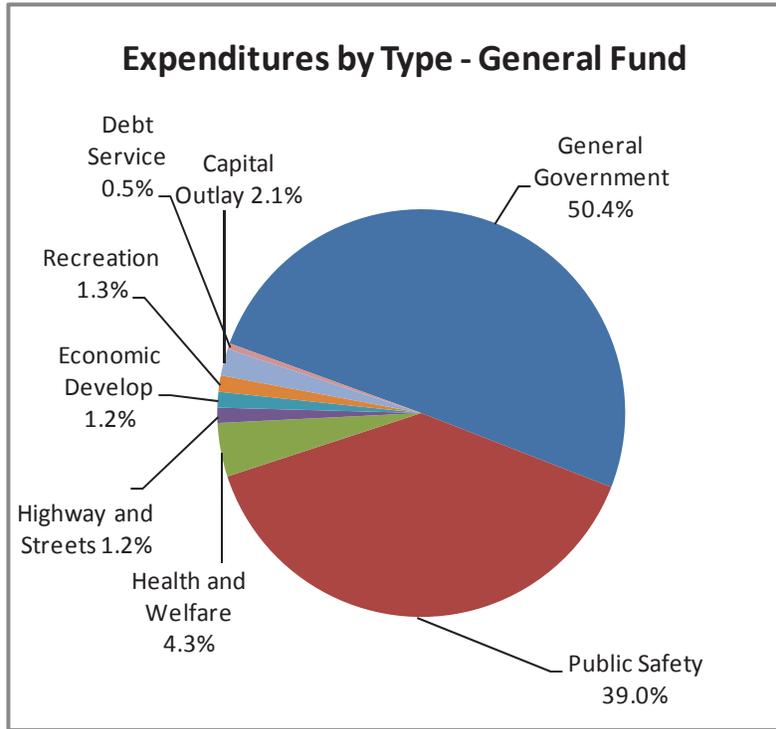
The following illustrates revenues by sources in the General Fund:



General Fund expenditures include all administrative functions of the County (i.e. Commissioners, Administrator, Finance, Attorney, Human Resources, IT/GIS, etc.); public safety; health and welfare; planning and development and outdoor recreation. Total General Fund expenditures decreased (\$956,658) in 2012.

ARCHULETA COUNTY, COLORADO
MANAGEMENT'S DISCUSSION AND ANALYSIS
For the Year Ended December 31, 2012

The following illustrates expenditures by type for the General Fund:



During 2012, the County Commissioners approved budget amendments that included changes to the General Fund budget. Resolution enactment requires public hearing and the opportunity for public discussion. The County does allow small inter-departmental budget changes that modify line items within departments within the same fund.

Actual revenues collected in the General Fund was \$185,201 more than budgetary estimates (excluding other financing sources) and expenditures were \$2,142,409 less than the final budgetary estimates (excluding other financing uses).

The following illustrates General Fund Budget:

	2012 General Fund Budget		Final Budget
	Adopted Budget	Amendments	
Beginning Fund Balance	4,516,287	-	4,516,287
Sources	10,572,803	306,717	10,879,520
Uses	10,673,516	245,159	10,918,675
Ending Fund Balance	\$ 4,415,574	\$ 61,558	\$ 4,477,132

ARCHULETA COUNTY, COLORADO
MANAGEMENT'S DISCUSSION AND ANALYSIS
For the Year Ended December 31, 2012

CAPITAL ASSETS

In 2012, the County invested in a broad range of capital assets, including construction in progress on a bridge, vehicles, and equipment.

The table below provides a comparative summary of total capital assets at December 31, 2012 and 2011.

	Capital Assets at Year-end					
	(Net of Depreciation, in Thousands)					
	Governmental Activities		Business-type Activities		Total Primary Government	
	<u>2012</u>	<u>2011</u>	<u>2012</u>	<u>2011</u>	<u>2012</u>	<u>2011</u>
Land	\$1,396	\$4,461	\$3,374	\$309	\$4,770	\$4,770
Runway	0	20,021	19,249	0	19,249	20,021
Buildings and Improvement	1,556	3,698	2,008	0	3,564	3,698
Improvements nonbuilding	7	77	73	0	80	77
Vehicles	353	611	213	1	566	612
Machinery & Equipment	1,115	751	145	123	1,260	874
Computer Equipment	518	509	0	0	518	509
Infrastructure	3,977	3,266	346	375	4,323	3,641
Construction in progress	1,525	383	0	0	1,525	383
Totals	<u>\$10,447</u>	<u>\$33,777</u>	<u>\$25,408</u>	<u>\$808</u>	<u>\$35,855</u>	<u>\$34,585</u>

Major capital expenditures during 2012 included:

CIP	\$1,261,855
Vehicles	303,745
Machinery	576,578
Computer & Office	176,041
Infrastructure	919,161

The County remains committed to the upkeep and maintenance of the County's largest assets. More detailed information about the County's capital assets is presented in Notes 1 and 8 to the financial statements.

ARCHULETA COUNTY, COLORADO
MANAGEMENT'S DISCUSSION AND ANALYSIS
For the Year Ended December 31, 2012

DEBT

Note 9 of the financial statements provide a summary of the County's long-term debt. At the end of 2012, the County had total debt outstanding of \$5.83 million. The County's total debt decreased (\$592,156) in 2012 .

Outstanding Debt, at Year-end

	Governmental Activities		Business-type Activities		Total Primary Government	
	<u>2012</u>	<u>2011</u>	<u>2012</u>	<u>2011</u>	<u>2012</u>	<u>2011</u>
Notes Payable	400,353	1,421,519	665,620	-	1,065,973	1,421,519
Capital leases	4,740,957	4,952,254	26,914	52,227	4,767,871	5,004,481
Totals	<u>\$ 5,141,310</u>	<u>\$ 6,373,773</u>	<u>\$ 692,534</u>	<u>\$ 52,227</u>	<u>\$ 5,833,844</u>	<u>\$ 6,426,000</u>

ECONOMIC FACTORS AND NEXT YEAR'S BUDGETS AND RATES

The County, along with other local, state and federal governments, continues to be faced with unprecedented economic times where revenues are uncertain and the provisions of services become increasingly difficult. The 2013 budget was developed to ensure the fiscal health of the County through changing economic conditions. Management continues to be cautious with its spending, delaying discretionary purchases as necessary and monitoring revenues to continually assess the County's financial position.

CONTACTING THE COUNTY'S FINANCIAL MANAGEMENT

This financial report is designed to provide our citizens, taxpayers, customers and investors and creditors with a general overview of the County's finances and to show the County's accountability for the funds and assets it receives. If you have questions about this report, or should you need additional financial information, contact the County's Finance Department at Archuleta County, PO Box 1507, Pagosa Springs, CO 81147, or at www.archuletacounty.org. Archuleta County Housing Authority issues publicly available annual financial statements, which may be obtained by writing to the Archuleta County, Attn: Finance Department, PO Box 1507, Pagosa Springs, Colorado 81147.

ARCHULETA COUNTY, COLORADO

BASIC FINANCIAL STATEMENTS

ARCHULETA COUNTY, COLORADO
STATEMENT OF NET POSITION
December 31, 2012

	Primary Government		TOTAL	Component Units
	Governmental Activities	Business-Type Activities		
ASSETS				
Current Assets:				
Cash and Cash Equivalents	\$ 7,026,311	\$ 71,843	\$ 7,098,154	\$ 147,355
Restricted Cash and Investments	-	-	-	18,812
Investments	4,006,300	-	4,006,300	-
Property Taxes Receivable	5,841,135	-	5,841,135	-
Other Receivables	811,887	71,640	883,527	-
Inventories	86,533	2,824	89,357	-
Prepaid Items	15,115	-	15,115	1,324
Due from Other Governments	1,828,284	-	1,828,284	-
Internal Balances	(26,515)	26,515	-	-
Total Current Assets	19,589,050	172,822	19,761,872	167,491
Noncurrent Assets:				
Capital Assets:				
Land	1,396,085	3,374,009	4,770,094	42,250
Construction in Progress	1,524,865	-	1,524,865	-
Runway Improvements, net	-	19,248,854	19,248,854	-
Buildings and improvements, net	1,556,362	2,080,726	3,637,088	808,016
Machinery and equipment, net	1,114,684	145,559	1,260,243	73,349
Vehicles, net	352,628	212,830	565,458	-
Improvements -non-building, net	6,668	-	6,668	-
Computer Equipment, net	518,669	-	518,669	-
Infrastructure, net	3,977,340	346,073	4,323,413	-
Accum. Depr. for Component Units	-	-	-	(798,088)
Loan Costs, net	-	-	-	11,165
Total Noncurrent Assets	10,447,301	25,408,051	35,855,352	136,692
TOTAL ASSETS	30,036,351	25,580,873	55,617,224	304,183
LIABILITIES				
Current Liabilities:				
Accounts Payable	1,564,690	205,835	1,770,525	9,308
Due to Other Governments	451,713	-	451,713	-
Accrued Interest	79,890	12,748	92,638	58,836
Accrued Payroll and Liabilities	181,624	11,427	193,051	2,226
Deposits Payable	9,348	-	9,348	4,209
Accrued Compensated Absences, Current Portion	44,373	636	45,009	933
Notes Payable, Due Within One Year	371,256	353,198	724,454	-
Total Current Liabilities	2,702,894	583,844	3,286,738	75,512
Noncurrent Liabilities:				
Closure and Post Closure Costs	-	396,573	396,573	-
Accrued Compensated Absences, Noncurrent	182,772	3,107	185,879	-
Notes Payable, Due After One Year	4,770,054	339,336	5,109,390	806,636
Total Noncurrent Liabilities	4,952,826	739,016	5,691,842	806,636
TOTAL LIABILITIES	7,655,720	1,322,860	8,978,580	882,148
DEFERRED INFLOWS OF RESOURCES				
Unearned Revenue - Property Taxes	5,841,135	-	5,841,135	-
TOTAL DEFERRED INFLOWS OF RESOURCES	5,841,135	-	5,841,135	-
NET POSITION				
Net investment in capital assets	5,305,991	24,715,517	30,021,508	(669,944)
Restricted for:				
TABOR	521,004	-	521,004	28,534
Capital Projects	495,684	-	495,684	-
Forest Reserve Title III	170,940	-	170,940	-
Parks and recreation	248,832	-	248,832	-
Unrestricted	9,797,045	(457,504)	9,339,541	63,445
TOTAL NET POSITION	\$ 16,539,496	\$ 24,258,013	\$ 40,797,509	\$ (577,965)

The notes to the financial statements are an integral part of this financial statement

ARCHULETA COUNTY, COLORADO
STATEMENT OF ACTIVITIES
For the Year Ended December 31, 2012

Functions/Programs	Expenses	Program Revenues			Net (Expense) Revenue and Change in Net Position			Component Units
		Charges for Services	Operating Grants & Contributions	Capital Grants & Contributions	Governmental Activities	Business-Type Activities	TOTAL	
Primary Government:								
Governmental Activities:								
General Government	\$ 4,496,094	\$ 1,835,476	\$ 760,272	\$ 77,967	\$ (1,822,379)		\$ (1,822,379)	
Public Safety	4,056,087	266,231	185,792	-	(3,604,064)		(3,604,064)	
Health and Welfare	4,298,358	28,420	3,643,922	-	(626,016)		(626,016)	
Highways and Streets	4,016,513	34,270	1,698,676	1,674,556	(609,011)		(609,011)	
Economic Development	104,722	-	-	-	(104,722)		(104,722)	
Recreation and Culture	181,126	1,130	-	102,122	(77,874)		(77,874)	
Interest Expense	15,301	-	-	-	(15,301)		(15,301)	
Total Governmental Activities	17,168,201	2,165,527	6,288,662	1,854,645	(6,859,367)		(6,859,367)	
Business-Type Activities:								
Airport	1,125,253	101,601	-	229,444		(794,208)	(794,208)	
Solid Waste	635,038	625,368	-	-		(9,670)	(9,670)	
Total Business-Type Activities	1,760,291	726,969	-	229,444		(803,878)	(803,878)	
Total Primary Government	\$ 18,928,492	\$ 2,892,496	\$ 6,288,662	\$ 2,084,089	(6,859,367)	(803,878)	(7,663,245)	
Component Units:								
Casa de los Arcos	\$ 144,429	\$ 51,547	\$ 96,020	\$ -				
Archuleta County Housing	250,554	1,628	165,876	-				
Total Component Units	\$ 394,983	\$ 53,175	\$ 261,896	\$ -				\$ (79,912)
General revenues:								
Taxes:								
					6,316,237	-	6,316,237	-
					3,261,353	-	3,261,353	-
					1,028,900	-	1,028,900	-
					42,785	-	42,785	47
					223,170	-	223,170	-
					42,500	-	42,500	-
Total General Revenues and Transfers					10,914,945	-	10,914,945	47
					Change in Net Position	(803,878)	3,251,700	(79,865)
Net Position - Beginning as Previously Stated					37,069,954	475,855	37,545,809	(498,100)
Prior period adjustment - See note 3					(24,586,036)	24,586,036	-	-
Net Position - Beginning as Restated					12,483,918	25,061,891	37,545,809	(498,100)
Net Position - Ending					\$ 16,539,496	\$ 24,258,013	\$ 40,797,509	\$ (577,965)

The notes to the financial statements are an integral part of this financial statement

ARCHULETA COUNTY, COLORADO
BALANCE SHEET
GOVERNMENTAL FUNDS
December 31, 2012

	<u>GENERAL FUND</u>	<u>ROAD & BRIDGE FUND</u>	<u>HUMAN SERVICES FUND</u>	<u>OTHER GOVERNMENTAL FUNDS</u>	<u>TOTAL GOVERNMENTAL FUNDS</u>
ASSETS					
Cash and Cash Equivalents	\$ 3,033,200	\$ 2,401,959	\$ 314,498	\$ 968,320	\$ 6,717,977
Investments	4,006,300	-	-	-	4,006,300
Property Taxes Receivable	4,643,335	900,487	297,313	-	5,841,135
Other Receivable	448,852	285,671	-	71,449	805,972
Inventories, at Cost	2,264	20,508	-	-	22,772
Prepaid Items	9,341	4,684	-	1,090	15,115
Due From Other Governments	618,577	1,074,735	134,972	-	1,828,284
Due From Other Funds	100,000	-	-	-	100,000
TOTAL ASSETS	<u>\$ 12,861,869</u>	<u>\$ 4,688,044</u>	<u>\$ 746,783</u>	<u>\$ 1,040,859</u>	<u>\$ 19,337,555</u>
LIABILITIES, DEFERRED INFLOWS OF RESOURCES AND FUND BALANCE					
LIABILITIES					
Accounts Payable	\$ 479,290	\$ 926,987	\$ 47,143	\$ 15,363	\$ 1,468,783
Accrued Payroll and Liabilities	125,903	32,069	-	15,100	173,072
Due to Other Governments	415,648	-	36,065	-	451,713
Inmate Deposits	9,348	-	-	-	9,348
TOTAL LIABILITIES	<u>1,030,189</u>	<u>959,056</u>	<u>83,208</u>	<u>30,463</u>	<u>2,102,916</u>
DEFERRED INFLOWS OF RESOURCES					
Deferred Revenue - Property Taxes	4,643,335	900,487	297,313	-	5,841,135
TOTAL DEFERRED INFLOWS OF RESOURCES	<u>4,643,335</u>	<u>900,487</u>	<u>297,313</u>	<u>-</u>	<u>5,841,135</u>
FUND BALANCE					
Nonspendable for:					
Inventory and Prepaids	11,605	25,192	-	1,090	37,887
Restricted for:					
TABOR	342,663	84,151	82,073	12,117	521,004
Capital Projects	-	-	-	495,684	495,684
Title III	-	170,940	-	-	170,940
Parks and Recreation	-	-	-	248,832	248,832
Committed to:					
1A Projects - Parks & Recreation	602,900	-	-	-	602,900
1A Projects - Technology & Training	383,908	-	-	-	383,908
1A Projects - Facilities	56,016	-	-	-	56,016
Fund Reserves Policy	2,780,600	-	-	-	2,780,600
Assigned to:					
Highways and Streets	-	2,548,218	-	-	2,548,218
Public Safety	-	-	-	252,673	252,673
Health and Welfare	-	-	284,189	-	284,189
Unassigned	3,010,653	-	-	-	3,010,653
TOTAL FUND BALANCE	<u>7,188,345</u>	<u>2,828,501</u>	<u>366,262</u>	<u>1,010,396</u>	<u>11,393,504</u>
TOTAL LIABILITIES, DEFERRED INFLOWS OF RESOURCES AND FUND BALANCE	<u>\$ 12,861,869</u>	<u>\$ 4,688,044</u>	<u>\$ 746,783</u>	<u>\$ 1,040,859</u>	<u>\$ 19,337,555</u>

The notes to the financial statements are an integral part of this financial statement

ARCHULETA COUNTY, COLORADO
RECONCILIATION OF TOTAL GOVERNMENTAL FUND BALANCES
TO THE STATEMENT OF NET POSITION
December 31, 2012

Total governmental fund balances \$ 11,393,504

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 in the fund financial statements. 9,904,576

Long-term liabilities are not due and payable in the current period and therefore are not reported in the funds.

Capital Leases Payable	\$	(4,740,957)	
Notes Payable		(400,353)	
Compensated Absences		(221,865)	
Accrued Interest Payable		<u>(79,890)</u>	
			(5,443,065)

Internal service funds are used by management to charge the cost of fleet management to individual funds. The assets and liabilities of the internal service funds are included in governmental activities in the statement of net position. 684,481

Net position of governmental Activities \$ 16,539,496

ARCHULETA COUNTY, COLORADO
STATEMENT OF REVENUES, EXPENDITURES AND
CHANGES IN FUND BALANCES
GOVERNMENTAL FUNDS
For the Year Ended December 31, 2012

	<u>GENERAL FUND</u>	<u>ROAD & BRIDGE FUND</u>	<u>HUMAN SERVICES FUND</u>	<u>OTHER GOVERNMENTAL FUNDS</u>	<u>TOTAL GOVERNMENTAL FUNDS</u>
REVENUES					
Property Taxes	\$ 5,232,053	\$ 761,195	\$ 322,989	\$ -	\$ 6,316,237
Intergovernmental	1,867,139	3,373,232	3,643,922	287,914	9,172,207
Sales and Use Taxes	1,675,978	1,585,375	-	-	3,261,353
Charges for Services	1,578,926	15,125	-	219,113	1,813,164
Other	185,222	32,996	3,952	1,000	223,170
Earnings on Investments	41,140	-	-	1,645	42,785
Licenses and Permits	326,263	-	-	-	326,263
TOTAL REVENUES	<u>10,906,721</u>	<u>5,767,923</u>	<u>3,970,863</u>	<u>509,672</u>	<u>21,155,179</u>
EXPENDITURES					
General Government	4,269,381	-	-	-	4,269,381
Public Safety	3,309,035	-	-	657,599	3,966,634
Health and Welfare	361,362	-	3,921,951	-	4,283,313
Highway and Streets	102,131	3,426,368	-	30,000	3,558,499
Economic Development	104,722	-	-	-	104,722
Recreation	110,196	-	-	67,927	178,123
Capital Outlay	180,726	2,618,144	-	72,806	2,871,676
Debt Service	27,782	438,869	-	126,090	592,741
Debt Issuance Costs	10,823	63,641	-	-	74,464
TOTAL EXPENDITURES	<u>8,476,158</u>	<u>6,547,022</u>	<u>3,921,951</u>	<u>954,422</u>	<u>19,899,553</u>
Excess (Deficiency) of Revenues Over Expenditures	<u>2,430,563</u>	<u>(779,099)</u>	<u>48,912</u>	<u>(444,750)</u>	<u>1,255,626</u>
OTHER FINANCING SOURCES (USES)					
Refunding Bond Proceeds	756,781	4,449,936	-	-	5,206,717
Payments to Refunding Bonds Escrow Agent	(745,958)	(4,386,295)	-	-	(5,132,253)
Proceeds from Sale of Capital Assets	-	42,500	-	-	42,500
Operating Transfers In	58,000	-	-	300,108	358,108
Operating Transfers Out	(358,108)	-	-	-	(358,108)
TOTAL OTHER FINANCING SOURCES (USES)	<u>(289,285)</u>	<u>106,141</u>	<u>-</u>	<u>300,108</u>	<u>116,964</u>
Excess (Deficiency) of Revenues Over Expenditures and Other Financing Sources (Uses)	2,141,278	(672,958)	48,912	(144,642)	1,372,590
Fund Balances -- Beginning as Previously Stated	5,353,684	3,501,459	317,350	1,155,038	10,327,531
Prior period adjustment - see note 3	<u>(306,617)</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>(306,617)</u>
Fund Balances -- Ending	<u>\$ 7,188,345</u>	<u>\$ 2,828,501</u>	<u>\$ 366,262</u>	<u>\$ 1,010,396</u>	<u>\$ 11,393,504</u>

The notes to the financial statements are an integral part of this financial statement

ARCHULETA COUNTY, COLORADO
RECONCILIATION OF THE STATEMENT OF REVENUES, EXPENDITURES
AND CHANGES IN FUND BALANCES OF GOVERNMENTAL FUNDS
TO THE STATEMENT OF ACTIVITIES
For the Year Ended December 31, 2012

Net change in fund balances - total governmental funds \$ 1,372,590

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

Governmental funds report capital outlays as expenditures. However, in the statements of activities the cost of those assets is allocated over their estimated useful lives and reported as depreciation expense. This is the difference between depreciation and capital outlays in the current period.

Capital asset purchases	\$ 2,829,176	
Depreciation expense	(570,459)	
		2,258,717

Debt proceeds provide current financial resources to governmental funds, but issuing debt increases long-term liabilities in the statement of net position. Repayment of debt principal is an expenditure in the governmental funds, but the repayment reduces long-term liabilities in the statement of net position. Repayment of principal include:

Loan and capital lease payments	\$ 283,648	
Payments to refunded bond escrow agent	5,132,253	
Capital lease refunding proceeds	(5,206,717)	
		209,184

Some expenses reported in the statement of activities do not require the use of current financial resources and therefore are not reported as expenditures in governmental funds.

Compensated Absences	\$ 159,939	
Accrued Interest Payable	116,984	
		276,923

Internal service funds are used by management to charge the cost of fleet management to individual funds. A portion of the net revenue or loss of these services is reported with governmental activities.

(61,836)

Change in net position of governmental activities **\$ 4,055,578**

ARCHULETA COUNTY, COLORADO
STATEMENT OF NET POSITION
PROPRIETARY FUNDS
December 31, 2012

	<u>Business-type Activities</u>			<u>Governmental- Activities</u>
	<u>SOLID WASTE FUND</u>	<u>AIRPORT FUND</u>	<u>Total BUSINESS- TYPE ACTIVITIES</u>	<u>INTERNAL SERVICE FUND</u>
ASSETS				
Current Assets				
Cash and Cash Equivalents	\$ 71,843	\$ -	\$ 71,843	\$ 308,334
Accounts Receivable	71,640	-	71,640	5,915
Inventories	-	2,824	2,824	63,761
Total Current Assets	<u>143,483</u>	<u>2,824</u>	<u>146,307</u>	<u>378,010</u>
Capital Assets				
Land	309,166	3,064,843	3,374,009	-
Runway, net	-	19,248,854	19,248,854	-
Buildings and Improvements, net	-	2,080,726	2,080,726	-
Machinery and Equipment, net	108,101	37,458	145,559	60,303
Vehicles, net	-	212,830	212,830	482,422
Infrastructure, net	346,073	-	346,073	-
Total Noncurrent Assets	<u>763,340</u>	<u>24,644,711</u>	<u>25,408,051</u>	<u>542,725</u>
TOTAL ASSETS	<u>906,823</u>	<u>24,647,535</u>	<u>25,554,358</u>	<u>920,735</u>
LIABILITIES				
Current Liabilities				
Accounts Payable	21,785	184,050	205,835	95,907
Due to Other funds	100,000	-	100,000	-
Accrued Interest Payable	1,063	11,685	12,748	-
Accrued Payroll and Liabilities	7,581	3,846	11,427	8,552
Accrued Compensated absences	636	-	636	830
Notes Payable	26,914	326,284	353,198	-
Total Current Liabilities	<u>157,979</u>	<u>525,865</u>	<u>683,844</u>	<u>105,289</u>
Noncurrent Liabilities				
Accrued Compensated absences	3,107	-	3,107	4,450
Notes Payable	-	339,336	339,336	-
Closure and Post-Closure costs	396,573	-	396,573	-
Total Noncurrent Liabilities	<u>399,680</u>	<u>339,336</u>	<u>739,016</u>	<u>4,450</u>
TOTAL LIABILITIES	<u>557,659</u>	<u>865,201</u>	<u>1,422,860</u>	<u>109,739</u>
NET POSITION				
Net investment in capital assets	736,426	23,979,091	24,715,517	542,725
Unrestricted	(387,262)	(196,757)	(584,019)	268,271
TOTAL NET POSITION	<u>\$ 349,164</u>	<u>\$ 23,782,334</u>	<u>24,131,498</u>	<u>\$ 810,996</u>

Amounts reported for business-type activities in the statement of net position are different because

Cumulative portion of internal services fund net operating income attributed to business-type activities	<u>126,515</u>
	<u>\$ 24,258,013</u>

ARCHULETA COUNTY, COLORADO
STATEMENT OF REVENUES, EXPENSES AND CHANGES IN NET POSITION
PROPRIETARY FUNDS
For the Year Ended December 31, 2012

	<u>Business-type Activities</u>			<u>Governmental- Activities</u>
	<u>SOLID WASTE FUND</u>	<u>AIRPORT FUND</u>	<u>Total BUSINESS- TYPE ACTIVITIES</u>	<u>INTERNAL SERVICE FUND</u>
OPERATING REVENUES				
Charges for Services Intragovernment	\$ -	\$ -	\$ -	\$ 1,386,966
Charges for Services Outside	625,368	91,718	717,086	1,884
Other	-	9,883	9,883	24,216
Total Operating Revenues	<u>625,368</u>	<u>101,601</u>	<u>726,969</u>	<u>1,413,066</u>
OPERATING EXPENSES				
Salaries & Benefits	249,888	98,365	348,253	250,391
Materials & Supplies	62,904	112,070	174,974	825,398
Purchased Services	222,771	16,221	238,992	-
Other	57,169	10,999	68,168	-
Depreciation	82,135	857,918	940,053	345,047
Total Operating Expenses	<u>674,867</u>	<u>1,095,573</u>	<u>1,770,440</u>	<u>1,420,836</u>
Operating Income (Loss)	<u>(49,499)</u>	<u>(993,972)</u>	<u>(1,043,471)</u>	<u>(7,770)</u>
NONOPERATING REVENUES (EXPENSE)				
Taxes	-	25,192	25,192	-
Intergovernmental	-	204,252	204,252	-
Interest Expense	(2,302)	(39,174)	(41,476)	(2,441)
Total Nonoperating Revenues (Expenses)	<u>(2,302)</u>	<u>190,270</u>	<u>187,968</u>	<u>(2,441)</u>
Income (Loss) Before Contributions and Transfers	<u>(51,801)</u>	<u>(803,702)</u>	<u>(855,503)</u>	<u>(10,211)</u>
Transfers In	58,000	-	-	-
Transfers Out	(58,000)	-	-	-
Change in Net Position	<u>(51,801)</u>	<u>(803,702)</u>	<u>(855,503)</u>	<u>(10,211)</u>
Net Position at Beginning of Year, as Previously Reported	<u>400,965</u>	<u>-</u>		<u>821,207</u>
Prior Period Adjustment - See Note 3	<u>-</u>	<u>24,586,036</u>		<u>-</u>
Net Position at End of Year	<u>\$ 349,164</u>	<u>\$ 23,782,334</u>		<u>\$ 810,996</u>

Amounts reported for business-type activities in the statement of net position are different because

Internal service fund decrease in expenses to costs in excess of charges to the business-type activities	<u>51,625</u>
	<u>(\$ 803,878)</u>

ARCHULETA COUNTY, COLORADO
STATEMENT OF CASH FLOWS
PROPRIETARY FUNDS
For the Year Ended December 31, 2012

	Business-type Activities			Governmental- Activities
	SOLID WASTE FUND	AIRPORT FUND	Total BUSINESS- TYPE ACTIVITIES	INTERNAL SERVICE FUND
Cash Flows From Operating Activities:				
Cash Received From Customers	\$ 646,984	\$ 101,601	\$ 748,585	\$ 22,574
Cash Received From Interfund Service Provided	-	-	-	1,386,966
Cash Paid To Employees	(270,801)	(99,128)	(369,929)	(264,341)
Cash Paid To Suppliers	(299,790)	29,296	(270,494)	(846,644)
Net Cash Provided By Operating Activities	<u>76,393</u>	<u>31,769</u>	<u>108,162</u>	<u>298,555</u>
Cash Flows From Capital and Related Financing Activities:				
Capital Acquisitions	(37,387)	(232,172)	(269,559)	(27,394)
Payment of Note and Capital Lease Principal and Interest	(28,616)	(358,397)	(387,013)	(48,141)
Taxes Received	-	25,192	25,192	-
Intergovernmental Revenue Received	-	204,252	204,252	-
Net Cash (Used) By Capital and Related Financing Activities	<u>(66,003)</u>	<u>(361,125)</u>	<u>(427,128)</u>	<u>(75,535)</u>
Increase (Decrease) in Cash and Cash Equivalents	10,390	(329,356)	(318,966)	223,020
Cash and Cash Equivalents, Beginning of the Year	<u>61,453</u>	<u>329,356</u>	<u>390,809</u>	<u>85,314</u>
Cash and Cash Equivalents, End of the Year	<u>\$ 71,843</u>	<u>\$ -</u>	<u>\$ 71,843</u>	<u>\$ 308,334</u>
Reconciliation of operating income loss to net cash flows provided by operating activities				
Operating Loss	\$ (49,499)	\$ (993,972)	\$(1,043,471)	\$ (7,770)
Adjustments to Reconcile Net Loss to Net Cash Provided By Operating Activities				
Depreciation Expense	82,135	857,918	940,053	345,047
(Increase) Decrease in Accounts Receivables	21,616	-	21,616	(3,526)
(Increase) in Inventory	-	(2,824)	(2,824)	-
Increase (Decrease) in Accounts Payable and Accrued Expenses	17,259	171,410	188,669	(21,246)
Increase (Decrease) in Accrued Employee Expense	(20,913)	(763)	(21,676)	(13,950)
Increase (Decrease) in Accrued Post Closure Liability	25,795	-	25,795	-
Total Adjustments	<u>125,892</u>	<u>1,025,741</u>	<u>1,151,633</u>	<u>306,325</u>
Net Cash Provided By Operating Activities	<u>\$ 76,393</u>	<u>\$ 31,769</u>	<u>\$ 108,162</u>	<u>\$ 298,555</u>

ARCHULETA COUNTY, COLORADO
STATEMENT OF FIDUCIARY NET POSITION
December 31, 2012

	TREASURER'S AGENCY FUND
ASSETS	
Cash and Cash Equivalents	<u>\$ 471,742</u>
TOTAL ASSETS	<u><u>\$ 471,742</u></u>
LIABILITIES	
Funds Held for Others	<u>\$ 471,742</u>
TOTAL LIABILITIES	<u><u>\$ 471,742</u></u>

ARCHULETA COUNTY, COLORADO
NOTES TO THE BASIC FINANCIAL STATEMENTS
December 31, 2012

NOTE 1 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The accounting and reporting policies of Archuleta County, Colorado (the “County”) reflected in the accompanying financial statements conform to accounting principles generally accepted in the United States of America applicable to state and local governments. Accounting principles generally accepted in the United States of America for local governments are those promulgated by the Governmental Accounting Standards Board (GASB) in *Governmental Accounting and Financial Reporting Standards*.

REPORTING ENTITY

Primary Government

The County is a political subdivision organized under the statutes of the State of Colorado. The County is governed by a three-member Board of County Commissioners (the Board). Each commissioner is elected at-large by the voters of the County to represent one of the three separate districts and must reside in the district for which he or she is elected. There are also seven other elected officials - assessor, clerk and recorder, sheriff, coroner, surveyor, and treasurer. The treasurer is also the County Public Trustee.

The County provides a wide range of services to its residents including public safety, highways and streets, health and human services, planning, zoning, property tax assessment, property tax collection and distribution, extension service, landfill operations, airport operations, recording, and general administrative services.

Component Units

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

- The organization is legally separate (can sue and be sued in their own name).
- The County holds the corporate powers of the organization.
- The County appoints a voting majority of the organization’s board.
- The County is able to impose its will on the organization.
- The organization has the potential to impose a financial benefit/burden on the County.
- There is fiscal dependency by the organization on the County.
- The organization is financially accountable to the County.
- The organization receives or holds funds that are for the benefit of the County; and the County has access to a majority of the funds held; and the funds that are accessible are also significant to the County.

Discretely Presented Component Units

The Archuleta County Housing Authority (the “Housing Authority”) is a legally separate organization, but the Housing Authority has some fiscal dependence on the County and the County acts as the management agent of the Housing Authority. One member of the County Commissioners is a member of the governing body of the Authority. The Housing Authority issues separate financial statements with a fiscal year end of December 31st and may be obtained by contacting the Housing Authority. Note 17 contains the footnote information for the Housing Authority and this information is not included in any other footnote disclosures of the County’s financial report.

Casa de los Arcos (the “Project”) is a legally separate organization, but the County is financially accountable for the project because it was formerly included as a component unit of the Archuleta County Housing Authority. The Project issues separate financial statements with a fiscal year end of July 31st and may be obtained by contacting the Project. Note 17 contains the footnote information for the Project and this information is not included in any other footnote disclosures of the County’s financial report.

ARCHULETA COUNTY, COLORADO
NOTES TO THE BASIC FINANCIAL STATEMENTS
December 31, 2012

GOVERNMENT-WIDE AND FUND FINANCIAL STATEMENTS

The government-wide financial statements include the statement of net position and the statement of activities. Government-wide statements report information on all of the activities of the County and its component units, except for County fiduciary activity. The effect of interfund transfers has been removed from the government-wide statements but continues to be reflected on the fund statements. Mainly taxes and intergovernmental revenues support governmental activities.

The statement of activities reflects the degree to which the direct expenses of a given function are offset by program revenues. Direct expenses are those that are clearly identifiable with a specific function. Program revenues include:

- Charges to customers or applicants who purchase, use, or directly benefit from goods, services, or privileges provided by a given function or segment.
- 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 in program revenues are reported as general revenues.

Separate financial statements are provided for governmental funds, proprietary funds, and fiduciary funds, even though the fiduciary funds are excluded from the government-wide financial statements.

Major individual governmental funds are reported as separate columns in the fund financial statements.

MEASUREMENT FOCUS, BASIS OF ACCOUNTING, AND FINANCIAL STATEMENT PRESENTATION

The government-wide financial statements are reported using the economic resources measurement focus and the accrual basis of accounting. This measurement is also used for the proprietary 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 are recognized as revenue when all applicable eligibility requirements imposed by the provider are met.

Governmental fund financial statements are reported using the current financial resources measurement focus and the modified accrual basis of accounting. Revenues are recognized as soon as they are both measurable and available. Revenues are considered available when they are collectible within the current period or soon enough thereafter to pay liabilities of the current period. For this purpose, the County considers revenues to be available if they are collected within 60 days of the end of the current fiscal period. Cost reimbursement grant revenue is considered to be available at the point the expenditure is incurred. Expenditures are generally recorded when a liability is incurred, as under accrual accounting. However, debt service expenditures, as well as expenditures related to compensated absences and claims and judgments, are recorded only when payment is due.

Sales and use taxes, other taxes, charges for services, intergovernmental revenues, and interest are all considered to be susceptible to accrual and so have been recognized as revenues of the current fiscal period. Only the portion of special assessments receivable due within the current fiscal period is considered to be susceptible to accrual as revenue of the current period. All other revenue items are considered to be measurable and available only when cash is received by the County.

ARCHULETA COUNTY, COLORADO
NOTES TO THE BASIC FINANCIAL STATEMENTS
December 31, 2012

The County reports the following major governmental funds:

- The **General Fund** is the general operating fund of the County. It accounts for all financial resources of the general government, except those required to be accounted for in another fund.
- The **Road and Bridge Fund** is used to account for the maintenance and improvements of streets and highways. The sources of funds include property taxes, sales tax, highway users' fees, and other revenue sources.
- The **Human Services Fund** is used to account for the operations of social programs; i.e. Temporary Aid to Needy Families, Old Age Pension, Aide to the Blind, Aide to the Needy and Disabled, among others. Financing is provided by grants, allotments, and property tax revenue.

Proprietary fund financial statements are used to account for activities, which are similar to those often found in the private sector. The measurement focus is based upon determination of net income, financial position, and cash flows.

Proprietary funds are accounted for using the accrual basis of accounting as follows:

- Revenues are recognized when earned, and expenses are recognized when the liabilities are incurred.
- Current-year contributions, administrative expenses, and premium payments, which are not received or paid until the subsequent year, are considered to have been incurred.

The County reports the following major proprietary funds:

- The **Solid Waste Fund** is used to account for the operation, maintenance, and the development of the County landfill.
- The **Airport Fund** is used to account for the operations of the County Airport.

The County reports the following internal service fund type:

- **Internal Service Fund** accounts for fleet services provided to other departments or agencies of the County on a cost reimbursement basis.

The Fiduciary fund consists of an agency fund established to record transactions relating to assets held by the County in a trustee capacity or as an agent for individuals, governmental entities, and non-public organizations. Agency funds are custodial in nature (assets equal liabilities) and do not involve measurement of results of operations.

Certain eliminations have been made as prescribed by GASB Statement No. 34, *Basic Financial Statements – And Management's Discussion and Analysis – For State and Local Governments*, in regards to interfund activities, payables, and receivables. All internal balances in the statement of net position have been eliminated. In the statement of activities, internal service fund transactions have been eliminated.

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

ARCHULETA COUNTY, COLORADO
NOTES TO THE BASIC FINANCIAL STATEMENTS
December 31, 2012

ASSETS, LIABILITIES, AND NET POSITION OR EQUITY

Cash, Cash Equivalents, and Investments

The County's cash and cash equivalents are considered to be cash on hand, demand deposits, and short-term investments with original maturities of three months or less at the date of acquisition. All investments are recorded at fair market value.

Property Taxes

Property taxes attach as an enforceable lien on property as of January 1 each year. The taxes are payable in two installments on February 28 and June 15 or in full on April 30. The County Treasurer bills and collects all property taxes for the County. Property tax revenue is recognized by the County to the extent it results in a current receivable.

The 2012 property tax levy due January 1, 2013, has been recorded in the financial statements as a receivable and a corresponding deferred inflow of resources in the financial statements.

Receivables/Payables from Other County Funds

Balances that originate from current lending/borrowing arrangements between funds are referred to as "Due To/From Other Funds."

Inventories and Prepaid Items

Inventory is valued at the lower of cost (first-in, first-out) or market. Inventory consists of expendable supplies held for use. Reported inventories are equally offset by nonspendable fund balance, which indicates that they do not constitute available spendable resources even though they are a component of net current assets. Inventory policy on government-wide statements is consistent with the fund financial statements.

Certain payments to vendors reflect costs applicable to future accounting periods and are recorded as prepaid items in both government-wide and fund financial statements.

Capital Assets

Capital assets, which include land, buildings and improvements, equipment, vehicles, construction in progress, and infrastructure assets (e.g. roads, bridges, sidewalks, and similar items), are reported in the applicable governmental activities columns in the government-wide financial statements. The County defines capital assets as assets with an initial, individual cost of more than \$5,000 and an estimated useful life in excess of one year. Capital assets are recorded at historical cost or estimated historical cost if purchased or constructed. Donated capital assets are recorded at estimated fair market value at the date of donation.

The costs of normal maintenance and repairs that do not add to the value of the asset or materially extend assets lives are not capitalized.

Costs related to the construction of assets including interest, engineering, legal, surveying and landscaping that were incurred from the beginning of construction until the assets were substantially complete were capitalized.

ARCHULETA COUNTY, COLORADO
NOTES TO THE BASIC FINANCIAL STATEMENTS
December 31, 2012

Capital assets of the primary government are depreciated using the straight-line method over the following estimated useful lives:

<u>Assets</u>	<u>Years</u>
Buildings and Improvements	40
Land Improvements	15
Machinery and Equipment	5 - 7
Vehicles	5
Computer Equipment	5

Long-Term Obligations

Long-term debt and other long-term obligations are recorded as liabilities in the government-wide financial statements. In the fund financial statements for governmental fund types, debt proceeds are reported as other financing sources and debt payments are reported as expenditures.

Compensated Absences

A maximum of 80 to 160 hours of vacation time, per year, may be accumulated by each employee (depending on length of service). Employees who have over five years of continued employment and are eligible for either 120 or 160 hours of earned vacation, have the option of either receiving payment or having accrued vacation time added to the employee's contribution to the retirement plan. Such contributions shall be the monetary equivalent of any vacation time earned over 80 hours in a given year.

Employees will be paid for up to the maximum accumulated unused vacation hours upon separation from County service after six months of continuous service.

Full-time employees may accumulate up to 480 hours of sick leave; Part time employees may accumulate a percentage of 480 hours, based on the hours approved for benefits. After the maximum accumulated sick leave is reached (480), an employee shall be eligible to be paid for 50% of any unused sick time over the 480 hours or a maximum of 48 hours, as calculated on December 31, of each year, at the hourly rate which the employee is receiving as of the December 31 date.

After five years of continuous service, upon termination an employee will be paid for accumulated sick leave at the rate of 50% of all unused sick leave up to the maximum accumulative number of hours, which is 480 hours.

The County accrues a liability for compensated absences that meets the following criteria:

- 1) The County's obligation relating to employee rights to receive compensation for future absences is attributable to employee services already rendered.
- 2) The obligation relates to rights that vest or accumulate.
- 3) Payment of the compensation is probable.
- 4) The amount can be reasonably estimated.

The total compensated absence liability is reported on the government-wide financial statements. Proprietary funds report the total compensated liability in each individual fund at the fund reporting level. Governmental funds report the compensated absence liability at the fund reporting level only when due.

ARCHULETA COUNTY, COLORADO
NOTES TO THE BASIC FINANCIAL STATEMENTS
December 31, 2012

Unearned Revenue

Revenues on grants, which are restricted by the grant document for specific purposes, are recognized as revenue only after eligible grant costs have been incurred. Grant funds received in excess of grant expenditures are recorded as unearned revenues.

Fund Equity

Net Position - Net position represents the difference between assets, deferred outflows of resources, liabilities and deferred inflows of resources. The net investment in capital assets consists of capital assets, net of accumulated depreciation, and reduced by the outstanding balances of any borrowing used for the acquisition, construction or improvement of those assets. Net position is reported as restricted when there are limitations imposed on their use either through the enabling legislation or through external restrictions imposed by creditors, grantors or laws or regulations of other governments. All other net position is reported as unrestricted.

Fund Balance – Beginning in fiscal year 2011, the County implemented GASB Statement No. 54, *Fund Balance Reporting and Governmental Fund Type Definitions*. This statement is intended to improve the usefulness of information provided to financial report users about fund balance by providing clearer, more structured fund balance classification and by clarifying the definitions of existing governmental fund types.

As a result, fund balances are classified based on the extent to which the County is bound to honor constraints for the specific purpose on which amounts in the fund can be spent. In accordance with the Statement, fund balances are now classified in one of the five categories:

- *Nonspendable Fund Balance* – amounts that cannot be spent because they are not in spendable form – such as inventories and prepaid items.
- *Restricted Fund Balance* – restricted when constraints placed on the use of resources are either (a) externally imposed by creditors, grantors, contributors, or laws or regulations of other governments or (b) imposed by law through constitutional provisions or enabling legislation.
- *Committed Fund Balance* – amounts that can only be used for specific purposes as a result of constraints imposed by the Board of County Commissioners, the highest level of decision making authority. Committed amounts cannot be used for any other purpose unless the Board removes those constraints by taking the same type of action. Committed fund balances differ from restricted balance because the constraints on their use do not come from outside parties, constitutional provisions, or enabling legislation.
- *Assigned Fund Balance* – amounts a government intends to use for a specific purpose; intent can be expressed by the Board of County Commissioners or by an official or body to which the governing body delegates the authority.
- *Unassigned Fund Balance* – amounts that are available for any purpose; these amounts are reported only in the General Fund.

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

ARCHULETA COUNTY, COLORADO
NOTES TO THE BASIC FINANCIAL STATEMENTS
December 31, 2012

Sales Tax Allocation

The County collects a 2% sales tax. The tax collected is allocated 50% to the General Fund and 50% to the Road and Bridge Fund for capital expenditures.

Use of estimates

The preparation of the financial statements in conformity with accounting principles generally accepted in the United States of America ("GAAP") requires management to make estimates and assumptions that affect certain reported amounts and disclosures. Actual results could differ from those estimates.

NOTE 2 NEW ACCOUNTING PRONOUNCEMENTS

During 2012, the County implemented GASB Statement No. 62, *Codification of Accounting and Financial Reporting Guidance Contained in Pre-November 30, 1989 FASB and AICPA Pronouncements*. This statement incorporates into GASB literature certain accounting and financial reporting guidance issued on or before November 30, 1989 that is included in Financial Accounting Standards Board (FASB) Statements and Interpretations, Accounting Principles Board Opinions, and Accounting Research Bulletins of the AICPA Committee on Accounting Procedure, which do not conflict with or contradict GASB Pronouncements. This statement had no impact to the County's financial statements.

During 2012, the County implemented GASB Statement No. 63, *Financial Reporting of Deferred Outflows of Resources, Deferred Inflows of Resources, and Net Position*. This statement incorporates deferred outflows of resources and deferred inflows of resources, as defined by GASB Concepts Statement No. 4, *Elements of Financial Statements* into the definitions of the required components of the residual measure of net position, formerly net assets. This statement also provides a new statement of net position format to report all assets, deferred outflows of resources, liabilities, deferred inflows of resources, and net position.

During 2012, the County early implemented GASB Statement No. 65, *Items Previously Reported as Assets and Liabilities*. This statement establishes accounting and financial reporting standards that reclassify, as deferred outflows of resources or deferred inflows of resources, certain items that were previously reported as assets and liabilities. Due to the implementation of this statement, the unearned revenue for property taxes is now classified as a deferred inflow of resources instead of a liability. Accounting changes adopted to conform to the provisions of this statement have been applied retroactively.

NOTE 3 RESTATEMENT

During 2012, the Airport Fund is being presented as an enterprise fund, while in 2011 it was included in the General Fund. The beginning net position in the governmental and business-type activities and the fund balance for the General Fund has been restated to reflect the change from using the modified accrual basis to full accrual basis.

ARCHULETA COUNTY, COLORADO
NOTES TO THE BASIC FINANCIAL STATEMENTS
December 31, 2012

The following table summarizes the components of the adjustment necessary to restate the beginning net position and fund balance as of December 31, 2011.

Business-Type Activities

Enterprise Funds	
Airport Fund	
Adjust for Pooled Cash	\$ 329,374
Adjust for Capital Assets	25,270,459
Adjust for Accounts Payable	(12,640)
Adjust for Accrued Interest	(17,193)
Adjust for Accrued Payroll	(4,609)
Adjust for Notes Payable	<u>(979,355)</u>
Total Business-Type Activities	<u><u>\$ 24,586,036</u></u>

Governmental Activities

General Fund	
The activities of the County Airport is presented as an enterprise fund in 2012. In 2011, this activity was included within the presentation of the General Fund. Adjust for fund balance in General Fund (pooled cash, accounts payable and accrued payroll)	
	\$ (306,617)
Governmental Activities	
Adjust for Pooled Cash	(5,508)
Adjust for Capital Assets	(25,270,459)
Adjust for Accrued Interest	17,193
Adjust for Notes Payable	<u>979,355</u>
Total Governmental Activities	<u><u>\$(24,586,036)</u></u>

NOTE 4 STEWARDSHIP, COMPLIANCE, AND ACCOUNTABILITY

Budgets and Budgetary Accounting

The County follows the procedures set forth in the Colorado Local Government Budget Law when preparing the annual budget for each fund. Budget procedures include:

1. In accordance with State statutes, prior to October 15, the County Budget Officer submits to the Board of County Commissioners a proposed operating budget for the calendar year commencing the following January 1. The operating budget includes proposed expenditures and the means of financing them for the upcoming year, along with estimates for the current year and actual data for the two preceding years. State statutes require more detailed line item budgets be submitted in summary form. In addition, more detailed line item budgets are included for administrative control. The level of control for the detailed budgets is at the department head/function level.
2. Public hearings are conducted to obtain taxpayer comment.

ARCHULETA COUNTY, COLORADO
NOTES TO THE BASIC FINANCIAL STATEMENTS
December 31, 2012

3. Prior to December 31, the budget is legally enacted through passage of a resolution. The associated appropriations resolution is adopted at the fund level.
4. The County's policy states that no authorization is given to spend, contract, or incur a liability that was not appropriated in the current year's budget without written approval of the Finance Director. Finance Director will approve only those expenditures for which a qualifying budget supplement has been properly prepared and submitted.
5. Formal budgetary integration is employed as a management control device during the year.
6. Budgets for the General Fund, Special Revenue Funds, Capital Projects Funds, and Internal Service Funds are adopted on a basis consistent with GAAP. For the Enterprise Funds, proceeds from long-term debt is budgeted as revenue, note and lease principal payments are budgeted as expenses, and purchases of capital assets are budgeted as capital outlay expenses.
7. Appropriations lapse at the end of each fiscal year.
8. The Board of County Commissioners may authorize supplemental appropriations during the year. The Board of County Commissioners did adopt supplemental appropriations during 2012.

The following is a summary of the original budget, total revisions and revised budget for those funds with amended budgets for the year ended December 31, 2012

	<u>Original Budget</u>	<u>Total Revisions</u>	<u>Revised Budget</u>
Governmental Funds:			
General Fund	\$ 10,673,516	\$ 245,159	\$ 10,918,675
Special Revenue Funds:			
Road and Bridge Fund	6,788,359	698,991	7,487,350
Human Services Fund	4,527,886	-	4,527,886
Conservation Trust Fund	325,261	-	325,261
Combined Dispatch Fund	761,686	3,744	765,430
Capital Project Fund:			
Fairfield Settlement Fund	300,000	-	300,000
Internal Service Fund			
Fleet Fund	1,462,306	-	1,462,306
Enterprise Funds:			
Solid Waste Fund	667,318	-	667,318
Airport Fund	595,776	12,932	608,708
Total Funds	<u>\$ 26,102,108</u>	<u>\$ 960,826</u>	<u>\$ 27,062,934</u>

ARCHULETA COUNTY, COLORADO
NOTES TO THE BASIC FINANCIAL STATEMENTS
December 31, 2012

NOTE 5 CASH, DEPOSITS AND INVESTMENTS

CASH AND DEPOSITS

At December 31, 2012 the financial statements reflected cash, cash equivalents and investments as follows:

Governmental Type Activities:	
Cash and Cash Equivalents	\$ 7,026,311
Investments	4,006,300
Business Type Activities:	
Cash and Cash Equivalents	71,843
Fiduciary Fund:	
Cash and Cash Equivalents	471,742
	\$ 11,576,196

The carrying amounts of deposits and investments are as follows:

	Moody Rating	S & P Rating	Fair Value	Concentration of Credit Risk	Weighted average Maturity Date (in days)
Cash on hand	-	-	\$ 1,425	N/A	-
Cash in financial institution	-	-	5,643,531	N/A	-
Certificates of deposit	-	-	1,056,496	17.81%	-
FFCB	Aaa	AA+	1,001,570	16.89%	1,722
FHLB	Aaa	AA+	1,001,130	16.88%	1,715
FNMA	Aaa	AA+	2,003,600	33.78%	1,534
COLOTRUST	N/A	AAAm	372,759	6.28%	N/A
CSAFE	N/A	AAAm	495,685	8.36%	N/A
Total			\$ 11,576,196		

Colorado State Statutes govern the County's deposits of cash. The statutes specify eligible depositories for public cash deposits, which must be Colorado institutions and must maintain federal insurance (FDIC) on deposits held.

The Colorado Public Deposit Protection Act (PDPA) requires that all units of local government deposit cash in eligible public depositories determined by state regulators. Amounts on deposit in excess of federal insurance levels must be collateralized in accordance with the PDPA. PDPA allows the institution to create a single collateral pool for all public funds 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 102% of the aggregate uninsured deposits.

ARCHULETA COUNTY, COLORADO
NOTES TO THE BASIC FINANCIAL STATEMENTS
December 31, 2012

INVESTMENTS

The County's investments are subject to interest rate, credit risk, and concentration of credit risk.

The types of investments which are authorized to be made with County funds are controlled by state statute and the investment policies of the County. Colorado statutes and the County's investment policies specify investment instruments meeting defined rating and risk criteria in which the County may invest:

- 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
- Repurchase agreements
- Money market funds
- Guaranteed investment contracts
- Corporate or bank debt issued by eligible corporations or banks

Credit Risk

The County does not have a formal investment policy. The County has investments in local government investment pools. As of December 31, 2012, the local government investment pools (COLOTRUST and CSAFE) in which the County had invested, were rated AAAM by Standard & Poor's.

Interest Rate Risk

Colorado Revised Statutes limit investment maturities to five years or less from the date of purchase. This limit on investment maturities is a means of limiting exposure to fair value losses arising from increasing interest rates. The County has no investments with maturities past five years.

The Colorado Government Liquid Asset Trust (COLOTRUST) and the Colorado Surplus Asset Fund Trust (CSAFE) are investment vehicles established for local government entities in Colorado pursuant to Part 7 of Article 75 of Title 24 of the Colorado Revised Statutes, to pool surplus funds for investment purposes. COLOTRUST operates similarly to a money market fund and each share is equal in value to \$1.00. The fair value of the position in the pool is the same as the value of the pool shares. The designated custodial bank provides safekeeping and depository services in connection with the direct investment and withdrawal functions. Substantially all securities owned by the pool 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 the pool. Investments of the pool consist of U.S. Treasury bills, notes and note strips and repurchase agreements collateralized by U.S. Treasury notes.

NOTE 6 PROPERTY TAXES RECEIVABLE

At December 31, 2012, the County had an estimated property tax receivable divided among the funds as follows:

Property Taxes Receivable	
General Fund	\$ 4,643,335
Road and Bridge Fund	900,487
Human Services	297,313
	\$ 5,841,135

ARCHULETA COUNTY, COLORADO
NOTES TO THE BASIC FINANCIAL STATEMENTS
December 31, 2012

NOTE 7 INTERFUND RECEIVABLES, PAYABLES, AND TRANSFERS

The County reports interfund balances between its funds. The balances resulted from the time lag between the dates that (1) interfund goods and services are provided or reimbursable expenditures occur, (2) transactions are recorded in the accounting system, and (3) payments between funds are made. Interfund balances are generally expected to be repaid within one year of the financial statement date.

Interfund receivable and payable balances at December 31, 2012 were as follows:

<u>Receivable Fund</u>	<u>Payable Fund</u>	<u>Amount</u>
General Fund	Solid Waste Fund	<u>\$ 100,000</u>

Interfund transfers during 2012 were as follows:

<u>Transfers In</u>	<u>Transfers Out</u>	<u>Amount</u>
Non-Major Fund	General Fund	\$ 300,108
General Fund	Solid Waste	58,000
Solid Waste	General Fund	58,000
		<u>\$ 416,108</u>

The General Fund transferred funds to the Combined Dispatch Fund to contribute the County's share of operating funds. Also, the General Fund transferred funds to the Solid Waste Fund as a short term loan for cash flow purposes. The Solid Waste fund transferred the money back to the General Fund during the year.

ARCHULETA COUNTY, COLORADO
NOTES TO THE BASIC FINANCIAL STATEMENTS
December 31, 2012

NOTE 8 CAPITAL ASSETS

Capital asset activity for the year ended December 31, 2012 was as follows:

	Balance as Previously Stated 12/31/2011	See Note 3 Restated Balance 12/31/2011	Additions	Deletions	Balance 12/31/2012
Governmental Activities					
Capital assets not being depreciated					
Land	\$ 4,460,928	\$ 1,396,085	\$ -	\$ -	\$ 1,396,085
Construction in Progress	383,161	383,161	1,261,855	120,151	1,524,865
Total capital assets not being depreciated	<u>4,844,089</u>	<u>1,779,246</u>	<u>1,261,855</u>	<u>120,151</u>	<u>2,920,950</u>
Capital assets being depreciated					
Runway	25,037,584	-	-	-	-
Improvements Non-building	91,548	8,333	-	-	8,333
Building and Improvements	5,452,338	2,931,797	-	-	2,931,797
Machinery and Equipment	2,853,235	4,573,645	539,191	-	5,112,836
Vehicles	4,242,273	2,475,960	80,473	269,753	2,286,680
Computer Equipment	1,823,565	1,809,327	176,041	-	1,985,368
Infrastructure	4,221,607	4,221,607	919,161	-	5,140,768
Total capital assets being depreciated	<u>43,722,150</u>	<u>16,020,669</u>	<u>1,714,866</u>	<u>269,753</u>	<u>17,465,782</u>
Less accumulated depreciation for:					
Runway	5,016,845	-	-	-	-
Improvements Non-building	14,980	1,110	555	-	1,665
Building and Improvements	1,753,942	1,303,108	72,327	-	1,375,435
Machinery and Equipment	2,101,895	3,681,535	316,617	-	3,998,152
Vehicles	3,631,812	2,047,490	156,315	269,753	1,934,052
Computer Equipment	1,314,074	1,304,440	162,259	-	1,466,699
Infrastructure	955,995	955,995	207,433	-	1,163,428
	<u>14,789,543</u>	<u>9,293,678</u>	<u>915,506</u>	<u>269,753</u>	<u>9,939,431</u>
Total capital assets being depreciated, net	<u>28,932,607</u>	<u>6,726,991</u>	<u>799,360</u>	<u>-</u>	<u>7,526,351</u>
Governmental activities capital assets, net	<u>\$ 33,776,696</u>	<u>\$ 8,506,237</u>	<u>\$ 2,061,215</u>	<u>\$ 120,151</u>	<u>\$ 10,447,301</u>

ARCHULETA COUNTY, COLORADO
NOTES TO THE BASIC FINANCIAL STATEMENTS
December 31, 2012

	Balance as Previously Stated 12/31/2011	See Note 3 Restated Balance 12/31/2011	Additions	Deletions	Balance 12/31/2012
Business-Type Activities					
Capital assets not being depreciated					
Land	\$ 309,166	\$ 3,374,009	\$ -	\$ -	\$ 3,374,009
Total capital assets not being depreciated	<u>309,166</u>	<u>3,374,009</u>	<u>-</u>	<u>-</u>	<u>3,374,009</u>
Capital assets being depreciated					
Infrastructure	451,399	451,399	-	-	451,399
Runway	-	25,037,584	-	-	25,037,584
Improvements Non-building	-	83,215	8,900	-	92,115
Building and Improvements	-	2,520,541	-	-	2,520,541
Machinery and Equipment	602,563	662,704	37,387	-	700,091
Vehicles	19,047	19,047	223,272	-	242,319
Total capital assets being depreciated	<u>1,073,009</u>	<u>28,774,490</u>	<u>269,559</u>	<u>-</u>	<u>29,044,049</u>
Less accumulated depreciation for:					
Infrastructure	75,233	75,233	30,093	-	105,326
Runway	-	5,016,845	771,885	-	5,788,730
Improvements Non-building	-	13,870	5,600	-	19,470
Building and Improvements	-	450,834	61,626	-	512,460
Machinery and Equipment	479,808	494,124	60,408	-	554,532
Vehicles	19,048	19,048	10,441	-	29,489
	<u>574,089</u>	<u>6,069,954</u>	<u>940,053</u>	<u>-</u>	<u>7,010,007</u>
Total capital assets being depreciated, net	<u>498,920</u>	<u>22,704,536</u>	<u>(670,494)</u>	<u>-</u>	<u>22,034,042</u>
Business-Type activities capital assets, net	<u>\$ 808,086</u>	<u>\$ 26,078,545</u>	<u>\$ (670,494)</u>	<u>\$ -</u>	<u>\$ 25,408,051</u>

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

Governmental activities:	
General Government	\$ 173,463
Public Safety	74,471
Highways and Streets	318,010
Recreation	4,515
Health and Welfare	-
Total Governmental Activities	<u>570,459</u>
Fleet Fund	<u>345,047</u>
Total Combined Depreciation	<u>\$ 915,506</u>
Business-type activities:	
Solid Waste	\$ 82,135
Airport	<u>857,918</u>
	<u>\$ 940,053</u>

ARCHULETA COUNTY, COLORADO
NOTES TO THE BASIC FINANCIAL STATEMENTS
December 31, 2012

NOTE 9 LONG-TERM LIABILITIES

Changes in Long-term Liabilities

	12/31/11 Balance as Previously Stated	12/31/11 Balance as Restated - See Note 3	Additions	Deletions	Ending Balance 12/31/2012	Due Within One Year
Governmental activities:						
Capital Leases Payable	\$ 4,952,254	\$ 4,952,254	\$ 5,206,717	\$ 5,418,014	4,740,957	\$ 327,970
Notes Payable	1,421,519	442,164	-	41,811	400,353	43,286
Compensated Absences	418,274	418,274	-	191,129	227,145	44,373
Governmental activities long-term liabilities	<u>\$ 6,792,047</u>	<u>\$ 5,812,692</u>	<u>\$ 5,206,717</u>	<u>\$ 5,650,954</u>	<u>\$ 5,368,455</u>	<u>\$ 415,629</u>
Business-type activities:						
Notes Payable	\$ -	\$ 979,355	\$ -	\$ 313,735	\$ 665,620	326,284
Capital Leases Payable	52,227	52,227	-	25,313	26,914	26,914
Compensated Absences	21,579	21,579	-	17,836	3,743	636
Business-type activities long-term liabilities	<u>\$ 73,806</u>	<u>\$ 1,053,161</u>	<u>\$ -</u>	<u>\$ 356,884</u>	<u>\$ 696,277</u>	<u>\$ 353,834</u>

GOVERNMENTAL ACTIVITIES:

Capital Leases Payable

The County has adopted the policy of acquiring certain capital assets through the use of lease-purchase agreements. For the lease-purchase backed by the full faith and credit of the County, debt service is accounted for in the fund that accounts for the function associated with the net asset.

During 2008, the County entered into a \$91,452 capital lease payable with Caterpillar Financial Services Corporation, payable in monthly installments of \$1,747, beginning March 6, 2008, at 5.50% interest, for the purchase of a drum compactor. Payments are made from the Road and Bridge Fund. Final payment is due in 2013. This asset is recorded in the capital assets of the government-wide financial statements at \$136,452, less accumulated depreciation of \$121,352 at December 31, 2012. At December 31, 2012, the balance outstanding on this lease was \$3,485.

During 2010, the County entered into a \$5,270,761 capital lease payable to Wells Fargo Brokerage Services, LLC, payable in annual installments of \$483,403, beginning May 1, 2011, at 5.40% interest, to pay off the August 1, 2009, \$5,000,000 capital lease with Wells Fargo Brokerage Services, LLC, and the additional funds were to purchase land. This lease was advance refunded in 2012.

During 2012, the County entered into a \$5,206,717 capital lease payable to defease the 2010 capital lease by placing the proceeds of the new capital lease totaling \$5,132,543 (after payment of \$74,464 in debt issuance costs), in an irrevocable trust to provide for all future debt payments of the defeased debt. Accordingly the trust assets and liabilities for the defeased debt is not included in the County's financial statements. The County refunded the 2010 capital lease to reduce its total debt service payments over the next 14 years by approximately \$1.3 million. The advanced refunding resulted in an economic gain (difference between the present value of the debt service payments on the old and new debt) of approximately \$898,300. The capital lease payable to Colorado Business Bank, is payable in annual installments of \$483,403, at 2.5% interest. Final payment is due in 2023. Collateral includes the county courthouse, road and bridge equipment, and vacant land. These assets are recorded in the capital assets of the government-wide financial statements at \$3,504,166, less accumulated

ARCHULETA COUNTY, COLORADO
NOTES TO THE BASIC FINANCIAL STATEMENTS
December 31, 2012

depreciation of \$1,238,672 at December 31, 2012. The lease payments will be made from the Road and Bridge and General Funds. At December 31, 2012, the balance outstanding was \$4,737,472.

Governmental Activities

Annual Debt service for the capital leases are as follows:

YEAR	PRINCIPAL	INTEREST	TOTALS
2013	\$ 327,970	\$ 175,897	\$ 503,867
2014	393,289	107,083	500,372
2015	403,253	97,119	500,372
2016	413,471	86,901	500,372
2017	423,947	76,425	500,372
2018-2022	2,286,407	215,453	2,501,860
2023	492,620	7,752	500,372
	\$ 4,740,957	\$ 766,630	\$ 5,507,587

Note Payable

During 2011, the County along with Town of Pagosa Springs, Pagosa Fire Protection District and Upper San Juan Health Service District jointly and severally entered into a \$475,000 promissory note payable to Wells Fargo Bank National Association, payable in 35 regular payments of \$4,652 and one irregular last payment estimated at \$354,548, beginning March 15, 2011, at 3.251% interest, for the purchase of 911 Equipment. Final payment is due in 2014. These assets are recorded in the capital assets of the government-wide financial statements at \$394,432, less accumulated depreciation of \$91,294 at December 31, 2012. The lease payments will be made from the Combined Dispatch Fund. At December 31, 2012, the balance outstanding was \$400,353.

Governmental Activities

Annual Debt service for the notes payable is as follows:

YEAR	PRINCIPAL	INTEREST	TOTALS
2013	\$ 43,286	\$ 12,543	\$ 55,829
2014	357,067	10,712	367,779
	\$ 400,353	\$ 23,255	\$ 423,608

BUSINESS-TYPE ACTIVITIES:

Capital Lease Payable

During 2009, the County entered into a \$127,045 capital lease payable to Paccar Financial, payable in annual payments of \$28,616, beginning May 15, 2009, including interest at 6.32%, for the purchase of solid waste equipment. Payments are being made from the Solid Waste Fund. Final payment is due in 2013. The asset is recorded at \$127,045, less accumulated depreciation of \$63,522 at December 31, 2012.

Business Type Activities

Annual Debt service for the capital lease is as follows:

YEAR	PRINCIPAL	INTEREST	TOTALS
2013	\$ 26,914	\$ 1,702	\$ 28,616
	\$ 26,914	\$ 1,702	\$ 28,616

ARCHULETA COUNTY, COLORADO
NOTES TO THE BASIC FINANCIAL STATEMENTS
December 31, 2012

Note Payable

During 2004, the County entered into a note payable with the Colorado Department of Transportation, payable in annual payments of \$352,909, including interest at 4%. Final payment is due in 2014. The note is secured by a security interest in the County's Aviation Fuel Tax Refund revenue. This debt is being serviced in the Airport Fund and the balance at December 31, 2012 was \$665,620.

Business Type Activities

Annual Debt service for the notes payable is as follows:

<u>YEAR</u>	<u>PRINCIPAL</u>	<u>INTEREST</u>	<u>TOTALS</u>
2013	\$ 326,284	\$ 26,625	\$ 352,909
2014	339,336	13,573	352,909
	<u>\$ 665,620</u>	<u>\$ 40,198</u>	<u>\$ 705,818</u>

NOTE 10 OPERATING LEASES

The County is committed under various leases for office equipment and software. These leases are considered for accounting purposes as operating leases. Lease expenses for the year totaled \$111,515.

The future minimum lease payments are as follows:

2013	\$ 41,129
2014	1,980
2015	1,980
2016	<u>495</u>
	<u>\$ 45,584</u>

NOTE 11 RETIREMENT PLANS

Defined Contribution Plan

The County provides pension benefits for all of its full-time employees through an agent multi-employer public retirement system, the Colorado County Officials and Employees Retirement Association (CCOERA), a defined contribution plan. In a defined contribution plan, benefits depend solely on amounts contributed to the plan plus investment earnings. Employees are eligible to participate immediately upon hire. The County has established that employees contribute 4% and the County contributes a matching 4% of the employee's base salary each month. The County's contributions for each employee (and interest allocated to the employee's account) are fully vested after five years of continuous plan participation. The participants in this plan are offered various investment options through the plan and are allowed to invest all monies in their account, at their own discretion, among the options.

County contributions for, and interest forfeited by, employees who leave employment before five years of participation are used to reduce the County's current contribution requirements. The County's total payroll in 2012 was \$6,186,021. Both the County and the covered employees made the required contributions, amounting to \$239,204 from the County and \$239,204 from employees. Information is not available to determine the base salary amount which determined the County's contribution. Plan provisions and contribution requirements are established and may be amended by the Board of County Commissioners. That report may be obtained by writing to Colorado County Officials and Employee Retirement Association, 4949 South Syracuse, Suite 400, Denver, CO 80237 or by calling 1-800-352-0313.

ARCHULETA COUNTY, COLORADO
NOTES TO THE BASIC FINANCIAL STATEMENTS
December 31, 2012

Deferred Compensation Plan

The County also offers its employees an additional voluntary deferred compensation plan created in accordance with Internal Revenue Code 457(f).

The plan permits the employees to defer a portion of their salary until future years. The deferred compensation is not available to employees until termination, retirement, death or unforeseeable emergencies. The County has no other liability other than to make the required monthly contribution on behalf of the employees. The County made no contributions to the deferred compensation plan in 2012 and employees contributed \$82,067.

NOTE 12 TAX, SPENDING, AND DEBT LIMITATIONS

Colorado voters passed an amendment to the State Constitution, Article X, Section 20, which has several limitations, including revenue rising, spending abilities, and other specific requirements of state and local governments. The amendment is complex and subject to judicial interpretation.

Fiscal year spending and revenue limits are determined based on the prior years' spending adjusted for inflation and local growth. Revenue in excess of the limit must be refunded unless the voters approve retention of such revenue. The voters of the County passed a ballot issue in 2006 allowing for the retention of revenues generated in excess of the limits imposed by the amendment.

The amendment also requires that Emergency Reserves be established. These reserves must be at least 3 percent of fiscal year spending. The entity is not allowed to use the Emergency Reserves to compensate for economic conditions, revenue shortfalls, or salary or benefit increases. The amendment also requires voter approval for any long-term financing entered into by the County.

Colorado Revised Statute Section 29-1-301 establishes a 5.5% property tax revenue growth limitation that may be exceeded upon the affirmative vote of the qualified electors. Archuleta County voters approved such a measure in November 2006, whereby the County is authorized to collect, retain, spend, and reserve all revenues derived from property taxes under its current property tax levy of 18.233 mills in 2007 and each subsequent year through 2012.

The voters of the County passed a ballot issue in 1999 which removed the TABOR restriction on all revenues (except property tax) and authorized the collection, retention and spend, or reserve for growth related issues, all excess revenues and other funds collected during 1999 and each subsequent year from any source, other than that generated by the Archuleta County mill levy notwithstanding any TABOR restrictions.

The County believes it is in compliance with the requirements of the amendment. However, the County has made certain interpretations of the amendment's language in order to determine its compliance.

NOTE 13 RISK MANAGEMENT

Colorado Counties Casualty and Property Pool (CAPP)

The County is exposed to various risks of loss related to property and casualty losses. The County joined together with other counties in the State of Colorado to form the Colorado Counties Casualty and Property Pool (CAPP), a public entity risk pool currently operating as a common risk management and insurance program for member counties. The County pays an annual contribution to CAPP for its property and casualty insurance coverage. The inter-governmental agreement of formation of CAPP provides that the pool will be financially self-sustaining through member contributions and additional assessments, if necessary, and the pool will purchase excess insurance through commercial companies for members' claims in excess of a specified self-insured retention that is determined each policy year. There have been no significant reductions in insurance coverage. Settled claims from these risks have not exceeded insurance coverage for the current year or the three prior years.

ARCHULETA COUNTY, COLORADO
NOTES TO THE BASIC FINANCIAL STATEMENTS
December 31, 2012

At December 31, 2012, CAPP had assets of \$25,498,916, liabilities of \$8,598,883 (including \$6,249,991 reserved for losses and claims), and members' equity of \$16,900,033. The liability amount includes no long-term debt. Total revenues for the year ended December 31, 2012 amounted to \$6,740,270 and total expenses were \$4,250,936, resulting in net income before return of surplus of \$2,489,334.

Colorado Workers' Compensation Pool (CWCP)

The County is exposed to various risks of loss related to injuries of employees while on the job. The County has joined together with other counties in the State of Colorado to form the Colorado Workers' Compensation Pool (CWCP), a public entity risk pool currently operating as a common risk management and insurance program for member counties. The County pays an annual contribution to CWCP for its workers' compensation insurance coverage. The intergovernmental agreement of formation of CWCP provides that the pool will be financially self-sustaining through member contributions and additional assessments, if necessary, and the Pool will purchase excess insurance through commercial companies for members' claims in excess of a specified self-insured retention that is determined each policy year. There have been no significant reductions in insurance coverage. Settled claims from these risks have not exceeded insurance coverage for the current year or the three prior years.

At December 31, 2012, CWCP had assets of \$36,922,350, liabilities of \$22,903,979 (including \$21,924,529 reserved for losses and claims) and members' equity of \$14,018,371. The liability amount includes no long-term debt. Total revenues for the year ended December 31, 2012 amounted to \$10,870,976, total expenses were \$9,185,919, resulting in net income before return of surplus of \$1,685,057.

NOTE 14 COLORADO CONTRABAND FORFEITURE ACT

Management has reviewed financial activities in the Sheriff's Department for compliance with the Colorado Revised Statute 16-13-506. There were no sales of contraband during the year ended December 31, 2012.

NOTE 15 LANDFILL CLOSURE AND POST CLOSURE CARE COSTS

State and Federal laws require the County to place a final cover on its landfill site when it stops accepting waste and to perform certain maintenance and monitoring functions at the site for thirty years after closure. The County completed the necessary engineering studies in 2008 to estimate the landfill's capacity and closure and post closure costs. In addition to operating expenses related to current activities of the landfill, an expense provision and related liability are being recognized in the Solid Waste Fund based on the estimated future closure and post closure care costs that will be incurred near or after the date the landfill no longer will accept waste. The amount recognized each year is based on the landfill capacity used as of the balance sheet date. At December 31, 2012 the estimated liability for landfill closure and post closure care costs of \$396,573 is based on the use of 47% of capacity of all landfill cells. The estimated total current cost of the landfill closure and post closure is based on the amount that would be paid if all equipment facilities, and services required to close, monitor, and maintain the landfill were acquired as of December 31, 2012. The County will recognize the estimated remaining costs of closure and post-closure care of \$438,423 as the remaining estimated capacity is filled. The County expects to close the landfill in 2026. Actual cost of closure and post closure care may change due to inflation or deflation, changes in technology, or changes in landfill laws and regulations. Those costs may need to be covered by charges to future landfill users, taxpayers or both.

NOTE 16 COMMITMENTS AND CONTINGENCIES

Grant Programs – The County participates in a number of federal and state grant programs. These programs are subject to program compliance audits by the grantors or their representatives. The amount of expenditures, if any,

ARCHULETA COUNTY, COLORADO
NOTES TO THE BASIC FINANCIAL STATEMENTS
December 31, 2012

which may be disallowed by the granting agencies, cannot be determined at this time although the County expects any such amounts to be immaterial.

Litigation – The County is currently the defendant in several lawsuits arising principally in the normal course of operations. In the opinion of legal counsel, the outcome of these lawsuits will not have a material adverse effect on the accompanying combined financial statements; accordingly, no provision for losses has been recorded.

Insurance Pools – The County is a member of the Colorado Counties Casualty and Property Pool (CAPP) and the Colorado Workers' Compensation Pool (CWCP). CAPP and CWCP have a legal obligation for claims against its members to the extent that funds are available in their annually established loss funds and amounts are available from insurance providers under excess specific and aggregate insurance contracts. Losses incurred in excess of loss funds are direct liabilities of the participating members. CAPP and CWCP have indicated that the amount of any excess losses would be billed to members in proportion to their contributions in the year such excess occurs. The ultimate liability to the County resulting from claims not covered by CAPP and CWCP is not presently determinable.

Operating Leases – The County is committed under various leases for facilities and equipment. See Note 10 relating to the future minimum lease payments for the operating leases.

NOTE 17 ARCHULETA COUNTY HOUSING AUTHORITY COMPONENT UNITS NOTES

The following note disclosures have been presented for Archuleta County Housing Authority and Casa De Los Arcos, component units of Archuleta County, Colorado. Archuleta County Housing Authority and Casa De Los Arcos issue publicly available annual financial statements that may be obtained by writing the County's Finance Department at Archuleta County, PO Box 1507, Pagosa Springs, Colorado 81147. The following information is as of December 31, 2012 for the Archuleta County Housing Authority and July 31, 2012 for Casa De Los Arcos.

Property and Equipment

Major classes of fixed assets are as follows:

Land	\$	42,250
Building and Improvements		808,016
Equipment		73,349
Total Fixed Assets		923,615
Less Accumulated Depreciation		(798,088)
Net	\$	125,527

Depreciation is computed using the straight-line method based on estimated useful lives.

ARCHULETA COUNTY, COLORADO
NOTES TO THE BASIC FINANCIAL STATEMENTS
December 31, 2012

Mortgages Payable

Mortgage payable to Colorado Housing and Finance Authority, payable in 360 monthly payments of \$691 including interest at 4%. Said note represents a first deed of trust on the apartments	\$ 114,394
Mortgage payable to HUD payable in amounts equal to surplus cash as defined by a mortgage restructuring the deed of trust note dated August 28, 2002, said note to have an interest of 1%.	523,626
Mortgage payable to HUD payable in amounts equal to surplus cash as defined by a deed of trust dated August 28, 2002, said note to have and interest rate of 1%.	143,708
Promissory note to Housing Solutions of the Southwest payable in 120 months of \$114 including interest of 2%.	<u>24,908</u>
Total Mortgages Payable	<u><u>\$ 806,636</u></u>

NOTE 18 VIOLATIONS OF LAW

Expenditures exceeded budgeted appropriations in the Road and Bridge Fund totaling \$3,445,967, and in the Airport Fund totaling \$214,028 which may be in violation of Colorado state statutes.

NOTE 19 SUBSEQUENT EVENTS

The County has evaluated events and transactions occurring subsequent to the end of the fiscal year through October 15, 2013, the date these financial statements were available to be issued. There were no subsequent events identified that required recognition or additional disclosure in the financial statements.

ARCHULETA COUNTY, COLORADO

REQUIRED SUPPLEMENTARY INFORMATION

In addition to the basic financial statements, a budgetary comparison schedule is required for the General Fund and, if applicable, each of the County's major special revenue funds.

ARCHULETA COUNTY, COLORADO
SCHEDULE OF REVENUES, EXPENDITURES, AND CHANGES IN
FUND BALANCE - BUDGET AND ACTUAL
GENERAL FUND
For the Year Ended December 31, 2012

	BUDGETED AMOUNTS		ACTUAL	VARIANCE
	ORIGINAL	FINAL		WITH FINAL BUDGET POSITIVE (NEGATIVE)
REVENUES				
Property Taxes	\$ 5,108,889	\$ 5,108,889	\$ 5,232,053	\$ 123,164
Intergovernmental	1,821,759	1,972,392	1,867,139	(105,253)
Sales and Use Taxes	1,532,750	1,532,750	1,675,978	143,228
Licenses and Permits	324,000	324,000	326,263	2,263
Charges for Services	1,472,080	1,500,178	1,578,926	78,748
Other	173,325	243,311	185,222	(58,089)
Earnings on Investments	40,000	40,000	41,140	1,140
TOTAL REVENUES	<u>10,472,803</u>	<u>10,721,520</u>	<u>10,906,721</u>	<u>185,201</u>
EXPENDITURES				
Current:				
General Government	4,420,644	4,418,175	4,269,381	148,794
Public Safety	3,370,263	3,609,107	3,309,035	300,072
Health and Welfare	395,600	404,104	361,362	42,742
Economic Development	80,000	80,000	102,131	(22,131)
Highway and Streets	123,443	123,443	104,722	18,721
Culture and Recreation	1,079,429	1,083,525	110,196	973,329
Capital Outlay	871,829	868,013	180,726	687,287
Debt Service	32,200	32,200	38,605	(6,405)
TOTAL EXPENDITURES	<u>10,373,408</u>	<u>10,618,567</u>	<u>8,476,158</u>	<u>2,142,409</u>
Excess Revenues Over Expenditures	<u>99,395</u>	<u>102,953</u>	<u>2,430,563</u>	<u>2,327,610</u>
OTHER FINANCING SOURCES (USES)				
Refunding bond proceeds	-	-	756,781	756,781
Payment to refunding bond escrow agent	-	-	(745,958)	(745,958)
Transfers In	100,000	158,000	58,000	(100,000)
Transfers Out	(300,108)	(300,108)	(358,108)	(58,000)
TOTAL OTHER FINANCING SOURCES (USES)	<u>(200,108)</u>	<u>(142,108)</u>	<u>(289,285)</u>	<u>(147,177)</u>
Excess of Revenues Over Expenditures and Other Financing Sources (Uses)	(100,713)	(39,155)	2,141,278	2,180,433
Fund Balance at Beginning of Year as Originally Reported	4,516,287	4,516,287	5,353,684	837,397
Prior Period Adjustment, see Note 3	-	-	(306,617)	(306,617)
Fund Balance at Beginning of Year as Restated	<u>4,516,287</u>	<u>4,516,287</u>	<u>5,047,067</u>	<u>530,780</u>
Fund Balance at End of Year	<u>\$ 4,415,574</u>	<u>\$ 4,477,132</u>	<u>\$ 7,188,345</u>	<u>\$ 2,711,213</u>

Notes to Required Supplementary Information

The basis of budgeting is the same as GAAP.

The schedule is presented on the GAAP basis.

The Original Budget included the airport fund in the general fund. This report excludes the airport fund from the general fund.

ARCHULETA COUNTY, COLORADO
SCHEDULE OF REVENUES, EXPENDITURES, AND CHANGES IN
FUND BALANCE - BUDGET AND ACTUAL
ROAD AND BRIDGE FUND
For the Year Ended December 31, 2012

	<u>BUDGETED AMOUNTS</u>		<u>ACTUAL</u>	<u>VARIANCE WITH</u>
	<u>ORIGINAL</u>	<u>FINAL</u>		<u>FINAL BUDGET</u>
				<u>POSITIVE</u>
				<u>(NEGATIVE)</u>
REVENUES				
Property Taxes	\$ 749,114	\$ 749,114	\$ 761,195	\$ 12,081
Sales and Use Taxes	1,452,750	1,452,750	1,585,375	132,625
Intergovernmental Revenues	3,145,716	3,813,291	3,373,232	(440,059)
Charges for Services	-	-	15,125	15,125
Miscellaneous	-	31,416	32,996	1,580
TOTAL REVENUES	<u>5,347,580</u>	<u>6,046,571</u>	<u>5,767,923</u>	<u>(278,648)</u>
EXPENDITURES				
Highway and Streets	5,714,255	5,775,936	3,426,368	2,349,568
Capital Outlay	640,000	1,277,310	2,618,144	(1,340,834)
Debt Service:				
Principal Retirement	208,673	422,004	421,284	720
Interest	225,431	12,100	17,585	(5,485)
Debt Issuance Costs	-	-	63,641	(63,641)
TOTAL EXPENDITURES	<u>6,788,359</u>	<u>7,487,350</u>	<u>6,547,022</u>	<u>940,328</u>
Deficiency of Revenues over Expenditures	(1,440,779)	(1,440,779)	(779,099)	661,680
OTHER FINANCING SOURCES (USES)				
Refunding bond proceeds	-	-	4,449,936	4,449,936
Payments to refunding bonds escrow agent	-	-	(4,386,295)	(4,386,295)
Proceeds from sale of capital assets	-	-	42,500	42,500
TOTAL OTHER FINANCING SOURCES (USES)	<u>-</u>	<u>-</u>	<u>106,141</u>	<u>106,141</u>
Deficiency of Revenues Over Expenditures and Other Financing Sources (Uses)	(1,440,779)	(1,440,779)	(672,958)	767,821
Fund Balance at Beginning of Year	<u>2,531,215</u>	<u>2,531,215</u>	<u>3,501,459</u>	<u>970,244</u>
Fund Balance at End of Year	<u>\$ 1,090,436</u>	<u>\$ 1,090,436</u>	<u>\$ 2,828,501</u>	<u>\$ 1,738,065</u>

Notes to Required Supplementary Information

The basis of budgeting is the same as GAAP
The schedule is presented on the GAAP basis.

ARCHULETA COUNTY, COLORADO
SCHEDULE OF REVENUES, EXPENDITURES, AND CHANGES IN
FUND BALANCE - BUDGET AND ACTUAL
HUMAN SERVICES FUND
For the Year Ended December 31, 2012

	<u>BUDGETED AMOUNTS</u>		<u>ACTUAL</u>	<u>VARIANCE WITH</u>
	<u>ORIGINAL</u>	<u>FINAL</u>		<u>FINAL BUDGET</u>
				<u>POSITIVE</u>
				<u>(NEGATIVE)</u>
REVENUES				
Property Taxes	\$ 311,298	\$ 311,298	\$ 322,989	\$ 11,691
Intergovernmental Revenues	4,175,467	4,175,467	3,643,922	(531,545)
Miscellaneous	-	-	3,952	3,952
TOTAL REVENUES	<u>4,486,765</u>	<u>4,486,765</u>	<u>3,970,863</u>	<u>(515,902)</u>
EXPENDITURES				
Health & Welfare	<u>4,527,886</u>	<u>4,527,886</u>	<u>3,921,951</u>	<u>605,935</u>
TOTAL EXPENDITURES	<u>4,527,886</u>	<u>4,527,886</u>	<u>3,921,951</u>	<u>605,935</u>
Excess (Deficiency) of Revenues Over Expenditures	(41,121)	(41,121)	48,912	90,033
Fund Balance at Beginning of Year	<u>278,606</u>	<u>278,606</u>	<u>317,350</u>	<u>38,744</u>
Fund Balance at End of Year	<u>\$ 237,485</u>	<u>\$ 237,485</u>	<u>\$ 366,262</u>	<u>\$ 128,777</u>

Notes to Required Supplementary Information

The basis of budgeting is the same as GAAP
The schedule is presented on the GAAP basis.

ARCHULETA COUNTY, COLORADO

OTHER SUPPLEMENTARY INFORMATION

The Combining Financial Statements represent the second level of financial reporting for the County. These financial statements present more detailed information for the individual funds in a format that segregates information by fund type.

ARCHULETA COUNTY, COLORADO NONMAJOR GOVERNMENTAL FUNDS

SPECIAL REVENUE FUNDS

Special Revenue Funds are used to account for specific revenues that are legally restricted to expend for particular purposes.

Conservation Trust Fund - This fund is used to account for the County's share of the state lottery program. The monies may be expended only for the acquisition, development, and maintenance of parks, and other public recreational facilities.

Combined Dispatch Fund - This fund was formerly the Emergency 911 fund and has been changed to include the combined dispatch of the County, Town of Pagosa Springs, Upper San Juan Health Service District, and the Pagosa Fire Protection District to account for the activity of providing emergency telephone services to the County's residents.

CAPITAL PROJECT FUNDS

Capital Projects Funds are used to account for financial resources to be used for the acquisition or construction of major capital facilities (other than those financed by proprietary funds).

Fairfield Settlement Fund - This fund is used to partially compensate property owners in the eligible subdivision when they complete the extension of electrical power to their lot.

ARCHULETA COUNTY, COLORADO
COMBINING BALANCE SHEET
NONMAJOR GOVERNMENTAL FUNDS
December 31, 2012

	<u>Special Revenue</u>		<u>Capital Projects</u>	<u>TOTALS</u>
	<u>Combined Dispatch Fund</u>	<u>Conservation Trust Fund</u>	<u>FairField Settlement Fund</u>	
ASSETS				
Cash and Cash Equivalents	\$ 223,804	\$ 248,832	\$ 495,684	\$ 968,320
Other Receivables	71,449	-	-	71,449
Prepaid Items	1,090	-	-	1,090
TOTAL ASSETS	<u>\$ 296,343</u>	<u>\$ 248,832</u>	<u>\$ 495,684</u>	<u>\$ 1,040,859</u>
LIABILITIES AND FUND BALANCE				
LIABILITIES				
Accounts Payable	\$ 15,363	-	-	\$ 15,363
Accrued Payroll and Liabilities	15,100	-	-	15,100
TOTAL LIABILITIES	<u>30,463</u>	<u>-</u>	<u>-</u>	<u>30,463</u>
FUND BALANCE				
Nonspendable for:				
Prepaid items	1,090	-	-	1,090
Restricted for:				
TABOR	12,117	-	-	12,117
Fairfield Capital Outlay	-	-	495,684	495,684
Parks and Recreation	-	248,832	-	248,832
Assigned to:				
Public Safety	252,673	-	-	252,673
TOTAL FUND BALANCE	<u>265,880</u>	<u>248,832</u>	<u>495,684</u>	<u>1,010,396</u>
TOTAL LIABILITIES AND FUND BALANCE	<u>\$ 296,343</u>	<u>\$ 248,832</u>	<u>\$ 495,684</u>	<u>\$ 1,040,859</u>

ARCHULETA COUNTY, COLORADO
COMBINING SCHEDULE OF REVENUES, EXPENDITURES
AND CHANGES IN FUND BALANCE
NONMAJOR GOVERNMENTAL FUNDS
For the Year Ended December 31, 2012

	<u>Special Revenue</u>		<u>Capital Projects</u>	<u>TOTALS</u>
	<u>Combined Dispatch Fund</u>	<u>Conservation Trust Fund</u>	<u>FairField Settlement Fund</u>	
REVENUES				
Charges for Services	\$ 219,113	\$ -	\$ -	\$ 219,113
Intergovernmental	185,792	102,122	-	287,914
Earnings on Investments	-	602	1,043	1,645
Other	1,000	-	-	1,000
TOTAL REVENUES	<u>405,905</u>	<u>102,724</u>	<u>1,043</u>	<u>509,672</u>
EXPENDITURES				
Public Safety	657,599	-	-	657,599
Recreation	-	67,927	-	67,927
Highway and Streets	-	30,000	-	30,000
Capital Outlay	72,806	-	-	72,806
Debt Service	55,829	70,261	-	126,090
TOTAL EXPENDITURES	<u>786,234</u>	<u>168,188</u>	<u>-</u>	<u>954,422</u>
Excess (Deficiency) of Revenues Over Expenditures	(380,329)	(65,464)	1,043	(444,750)
OTHER FINANCING SOURCES				
Transfers In	300,108	-	-	300,108
TOTAL OTHER FINANCING SOURCES	<u>300,108</u>	<u>-</u>	<u>-</u>	<u>300,108</u>
Excess (Deficiency) of Revenues over Expenditures and Other Financing Sources	(80,221)	(65,464)	1,043	(144,642)
Fund Balance at Beginning of Year	<u>346,101</u>	<u>314,296</u>	<u>494,641</u>	<u>1,155,038</u>
Fund Balance at End of Year	<u>\$ 265,880</u>	<u>\$ 248,832</u>	<u>\$ 495,684</u>	<u>\$ 1,010,396</u>

ARCHULETA COUNTY, COLORADO

OTHER SCHEDULES AND REPORTS

ARCHULETA COUNTY, COLORADO
SCHEDULE OF EXPENDITURES AND TRANSFERS OUT
ALL NON-MAJOR GOVERNMENTAL FUNDS AND ALL PROPRIETARY FUNDS
BUDGET AND ACTUAL
For the Year Ended December 31, 2012

	BUDGETED AMOUNTS		EXPENDITURES REPORTED ON THE GAAP BASIS	ADJUSTMENTS TO BUDGETARY BASIS	EXPENDITURES ON THE BUDGETARY BASIS	VARIANCE WITH FINAL BUDGET POSITIVE (NEGATIVE)
	ORIGINAL	FINAL				
Governmental Funds						
Non-major Governmental Funds:						
Special Revenue Funds:						
Conservation Trust Fund	\$ 325,261	\$ 325,261	\$ 168,188	\$ -	\$ 168,188	\$ 157,073
Combined Dispatch Fund	761,686	765,430	786,234	-	786,234	202,318
Capital Projects Funds:						
Fairfield Settlement Fund	300,000	300,000	-	-	-	300,000
Total Non-major Governmental Funds	<u>\$ 1,386,947</u>	<u>\$ 1,390,691</u>	<u>\$ 954,422</u>	<u>\$ -</u>	<u>\$ 954,422</u>	<u>\$ 659,391</u>
Proprietary Funds						
Enterprise Funds:						
Solid Waste Fund	\$ 667,318	\$ 667,318	\$ 677,169	\$ (4,005)	\$ 661,039	\$ 6,279
Airport Fund	595,776	608,708	1,134,747	(312,011)	822,736	(214,028)
Total Enterprise Funds	<u>1,263,094</u>	<u>1,276,026</u>	<u>1,811,916</u>	<u>(316,016)</u>	<u>1,483,775</u>	<u>(207,749)</u>
Internal Service Funds:						
Fleet Fund	<u>1,462,306</u>	<u>1,462,306</u>	<u>1,423,277</u>	<u>-</u>	<u>1,423,277</u>	<u>39,029</u>
Total Internal Service Funds	<u>1,462,306</u>	<u>1,462,306</u>	<u>1,423,277</u>	<u>-</u>	<u>1,423,277</u>	<u>39,029</u>
Total Proprietary Funds	<u>\$ 2,725,400</u>	<u>\$ 2,738,332</u>	<u>\$ 3,235,193</u>	<u>\$ (316,016)</u>	<u>\$ 2,907,052</u>	<u>\$ (168,720)</u>

Adjustments to budgetary basis include principal reductions on long-term debt, costs of capitalized assets, and depreciation expenses.

ARCHULETA COUNTY, COLORADO
SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
Year Ended December 31, 2012

FEDERAL GRANTOR /PASS-THROUGH GRANTOR/ PROGRAM OR CLUSTER TITLE	FEDERAL CFDA NUMBER	PASS-THROUGH ENTITY IDENTIFYING NUMBER	FEDERAL EXPENDITURES
U.S. DEPARTMENT OF AGRICULTURE			
COLORADO DEPT. OF HUMAN SERVICES			
<i>SNAP Cluster</i>			
State Administrative Matching Grants for Supplemental Nutrition Assistance Program	10.561		\$ 103,233
Total for <i>SNAP Cluster</i>			<u>103,233</u>
COLORADO DEPT. OF TREASURY			
<i>Schools and Roads Cluster</i>			
Secure Payments for States and Counties Containing Federal Lands Title I and Title III Funds	10.665		
Direct Expenditures: Title III Funds			34,230
Passed to Subrecipients: Title I Funds			415,648
Secure Payments for States and Counties Containing Federal Lands Title II Funds			<u>66,709</u>
Total for <i>Schools and Roads Cluster</i>			<u>516,587</u>
U.S. DEPARTMENT OF HEALTH AND HUMAN SERVICES			
SAN JUAN BASIN AREA AGENCY ON AGING			
<i>Aging Cluster</i>			
Special Programs for the Aging-Title III Part B	93.044		12,240
Nutrition Services Incentive Program	93.053		<u>34,852</u>
Total for <i>Aging Cluster</i>			<u>47,092</u>
COLORADO DEPT. OF HUMAN SERVICES			
Temporary Assistance for Needy Families	93.558		252,888
Child Support Enforcement	93.563		94,870
Low-Income Home Energy Assistance	93.568		174,628
<i>CCDF Cluster</i>			
Child Care and Development Block Grant	93.575		(20,002)
Child Care Mandatory and Matching Funds of the Child Care and Development Fund	93.596		57,269
ARRA - Child Care and Development Block Grant	93.714		<u>4,428</u>
Total for <i>CCDF Cluster</i>			<u>41,695</u>
Child Welfare Services-State Grants	93.645		5,768
Foster Care-Title IV-E	93.658		94,962
Adoption Assistance	93.659		17,275
Social Services Block Grant	93.667		65,897
Medical Assistance Program (<i>Medicaid Cluster</i>)	93.778		56,124
Healthy Marriage Promotion and Responsible Fatherhood Grants	93.086		281,072
Promoting Safe and Stable Families	93.556		5,076
U.S. DEPARTMENT OF HOMELAND SECURITY			
COLORADO DEPT. OF LOCAL AFFAIRS			
Special Project	97.001		58,973
Emergency Management Performance Grant (EMPG/LEMS)	97.042		52,300
U.S. DEPARTMENT OF JUSTICE			
Bulletproof Vest Partnership Program	16.607		2,736
Justice Assistance Recovery	16.738		21,897
Justice Assistance Recovery	16.803		32,117
U.S. DEPARTMENT OF TRANSPORTATION			
<i>Airport Improvement Grants</i>			
Airport Improvement Program No.3-08-0066-20	20.106		170,468
COLORADO DEPT. OF TRANSPORTATION			
Highway Planning & Construction	20.205		1,453,093
Formula Grants for Other Than Urbanized Areas	20.509		<u>39,182</u>
TOTAL EXPENDITURES OF FEDERAL AWARDS			<u>\$ 3,587,933</u>

NOTES TO THE SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS

NOTE A BASIS OF PRESENTATION

The accompanying schedule of expenditures of federal awards includes the federal grant activity of Archuleta County, Colorado and is presented on the modified accrual basis of accounting. The information in this schedule is presented in accordance with the requirements of OMB Circular A-133, Audits of States, Local Governments, and Non-Profit Organizations. Therefore, some amounts presented in this schedule may differ from amounts presented in, or used in the preparation of, the basic financial statements.



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 Board of County Commissioners of Archuleta County, Colorado
Pagosa Springs, Colorado

We have audited, in accordance with the auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States, the financial statements of the governmental activities, the business-type activities, the discretely presented component units, each major fund, and the aggregate remaining fund information of the Archuleta County, Colorado (the “County”) as of and for the year ended December 31, 2012, and the related notes to the financial statements, which collectively comprise the County’s basic financial statements, and have issued our report thereon dated October 15, 2013.

Internal Control Over Financial Reporting

In planning and performing our audit of the financial statements, we considered the County’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 opinion on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the County’s internal control. Accordingly, we do not express an opinion on the effectiveness of the County’s internal control.

Our consideration of internal control was for the limited purpose described in the preceding paragraph and was not designed to identify all deficiencies in internal control that might be material weaknesses or significant deficiencies and therefore, material weaknesses or significant deficiencies may exist that were not identified. However, as described in the accompanying schedule of findings and questioned costs, we identified certain deficiencies in internal control that we consider to be material weaknesses and significant deficiencies.

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, misstatement 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 basic financial statements will not be prevented, or detected and corrected on a timely basis. We consider the deficiency described in the accompanying schedule of findings and questioned costs to be material weaknesses (2013-1).

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. We consider the deficiencies described in the accompanying schedule of findings and questioned costs to be significant deficiencies (2013-2, 2013-3, and 2013-4).



Compliance and Other Matters

As part of obtaining reasonable assurance about whether the County'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*.

The County's Response to Findings

The County's responses to the findings identified in our audit are described in the accompanying schedule of findings and questioned costs. The County's responses were not subjected to the auditing procedures applied in the audit of the financial statements and, accordingly, we express no opinion on them.

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 result 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.

Anton Collins Mitchell LLP

Greeley, Colorado
October 15, 2013



Independent Auditor's Report on Compliance For Each Major Federal Program; Report on Internal Control Over Compliance; and Report on the Schedule of Expenditures of Federal Awards Required by OMB Circular A-133

To the Board of County Commissioners of Archuleta County, Colorado
Pagosa Springs, Colorado

Report on Compliance for Each Major Federal Program

We have audited the Archuleta County, Colorado's (the "County") compliance with the types of compliance requirements described in the *OMB Circular A-133 Compliance Supplement* that could have a direct and material effect on the County's major federal program for the year ended December 31, 2012. The County's major federal programs are identified in the summary of auditor's results section of the accompanying schedule of findings and questioned costs.

Management's Responsibility

Management is responsible for compliance with the requirements of laws, regulations, contracts, and grants applicable to each of its federal programs.

Auditor's Responsibility

Our responsibility is to express an opinion on compliance for the County's major federal programs based on our audit of the types of compliance requirements referred to above. We conducted our audit of compliance in accordance with auditing standards generally accepted in the United States of America; the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States; and OMB Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*. Those standards and OMB Circular A-133 require that we plan and perform the audit to obtain reasonable assurance about whether noncompliance with the types of compliance requirements referred to above that could have a direct and material effect on a major federal program occurred. An audit includes examining, on a test basis, evidence about the County's compliance with those requirements and performing such other procedures as we considered necessary in the circumstances.

We believe that our audit provides a reasonable basis for our opinion on compliance for each major federal program. However, our audit does not provide a legal determination of the County's compliance.

Opinion on Each Major Federal Program

In our opinion, the County complied, in all material respects, with the types of compliance requirements referred to above that could have a direct and material effect on its major federal programs for the year ended December 31, 2012.



Report on Internal Control Over Compliance

Management of the County is responsible for establishing and maintaining effective internal control over compliance with the types of compliance requirements referred to above. In planning and performing our audit of compliance, we considered the County's internal control over compliance with the types of requirements that could have a direct and material effect on a major federal program to determine the auditing procedures that are appropriate in the circumstances for the purpose of expressing an opinion on compliance for each major federal program and to test and report on internal control over compliance in accordance with OMB Circular A-133, but not for the purpose of expressing an opinion on the effectiveness of internal control over compliance. Accordingly, we do not express an opinion on the effectiveness of the County's internal control over compliance.

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

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

The purpose of this report on internal control over compliance is solely to describe the scope of our testing of internal control over compliance and the results of that testing based on the requirements of OMB Circular A-133. Accordingly, this report is not suitable for any other purpose.

Anton Collins Mitchell LLP

Greeley, Colorado
October 15, 2013

**Archuleta County, Colorado
Schedule of Findings and Questioned Costs**

Year Ended December 31, 2012

Section I – Summary of Auditor Results

Financial Statements

Type of auditor’s report issued	Unmodified
Internal control over financial reporting:	
Material weaknesses identified	Yes
Significant deficiencies identified not considered to be material weaknesses.	Yes
Noncompliance material to financial statements noted	No

Federal Awards

Internal control over major programs:	
Material weaknesses identified	No
Significant deficiencies identified not considered to be material weaknesses.	None reported

Type of auditor’s report issued on compliance for major programs	Unmodified
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Any audit findings disclosed that are required to be reported in accordance with section 510(a) of Circular A-133	No
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<u>Name of Federal Program or Cluster</u>	<u>CFDA Number</u>
Schools and Roads Cluster	10.665
Highway Planning and Construction	20.205

Dollar threshold used to distinguish between type A and type B programs	\$300,000
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Auditee qualify as a low-risk auditee	No
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Section II – Financial Statement Findings

2013-1: Material Year-End Adjustments (Material Weakness)

Our testing identified audit adjustments that were proposed to accurately state accounts payable, capital assets and the recording of the capital lease refunding transaction in accordance with generally accepted accounting principles. In addition, we noted that the year-end reconciliation for intergovernmental receivables was not completed in a timely manner and a significant journal entry was provided by the client after the original trial balance had been received. Accounting tasks such as monthly reconciliations and financial reporting play a key role in providing accurate and timely accounting information. The County experienced turnover in the Finance Director position, which may have contributed to timeliness and accuracy of the year-end balances. We recommend that the Finance

Archuleta County, Colorado
Schedule of Findings and Questioned Costs

Year Ended December 31, 2012

Department implement a closing checklist as part of the year-end procedures to ensure that all accounts are reconciled on a timely basis and that the trial balance is reviewed prior to providing to the auditor.

Management Response:

The lack of timely reconciliations for intergovernmental receivables, and subsequent untimely journal entries was due, as already noted, to the departure of the previous Finance Director and the resulting work load on the remaining staff until the new Finance Director was employed some months later. Management does not consider the absence of a Year End checklist to have been a major factor in these particular issues, since the failure to perform in a timely manner was not an oversight, just a lack of manpower to execute difficult and time consuming tasks. However, the County intends to create a Year End Checklist soon, and expects the next year end process to be easier as a result.

2013-2: Documentation of Review and Approval Process (Significant Deficiency)

During our walkthrough procedures, we noted that bank reconciliations performed in the Treasury Department are not reviewed and approved by an employee other than the preparer. In addition, the employees that prepare the bank reconciliations are also authorized signers on the bank accounts. In addition, we noted three expenditure transactions tested in our disbursement test of transactions did not contain evidence of approval by the respective department head prior to payments. ACM recommends that bank reconciliations be performed by someone other than the County Treasurer and then be reviewed and approved by the County Treasurer. In addition, we recommend that expenditure transactions contain evidence of approval prior to payment.

Management Response:

The County agrees to take appropriate corrective action for the above finding.

2013-3: Vendor/Employee File Maintenance (Significant Deficiency)

As part of our fraud procedures, we reviewed the list of vendors used by the County and found the accounting system contains vendors that were not used by the County for several years. We also noted several vendors that were included on the vendor listing that the County could not locate in the accounting system. Additionally, as part of our walkthrough procedures, ACM found that all accounting staff have the ability to enter and modify vendor information in the accounting software and there is not a separate review of a vendor change report. We recommend that the County assign a staff member to review the entire listing and either eliminate, or place in an inactive status, vendors that are no longer used by the County. We also recommend that the Finance Director review the vendor change report on a regular basis. Finally, we noted that the employee listing provided by the County included employees that are no longer employed at the County. We recommend that the employee listing be updated to include only active employees.

Management Response:

The County agrees to correct the deficiencies noted. In early 2013 the AP Clerk was instructed to no longer modify vendor records, and going forward the accounting system permission levels will be changed to make it impossible for her to do so. In addition, the new Financial Director will review the internal audit report features in the County's accounting software systems, and determine what use of them may be made to further improve internal control over the Vendor and Employee files.

Archuleta County, Colorado
Schedule of Findings and Questioned Costs

Year Ended December 31, 2012

2013-4: Cash Procedures (Significant Deficiency)

During our walkthrough procedures and our testing over cash accounts, we noted the following:

- The County uses electronic signatures and blank check stock for computer generated checks. Employees that have access to the electronic signatures also have the ability to change vendor data, as detailed above. As such, ACM recommends that the County establishes a reasonable predefined check limit, to where all checks above that limit require a live signature on the check.
- We noted that although voided checks are defaced, the signature blocks on the voided checks are not removed. Removing the signature block will mitigate the risk of a check being fraudulently washed and presented for payment.
- We noted that the Detention Center account had not been reconciled for several months during 2012. We recommend that all bank accounts be reconciled on a monthly basis.
- We noted that there were old outstanding checks on the Detention Center bank account reconciliation that had been outstanding for more than six months, some checks were issued in 2004. Outstanding checks should be investigated and followed up as part of the monthly bank reconciliation. Further, we recommend that the District follow state escheat laws regarding unclaimed property with respect to these checks.

Management Response:

Regarding access to electronic signatures and (overlapping) access to vendor data, the County put in place, during 2012, a procedure whereby the AP Clerk no longer had permission to add, drop or modify vendors. In order to decrease the chance that this might happen anyway, the County will modify the settings to make it impossible for her to do so. The County will carefully consider whether these changes (and other internal controls) are sufficient, before making a final decision about live signatures.

Starting in early 2013, voided checks have had their signature block removed.

The County agrees to work with the Detention Center staff to correct the deficiencies noted with regard to their bank account.

Section III – Federal Award Findings and Questioned Costs

No current year findings reported.

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

LOCAL HIGHWAY FINANCE REPORT		City or County:	ARCHULETA COUNTY
		YEAR ENDING :	December 2012
This Information From The Records Of County of Archuleta		Prepared By:	LeeAnn Foutz
		Phone:	970-264-8554

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)	2,014,524
a. Motor Fuel (from Item I.A.5.)		2. Maintenance:	2,617,459
b. Motor Vehicle (from Item I.B.5.)		3. Road and street services:	
c. Total (a.+b.)		a. Traffic control operations	0
2. General fund appropriations		b. Snow and ice removal	45,354
3. Other local imposts (from page 2)	2,361,693	c. Other	434,581
4. Miscellaneous local receipts (from page 2)	32,998	d. Total (a. through c.)	479,935
5. Transfers from toll facilities		4. General administration & miscellaneous	847,662
6. Proceeds of sale of bonds and notes:		5. Highway law enforcement and safety	0
a. Bonds - Original Issues		6. Total (1 through 5)	5,959,580
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)	2,394,691	b. Redemption	
B. Private Contributions		c. Total (a. + b.)	0
C. Receipts from State government (from page 2)	3,306,523	2. Notes:	
D. Receipts from Federal Government (from page 2)	66,709	a. Interest	12,100
E. Total receipts (A.7 + B + C + D)	5,767,923	b. Redemption	426,769
		c. Total (a. + b.)	438,869
		3. Total (1.c + 2.c)	438,869
		C. Payments to State for highways	
		D. Payments to toll facilities	
		E. Total disbursements (A.6 + B.3 + C + D)	6,398,449

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
	3,501,459	5,767,923	6,398,449	2,870,933	0

Notes and Comments:

LOCAL HIGHWAY FINANCE REPORT

STATE:
Colorado
YEAR ENDING (mm/yy):
December 2012

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	718,640	a. Interest on investments	0
b. Other local imposts:		b. Traffic Fines & Penalties	0
1. Sales Taxes	1,585,375	c. Parking Garage Fees	0
2. Infrastructure & Impact Fees		d. Parking Meter Fees	0
3. Liens		e. Sale of Surplus Property	0
4. Licences & Permits	15,125	f. Charges for Services	0
5. Specific Ownership &/or Other	42,554	g. Other Misc. Receipts	32,998
6. Total (1. through 5.)	1,643,053	h. Other	0
c. Total (a. + b.)	2,361,693	i. Total (a. through h.)	32,998
	(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	1,581,902	1. FHWA (from Item I.D.5.)	
2. State general funds		2. Other Federal agencies:	
3. Other State funds:		a. Forest Service	66,709
a. State bond proceeds		b. FEMA	0
b. Project Match		c. HUD	0
c. Motor Vehicle Registrations	50,065	d. Federal Transit Admin	0
d. Other-Harebell, Cat Creek & Juanita	1,674,556	e. U.S. Corps of Engineers	0
e. Other (Specify)	0	f. Other Federal	0
f. Total (a. through e.)	1,724,622	g. Total (a. through f.)	66,709
4. Total (1. + 2. + 3.f)	3,306,523	3. Total (1. + 2.g)	
			(Carry forward to page 1)

III. DISBURSEMENTS FOR ROAD AND STREET PURPOSES - DETAIL

	ON NATIONAL HIGHWAY SYSTEM (a)	OFF NATIONAL HIGHWAY SYSTEM (b)	TOTAL (c)
A.1. Capital outlay:			
a. Right-Of-Way Costs			0
b. Engineering Costs			0
c. Construction:			
(1). New Facilities			0
(2). Capacity Improvements			0
(3). System Preservation		2,014,524	2,014,524
(4). System Enhancement & Operation			0
(5). Total Construction (1) + (2) + (3) + (4)	0	2,014,524	2,014,524
d. Total Capital Outlay (Lines 1.a. + 1.b. + 1.c.5)	0	2,014,524	2,014,524
			(Carry forward to page 1)

Notes and Comments: