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***TOWN OF PAONIA, COLORADO***

*FINANCIAL STATEMENTS*

*DECEMBER 31, 2015*

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## Independent Auditors' Report

Town Board of Trustees  
Town of Paonia, Colorado

### Report On The Financial Statements

We have audited the accompanying financial statements of the governmental activities, the business-type activities and each major fund of the Town of Paonia, Colorado (the Town), as of and for the year ended December 31, 2015, and the related notes to the financial statements, which collectively comprise the Town's basic financial statements as listed in the table of contents.

### *Management's Responsibility For The Financial Statements*

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

### *Auditors' Responsibility*

Our responsibility is to express opinions on these financial statements based on our audit. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement.

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

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

### ***Opinions***

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, the business-type activities and each major fund of the Town, as of December 31, 2015, 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 17, the Town adopted the provisions of Governmental Accounting Standards Board (GASB) Statement No. 68, *Accounting and Financial Reporting for Pensions - An Amendment of GASB Statement No. 27*, effective January 1, 2015, and GASB Statement No. 71, *Pension Transition for Contributions Made Subsequent to the Measurement Date - an Amendment of GASB Statement No. 68*, effective July 1, 2015. Our opinions were 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, budgetary comparison information, schedule of funding progress, schedule of the Town's proportionate share of the net pension asset and schedule of the Town's contributions to the pension plan to be presented to supplement the basic financial statements. Such information, although not a part of the basic financial statements, is required by GASB, which considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic or historical context. We have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements and other knowledge we obtained during our audit of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

*Other Information*

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the Town's basic financial statements. The budget and actual schedules, Annual Highway Financial Report and the schedule of expenditures of federal awards, as required by *Title 2 U.S. Code of Federal Regulations (CFR) Part 200, Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards* (the Uniform Guidance) are presented for purposes of additional analysis and are not a required part of the basic financial statements.

The budget and actual schedules, Annual Highway Financial 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. Such information has been subjected to the auditing procedures applied in the audit of the basic financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the basic financial statements or to the basic financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the budget and actual schedules, Annual Highway Financial Report and the schedule of expenditures of federal awards are fairly stated, in all material respects, in relation to the basic financial statements as a whole.

**Other Reporting Required By *Government Auditing Standards***

In accordance with *Government Auditing Standards*, we have also issued our report dated July 19, 2016 on our consideration of the Town's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the Town's internal control over financial reporting and compliance.

*RubinBrown LLP*

July 19, 2016

**TOWN OF PAONIA, COLORADO**  
**MANAGEMENT'S DISCUSSION AND ANALYSIS (UNAUDITED)**  
**For The Year Ended December 31, 2015**

As management of the Town of Paonia, we offer readers of the Town of Paonia Financial Statements this narrative overview and analysis of the financial activities and performance of the Town of Paonia for the Fiscal Year ended December 31, 2015

The repetition of the Town's financial statements has been omitted from the Management Discussion and Analysis (MD&A). The author of this discussion believes the written narrative presentation of information related to the Town of Paonia's financial position should be the focus of the Fiscal Year 2015 MD & A.

Please refer to the Town of Paonia's Financial Statements which begin on the pages following this MD&A to assist you as the reader with your understanding and comprehension of the issues presented herein.

## **INTRODUCTION**

The Town operates under a Mayor-Town Board form of government with an appointed Town Manager. The Town Board provides strategic leadership, goal setting and policy-making authority and employs the Town Manager who is responsible for the day-to-day management, financial and technical support to ensure equitable, efficient and effective implementation of government services to our citizens.

The Town provides a full range of public services, including a Police Department, Municipal Utilities (water, wastewater, and trash), Infrastructure (drainage, streets, public buildings, airport, and sidewalks), and Cultural and Recreational programs (parks and recreation activities to promote wellness).

Other governmental services are provided through various agencies and special districts include: fire protection through the Paonia Volunteer Fire Department (Delta County FPD #2), North Fork Volunteer Ambulance Association, and the Paonia Public Library a branch office of the Delta County Library District

## **HIGHLIGHTS AND NOTABLE FINANCIAL STATEMENTS COMPARISONS OF FY'2014 TO FY'2015:**

1. Town of Paonia FY'2015 Audited Financial Statements detail **\$10,531 in over expenditures for the Sidewalk Fund only** versus the \$178,470 in over expenditures for the Governmental Funds in FY'2014.
2. Total FY'2015 Audited Financial Statements detail Governmental Funds Net **Increase to Fund Balances total of \$468,663** versus Total FY'2014 Audited Financial Statements Net Decrease to Fund Balances for the Governmental Funds of \$350,699.
3. Town of Paonia FY'2015 Audited Financial Statements detail Enterprise Funds (Water and Sanitation) **Operating Income of \$83,420** versus Town of Paonia FY'2014 Audited Financial Statements detailed Enterprise Funds (Water and Sanitation) **Operating Loss** of \$78,994.
4. Total Town of Paonia FY'2015 **Operating Losses for All Funds of \$43,923** versus Total Town of Paonia FY'2014 Operating Losses for All Funds of \$505,767.
5. Original Proposed FY'2015 Town Budget (presented on 10/14/2014) specified \$410,000 in spending deficits which violates Colorado statutes requiring local governmental budgets to be balanced. Beginning in November 2014 financial provisions were begun to eliminate budgetary spending deficits including reductions in personnel and recommended utility rate increase. The FY'2015 Audited Financial Statements are dramatic proof the financial decisions made in late 2014 and 2015 were the "right decisions" for the Town of Paonia financially as demonstrated in the positive direction of fund balances for year-end 2015.

The assets of the Town of Paonia exceeded its liabilities at the close of the most recent Fiscal Year by \$13,285,894 (Total Net Position). Of this amount, \$3,514,722 (Unrestricted Net Position) may be used to meet the government's ongoing obligations to citizens and creditors. It should be noted this total represents cash, cash equivalents, investments, capital assets, inventories, etc. which may or may not hold liquidity for the Town.

As of the close of the current Fiscal Year 2015, the Town of Paonia Governmental Funds reported combined ending Net Assets of \$3,427,823, which of this amount, (\$174,034), is Unrestricted Net Assets.

As of the close of the current Fiscal Year 2015, the Town of Paonia Fund Balance for the General Fund was \$94,900. This is an "*Excess of Revenues over Expenditures*", which is a position of positive cash reserves (Fund Balance) for the General Fund.

**For the Fiscal Year Adopted 2015 Budget**, the Town Board for the Town of Paonia focused on several major projects which are highlighted as follows:

**1. COMPLETION OF THE 2.0MG WATER PROJECT**

The 2.0MG (million gallon) project was substantially completed by December 31, 2015. This project was funded by grants and low interest loans from DOLA (Department of Local Affairs), Colorado Water Resources Power Development Authority (CWRPDA), the Gunnison Basin Round Table and Colorado Water Conservation Board (CWCB).

**2. COMPLETION OF THE 1.0MG WATER STORAGE ROOF REPLACEMENT PROJECT**

The 1.0MG (million gallon) roof replacement project was contracted during 2014 and was completed in the third quarter of 2015. This project was been funded by a DOLA (Department of Local Affairs) Emergency Grant totaling \$200,000 and matching Town funds.

**3. REHABILITATION OF THE 1.0 MG WATER STORAGE TANK PROJECT**

Many severe and critical structural deficiency issues surfaced concerning the 1.0MG Water Storage Tank. The major issues surrounding this project were noted in the "Drinking Water Enforcement Order" (violation notice) received in 2012 from the Colorado Department of Public Health and Environment. Proposals were obtained from qualified engineering firms to assist the Town in preparing plans for the rehabilitation of the 1.0 MG Water Storage Tank. Plans were developed and approved, sealed bids for the rehab of the water tank were obtained, and a contractor was awarded the bid in early April 2015. This project was completed in December 2015.

**4. HUMAN RESOURCES**

In FY'2015 no employee increases were budgeted nor did any Town employee receive either a cost of living increase and or any type of merit performance based increase.

In addition to the three (3) employee lay-offs from late 2014, several other personnel cost savings were initiated:

- A. Two (2) Public Works Laborer positions were eliminated.
- B. Leave the Chief of Police position vacant, not replace.
- C. Appoint and promote an existing Police Officer to the position of Sergeant, as the responsible officer-in-charge for supervision of personnel and daily operations of the Paonia Police Department.



## **5. SIDEWALK FUND**

In 2013 Town voters approved a \$3.00 per month fee to be dedicated to the repair and replacement of existing sidewalks. Since 2014, monies accumulated in this fund. No repairs and or construction of sidewalks occurred in 2014. However in 2015, a significant amount of sidewalk reconstruction was completed along Fourth Street at a cost of \$38,834.

## **6. ENTERPRISE FUNDS RATES AND POLICIES REVISIONS**

In December 2015, Sewer rates finally experienced an increase marking ten (10) years (2005) since any rate increase had been considered. Sewer rates were considered for the increase in 2015 in recognition of the costs of operations, maintenance, and capital re-investment as well as to be in compliance with existing WWTP system loan (debt) agreements. The Sewer (Sanitation) Fund would have continued to experience significant operating losses (deficiency) given the lack of consideration to the costs of providing this business service to the Town's customers if the Town Board had not adopted new rates.

Trash rates were also increased in December 2015 having experienced no increase since 2007. The Town during 2016 is re-evaluating this service it has been providing to residents and businesses as it has been heavily subsidized by the Wastewater/Sanitary Sewer Fund resulting in significant losses of operating funds (cash) to the Sanitation Fund

Water rates were increased in December 2015. The increase to water rates in 2014 was not sufficient in recognition of the mandated loan coverage requirements related to the 2.0MG Water Projects funding nor in relationship to the system's costs of operations, maintenance, capital re-investment, and compliance with other Water system loan agreement requirements. A significant water rate increase was considered and adopted by the Town Board in December 2015.

This rate increase was the first step for the water system fund to remain financially solvent as well as to be in compliance with all loan agreements. The Town Board also considered and adopted several policies revisions to the Water Rates Ordinance.

## **OVERVIEW OF THE FISCAL YEAR 2015 AUDITED FINANCIAL STATEMENTS**

By way of introduction and definition to the Town of Paonia's basic financial statements, the Town's financial statements are comprised of **three components**:

- 1. Government-wide Financial Statements**
- 2. Enterprise Fund Financial Statements**
- 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 the Town of Paonia's finances in a manner similar to a private-sector business.

The “*Statement of Net Assets*” presents information on all of the Town of Paonia’s assets and liabilities, with the difference between the two reported as *net assets*. Over time, increases or decreases in net assets may serve as a useful indicator of whether the financial position of the Town of Paonia is improving or deteriorating.

The “*Statement of Activities*” presents information showing how the government’s net assets changed during the most recent Fiscal Year. All changes in net assets are reported as soon as the underlying event giving rise to the change occurs, regardless of the timing of related cash flows.

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

Both of the government-wide financial statements distinguish functions of the Town of Paonia 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 (*enterprise business-type activities*).

### **The Governmental Funds of the Town of Paonia include the:**

- 1. General Fund:** The General Fund is the Town's major operating fund. All revenues, by law or administrative control, that are not in otherwise designated funds are deposited in the General Fund.

The General Fund is used to provide for Administration, Community Development, General Government, Public Safety, Streets, and Parks and Recreation services. The primary sources of revenues for the General Fund are: 1) Sales taxes (Town and Delta County), 2) Property taxes, and 3) Intergovernmental revenues specific examples are the Severance tax and Mineral leasing.

- 2. Conservation Trust Fund:** The Conservation Trust Fund is used to account for monies received by the Town from the State of Colorado lottery proceeds. These funds are restricted for use in the acquisition, development and maintenance of new park and conservation sites or for capital improvements and maintenance of any existing public site for recreational purposes.
- 3. Sales Tax Capital Improvement Fund:** The Sales Tax Capital Improvement Fund is funded by 1% (50%) of the 2% Town Sales Tax and used to account for capital projects and or capital purchases.
- 4. Grant Project Fund:** The Grant Project Fund is funded by refundable grants designated to specific projects plus Town matching funds. This fund is a “pass through fund” specifically for the tracking of grant awarded specific projects including: the Town Manager position, 2.0MG Water Projects, and the 1.0MG Water Storage Roof Replacement Project.
- 5. Sidewalk Fund:** The Sidewalk Fund is funded by a \$3.00 fee assessed monthly on in-town residents only through our current utility billing to be used to repair and replace existing sidewalks.

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.

The Town of Paonia, like other state and local governments, uses fund accounting to ensure and demonstrate compliance with finance-related legal requirements. All of the funds of the Town of Paonia can be divided into three categories: governmental funds, enterprise or proprietary funds, and fiduciary funds.

**The Governmental Fund Financial Statements can be found on pages 6 through 9 of this report.**

The Government-wide Financial Statements include only the Town of Paonia itself (*known as the primary government*) as there are **no component units** of the Town.

**Governmental Funds** are used to account for essentially the same functions reported as *governmental activities* in the government-wide financial statements. However, unlike the government-wide financial statements, governmental fund financial statements focus on *near-term inflows and outflows of spendable resources*, as well as on *balances of spendable resources* available at the end of the Fiscal Year. Such information may be useful in evaluating a government's near-term financing requirements.

In particular, ***Unreserved Fund Balance*** may serve as a useful measure of a government's net resources available for spending at the end of the Fiscal Year.

It is useful to compare the information presented for *governmental funds* with similar information presented for *governmental activities* in the government-wide financial statements. By doing so, readers may better understand the long-term impact of the government's near-term financing decisions.

Both the governmental fund balance sheet and the governmental fund statement of revenues, expenditures, and changes in fund balances provide a reconciliation to facilitate this comparison between *governmental funds* and *governmental activities*.

In 2014, the Town of Paonia began maintaining five (5) individual governmental funds. Data from the five governmental funds are combined into a single, aggregated presentation.

Governmental fund statements are presented separately for revenues, expenditures, and changes in fund balances for the General Fund, Sales Tax Capital Improvement Fund, Conservation Trust Fund, Grant Project Fund, and the Sidewalk Fund. Each of the five is considered to be major funds of the Town.

Individual fund data for each of these five major governmental funds are provided in the form of the "***Combining Statements***" elsewhere in this report.

For the Town's Governmental Activities discussion, please refer to page 8 "Governmental Funds – Statement of Revenues, Expenditures and Changes in Fund Balances".

The Town's property tax rate at 8.322 mills has not increased in recent years. Largely through new construction and building improvements, the Town's total valuation has increased to \$12,291,143 as of December 31, 2015. This "Total Taxable Value" reflects an increase of \$114,849 for new construction from the total valuation of \$12,031,703 as of December 31, 2014.

Sales tax rates for the Town are unchanged (2%) year-over-year but Sales Tax revenues for the Town portion only (not including the Delta County Sales Tax) in 2015 were down approximately 2.7% over 2014 (2014: \$286,740, 2015: \$279,098).

**The Enterprise Funds (business-type activities) of the Town of Paonia include the:**

- 1. Water Fund:** The Town operates two water treatment facilities. The upper system, also known as the 2.0 Million Gallon (2MG) Water Treatment Plant (WTP) services mostly the out-of-town water companies and the northeast end of Town. The lower system, also known as the 1.0 Million Gallon

(1MG) Water Treatment Plant or commonly referred to as the “Clock Plant” services mostly Town proper. The primary sources of revenue are charges for service.

This fund is used to account for the revenues and expenses associated with the operations and maintenance of the water treatment and delivery (distribution) system. Also to be included in the charges for services or any rate consideration for this fund are the repayment of loans for the water treatment facilities and monies for capital re-investment to these systems.

## **2. Sanitation Fund:**

**a. Sewer:** The Town operates a Waste Water Treatment Plant (WWTP) and sanitary sewer collection system. The primary sources of revenue are charges for service. This fund is used to account for the revenues and expenses associated with the operations and maintenance of the waste water treatment plant and collections system.

Also to be included in the charges for services or any rate consideration for this fund are the repayment of loans for the waste water treatment plant facility and monies for capital re-investment to this system.

**b. Trash:** The Trash Fund is technically part of the Sewer Enterprise Fund. The Town budgets these activities individually to track both revenues and expenditures separately. The Trash Fund is used to account for revenues and expenses associated with the collection and disposal of trash for In-Town residents and businesses. Charges for the service are the only revenue source for this activity.

The Enterprise Funds are used to report the same functions presented as *business-type activities* in the government-wide financial statements. The Town of Paonia uses Enterprise Funds to account for its Water and Sanitation (Sewer and Trash) Funds.

Enterprise Funds provide the same type of information as the government-wide financial statements, only in more detail. The Enterprise Fund Financial Statements provide separate information for the Water and Sanitation (Sewer and Trash) Funds, all of which are considered to be major funds of the Town of Paonia.

**The Enterprise Fund Financial Statements can be found on pages 10 through 12 of this report.**

**Notes to the Financial Statements** 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 on pages 13 through 38 of this report.**

**Other information** is in addition to the basic financial statements and accompanying notes. This report also presents certain “*Required Supplementary Information*” concerning the Town of Paonia’s budgetary comparison schedules.

**Required Supplementary Information can be found on pages 39 through 45 of this report.**

The “Combining Statements” referred to earlier in connection with the major governmental funds are presented immediately following the required supplementary information.

**Combining Fund Statements can be found on pages 46 through 50 of this report.**

## FINANCIAL ANALYSIS FOR THE TOWN OF PAONIA AS A WHOLE

For this discussion, please refer to the “Statement of Activities” Primary Government on page 5.

During 2015, the Town took major steps toward achieving financial integrity, re-building trust with the community, evaluating levels of services, staffing considerations, and examining and managing debt through our rate structures and user fees/charges for services during a time of economic uncertainty given the decline of the mining industry to our region.

Town Management addressed the “Critical Cash Operating Concerns” during 2015 for the Town of Paonia that were indicated by the Town’s Auditors in the Fiscal Year 2014 Audit.

Additionally future financial planning considerations for sustainability into 2017 and beyond have also been discussed with the Town’s Auditors RubinBrown.

The FY’2014 Town Audit began the process of “righting the ship” specifically in regards to the restricted funds for the Samuel Wade Road and Bridge as provided for in the Intergovernmental Agreement with Delta County adopted on January 11, 2011. During 2015 monies were restored to this restricted fund.

**Statement of Net Position:** Net Position (Assets) for the Town as a whole increased from \$11,521,721 for FY’2014 to \$13,285,894 which is a \$1,697,202 increase from 2014 to 2015. **See pages 4, 5 and 11 as well as Note 17 of this report.**

At the end of the Fiscal Year 2015, the Town of Paonia’s Governmental Funds reported combined ending Fund Balances of \$1,175,020. A **negative** combined Unassigned Fund Balance of (\$523,002) exists for the Total Governmental Funds (General Fund). This **deficit** Fund Balance position means the Town has **no General Fund monies from fund balance available** for discretionary spending. Additionally, the Grant Projects Fund has monies owing “Due to Other Funds” (\$530,850) which are reflected in the Liabilities.

**Please refer to page 6 of the Financial Statements for further details.**

The remainder of the Governmental Funds Balances are **reserved, restricted, non-spendable and or committed** to indicate they are not available for new spending as they are previously committed for:

1. Non-spendable (\$578)
2. Restricted for the Reserve for Emergencies (\$17,324)
3. Restricted Parks and Recreation (\$10,902)
4. Restricted for the Samuel Wade Road and Bridge (\$600,000)
5. Restricted for Airport Capital Improvements (\$6,642)
6. Committed for Capital Acquisitions (\$1,044,778)
7. Committed for Sidewalk Improvements (\$17,798)

The General Fund is the chief operating fund of the Town of Paonia. At the end of FY’2015, **Unassigned Fund Balance** of the General Fund was (\$523,002), while Total 2015 Year-End Fund Balance for the General Fund is \$94,900.

The **surplus** of “Revenues over Expenditures” is a significant financial achievement in 2015 after several years of deficit fund balance conditions.

The Town of Paonia's **Enterprise Funds** provide the same type of information found in the Government-wide Financial Statements, but in more detail.

**Unrestricted Net Position (Assets) of the Enterprise Funds** at the end of the Fiscal Year 2015 is as follows:

1. Water Fund - \$3,192,209
2. Sanitation Fund - \$496,547

**Restricted Net Position (Assets) of the Enterprise Funds** at the end of FY'2015 is as follows:

1. Restricted for Water Storage - \$4,259
2. Restricted for Debt Service:
  - a. Water - \$0
  - b. Sanitation - \$91,078
3. Restricted for Water Maintenance - \$230,214

**The "Change in Net Position" (Assets) for the Enterprise Funds** is as follows:

1. Water Fund - **increase** of \$2,177,244
2. Sanitation Fund – **decrease** of \$83,091

The Town's Net Assets invested in capital assets has **increased** from \$7,748,736 in 2014 to \$9,858,071 in 2015. The difference is attributable to the Town's Fixed Assets Schedule by an increase for the Enterprise Funds (*business type activities*) Net Investments in Capital Assets due to new Long-term Liabilities (debt) for the Water System. During that same period, the Town's unrestricted net assets have **increased** to \$3,688,756.

The Town's cost of delivering services to our citizens is continually examined along with considerations for both efficiencies and reductions. Maintaining a high quality level of service delivery is the top priority shared by both the Town's Administration and Town Board as the governing body of the Town.

The Town's cash reserves in fiscal years prior to 2015 had created deficit positions for the General Fund and to a position that would not have provided for the Town to maintain operations for the Water and Sanitation Funds for a period longer than one to two months. Financial policies need to be considered by the Town Board which will build upon the progress achieved in 2015 to prevent any such condition from occurring in the future.

Investment in the Town's capital asset renewal and replacement has been severely constrained and the Town's basic infrastructure of streets, alleys, sidewalks, sewers, water mains, Town-owned facilities such as Town Hall, the Teen Center, Parks, tools and equipment used by the Town's workers are all showing major signs of age, lack of maintenance, and significant wear.

The Town is taking steps to make investment into capital projects in the Town's Water System (business-type operations) in 2016, 2017 and beyond not only due to the Drinking Water Enforcement Order issued by the State of Colorado Department of Public Health but for health and security reasons for the sustainable future of the community. The current initiatives will result in more than \$6.0 million of capital asset renewal and replacement in the Town Water System by 2017.

Other Town infrastructure particularly local streets needs to be addressed in similar capital improvement planning efforts without any governmental agency mandates.

Although the Town of Paonia has a 75% ownership position in the North Fork Valley Airport, the Airport is not reflected as a **Fixed Asset** of the Town of Paonia. The Town has by agreement with Delta County delegated all of the management, budgetary, financial, insurance, and oversight responsibilities. The Town remains financially committed to ongoing capital improvements in a cost sharing arrangement with Delta County.

The Town of Paonia must take a more pro-active involved role with Delta County in the management and oversight of the Airport. The Airport has potential as a beneficial economic development engine not only to the Town of Paonia but for all of the North Fork Valley.

## **CAPITAL ASSET AND DEBT ADMINISTRATION**

**Capital Assets** are the Town of Paonia's investment in capital assets for its governmental and business-type activities as of December 31, 2015, which for this fiscal year amounts to \$13,754,175 (Net of Accumulated Depreciation). This investment in capital assets includes land, buildings, construction in progress, improvements other than buildings, infrastructure, and equipment.

Major capital asset events during Fiscal Year 2015 included the continued capital improvement projects and upgrades to the Town's Water System in response to the State of Colorado Department of Public Health Drinking Water Enforcement Order.

Additional information on the Town of Paonia's **Capital Assets can be found in Note 12 on pages 36 through 39 of this report.**

In terms of **Debt Administration** the Town of Paonia has never to the best of Management's knowledge been rated by any agency for securing bonded indebtedness. The Town's total bond and other indebtedness at December 31, 2015 is \$5,729,697. For detailed **information on outstanding debt refer to Note 6, beginning on page 24 of this report.**

The Town of Paonia's total debt increased during 2015 as a result of the drawdowns from the loan proceeds from the Colorado Water Resources Power Development Authority (CWRPDA) for the Water System Improvements and Upgrades Projects.

The Town of Paonia has no General Obligation (pledged full-faith and credit of the Town) debt.

Additional information on the Town of Paonia's **Long-term Debt (Liabilities) can be found in Note 6 on pages 24 through 27 of this report.**

## **ECONOMIC FACTORS AND NEXT YEAR'S BUDGET AND RATES**

The Town of Paonia has historically been primarily mining and agricultural based economies. Mining was the major industry before the Federal government shifted policies and contracts to other coal providers resulting in the closing of several mining operations and massive layoffs of workers in the region. Given this uncertain economic environment, the Town of Paonia's Fiscal Year 2016 Budget maintains operating expenditures in line (balanced, not exceeding) with sources of revenues by re-evaluating services, reducing costs specifically personnel related costs, and performing modest capital improvements such as the sidewalk construction projects by utilizing funds maintained in reserve.

According to the State of Colorado Demographer's Office the population of the Town of Paonia increased to 1,656 in 2014. Population data for 2015 is not anticipated to be available until October 2016. From the

2014 data, Paonia is the only community in Delta County that has experienced population growth according to the State of Colorado Demographer's Office (DOLA).

The Real Property Tax Levy for the Fiscal Year ending December 31, 2015, generated \$99,967, a \$54 increase over 2014, the prior fiscal year.

Property Taxes - Statutory and Constitutional Limitations. Due to imposition of limitations on the mill levy and tax revenues through statutory and constitutional requirements, the mill levy has been reduced by a temporary tax credit over the last 11 years. In 2013 the Town approved a ballot issue removing the Town from the statutory property tax revenue limitations of CRS 29-1-301, et seq. (the "5.5%" **TABOR** limit commonly referred to as a "**De-Brucing**" measure), allowing the Town of Paonia to earn the entire mill levy of 8.322.

Approval by Town voters is required for an increase in the mill levy. Property tax revenues increase as a result of growth in the Town from new construction and annexations.

The Town increased water, sewer, and trash rates in December 2015 to avoid being unable to satisfy debt requirements, plan for any continued capital improvement, and have the funds remain financially solvent. The Town also increased numerous fees associated with the codification of the Town's Municipal Code in September 2015. All of these critical factors to increase rates were considered in advance of the Town of Paonia's Budget adoption for the year ending December 31, 2015.

## **REQUESTS FOR INFORMATION**

This financial report is designed to provide a general overview of the Town of Paonia's finances for all those with an interest in the Town government's finances. Questions concerning any of the information provided in this report or requests for additional financial information should be addressed to the Town Manager Jane Berry, Town of Paonia, 214 Grand Avenue, PO Box 460, Paonia, Colorado 81428, and Telephone: (970) 527-4101.

Respectfully Presented By:

Jane A. Berry, Town Manager



# TOWN OF PAONIA, COLORADO

## STATEMENT OF NET POSITION

December 31, 2015

	Governmental Activities	Business- Type Activities	Total
<b>Assets</b>			
Cash and cash equivalents	\$ 348,412	\$ 231,829	\$ 580,241
Investments (Note 5)	20,785	—	20,785
Restricted cash and investments (Note 10)	600,000	95,337	695,337
Property taxes receivable	103,000	—	103,000
Accounts receivable	9,011	125,196	134,207
Grants receivable	1,323,994	3,000,000	4,323,994
Due from other governments	32,286	—	32,286
Internal balances (Note 19)	(530,850)	530,850	—
Inventories	—	74,544	74,544
Capital assets (Note 12)			
Nondepreciable	246,481	3,430,562	3,677,043
Depreciable, net of accumulated depreciation	2,796,718	7,280,414	10,077,132
FPPA net pension asset (Note 8)	48,715	—	48,715
<b>Total Assets</b>	<b>4,998,552</b>	<b>14,768,732</b>	<b>19,767,284</b>
<b>Deferred Outflows Of Resources</b>			
FPPA pension (Note 8)	24,378	—	24,378
<b>Liabilities</b>			
Accounts payable	27,304	17,639	44,943
Accrued payroll liabilities	1,314	6,935	8,249
Accrued interest payable	—	18,875	18,875
Unearned other revenue	600,000	—	600,000
Noncurrent liabilities			
Due within one year (Note 6)	24,531	177,273	201,804
Due in more than one year (Note 6)	837,954	4,689,939	5,527,893
<b>Total Liabilities</b>	<b>1,491,103</b>	<b>4,910,661</b>	<b>6,401,764</b>
<b>Deferred Inflows Of Resources</b>			
FPPA pension (Note 8)	1,004	—	1,004
Deferred property tax revenue	103,000	—	103,000
<b>Total Deferred Inflows Of Resources</b>	<b>104,004</b>	<b>—</b>	<b>104,004</b>
<b>Net Position</b>			
Net investment in capital assets	2,198,391	5,843,764	8,042,155
Restricted for			
Emergencies (Note 3)	25,137	—	25,137
Parks and recreation	10,902	—	10,902
Bridge reserve (Note 10)	600,000	—	600,000
Airport capital improvements (Note 11)	33,333	—	33,333
Water utility maintenance (Note 6)	—	230,214	230,214
Water storage (Note 10)	—	4,259	4,259
Debt service (Notes 6 and 10)	—	91,078	91,078
Unrestricted	560,060	3,688,756	4,248,816
<b>Total Net Position</b>	<b>\$ 3,427,823</b>	<b>\$ 9,858,071</b>	<b>\$ 13,285,894</b>

# TOWN OF PAONIA, COLORADO

## STATEMENT OF ACTIVITIES For The Year Ended December 31, 2015

Functions/Programs	Expenses	Program Revenues			Net (Expense) Revenue And Changes In Net Position		
		Charges For Services And Fees	Operating Grants And Contributions	Capital Grants And Contributions	Primary Government		Total
					Governmental Activities	Business-Type Activities	
<b>Primary Government</b>							
<b>Governmental Activities</b>							
General government	\$ 286,712	\$ 16,221	\$ —	\$ 1,608,250	\$ 1,337,759	\$ —	\$ 1,337,759
Public safety	262,611	8,721	—	—	(253,890)	—	(253,890)
Public works	165,937	29,058	12,702	—	(124,177)	—	(124,177)
Culture and recreation	111,140	—	—	—	(111,140)	—	(111,140)
<b>Total Governmental Activities</b>	<b>826,400</b>	<b>54,000</b>	<b>12,702</b>	<b>1,608,250</b>	<b>848,552</b>	<b>—</b>	<b>848,552</b>
<b>Business-Type Activities</b>							
Water	618,328	648,474	—	76,733	—	106,879	106,879
Sanitation	590,096	522,478	—	—	—	(67,618)	(67,618)
<b>Total Business - Type Activities</b>	<b>1,208,424</b>	<b>1,170,952</b>	<b>—</b>	<b>76,733</b>	<b>—</b>	<b>39,261</b>	<b>39,261</b>
<b>Total Primary Government</b>	<b>\$ 2,034,824</b>	<b>\$ 1,224,952</b>	<b>\$ 12,702</b>	<b>\$ 1,684,983</b>	<b>848,552</b>	<b>39,261</b>	<b>887,813</b>
<b>General Revenues</b>							
<b>Taxes</b>							
Property taxes					99,967	—	99,967
Specific ownership					15,049	—	15,049
Sales taxes and miscellaneous					436,060	—	436,060
Franchise taxes					60,350	—	60,350
Miscellaneous					81,285	7,828	89,113
Severance tax					39,057	—	39,057
Mineral leasing					33,977	—	33,977
Investment earnings					10,119	2	10,121
Gain on sale of assets					25,695	—	25,695
Transfers					(2,047,092)	2,047,092	—
<b>Total General Revenues And Transfers</b>					<b>(1,245,533)</b>	<b>2,054,922</b>	<b>809,389</b>
<b>Changes In Net Position</b>					<b>(396,981)</b>	<b>2,094,183</b>	<b>1,697,202</b>
<b>Net Position - Beginning Of Year</b>					<b>3,757,833</b>	<b>7,763,888</b>	<b>11,521,721</b>
Prior period adjustment (Note 17)					66,971	—	66,971
Adjusted net position - beginning of year					3,824,804	7,763,888	11,588,692
<b>Net Position - End Of Year</b>					<b>\$ 3,427,823</b>	<b>\$ 9,858,071</b>	<b>\$ 13,285,894</b>

The accompanying notes are an integral part of this statement.

**TOWN OF PAONIA, COLORADO**  
**GOVERNMENTAL FUNDS - BALANCE SHEET**  
**December 31, 2015**

	Assets						Total Governmental Funds
	General Fund	Sales Tax Capital Improvement Fund	Conservation Trust Fund	Grant Project Fund	Sidewalk Fund		
<b>Assets</b>							
Cash and cash equivalents	\$ 58,056	\$ 262,295	\$ 10,902	\$ —	\$ 17,159	\$	348,412
Restricted cash and investments	600,000	—	—	—	—	\$	600,000
Investments	20,785	—	—	—	—	\$	20,785
Taxes receivable	103,000	—	—	—	—	\$	103,000
Due from other governments	21,660	10,626	—	—	—	\$	32,286
Prepaid payroll taxes	578	—	—	—	—	\$	578
Grant receivable	—	—	—	1,323,994	—	\$	1,323,994
Accounts receivable	8,372	—	—	—	639	\$	9,011
<b>Total Assets</b>	<b>\$ 812,451</b>	<b>\$ 272,921</b>	<b>\$ 10,902</b>	<b>\$ 1,323,994</b>	<b>\$ 17,798</b>	<b>\$</b>	<b>2,438,066</b>

**Liabilities, Deferred Inflows Of Resources And Fund Balance**

<b>Liabilities</b>							
Accounts payable	\$ 14,551	\$ 2,596	\$ —	\$ 10,157	\$ —	\$	27,304
Accrued payroll liabilities	—	—	—	1,892	—	\$	1,892
Due to other funds	—	—	—	530,850	—	\$	530,850
Unearned revenue bridge agreement	600,000	—	—	—	—	\$	600,000
<b>Total Liabilities</b>	<b>614,551</b>	<b>2,596</b>	<b>—</b>	<b>542,899</b>	<b>—</b>	<b>\$</b>	<b>1,160,046</b>

**Deferred Inflows Of Resources**

Deferred property tax revenue	103,000	—	—	—	—	\$	103,000
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**Fund Balances**

Nonspendable	578	—	—	—	—	\$	578
Restricted							
Reserve for emergencies	25,137	—	—	—	—	\$	25,137
Parks and recreation	—	—	10,902	—	—	\$	10,902
Bridge reserve	600,000	—	—	—	—	\$	600,000
Airport capital improvements	—	33,333	—	—	—	\$	33,333
Committed - capital acquisition	—	236,992	—	781,095	—	\$	1,018,087
Committed - sidewalk improvement	—	—	—	—	17,798	\$	17,798
Unassigned	(530,815)	—	—	—	—	\$	(530,815)
<b>Total Fund Balance</b>	<b>94,900</b>	<b>270,325</b>	<b>10,902</b>	<b>781,095</b>	<b>17,798</b>	<b>\$</b>	<b>1,175,020</b>

**Total Liabilities, Deferred Inflows**

<b>Of Resources And Fund Balance</b>	<b>\$ 812,451</b>	<b>\$ 272,921</b>	<b>\$ 10,902</b>	<b>\$ 1,323,994</b>	<b>\$ 17,798</b>	<b>\$</b>	<b>2,438,066</b>
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# TOWN OF PAONIA, COLORADO

## RECONCILIATION OF THE GOVERNMENTAL FUNDS BALANCE SHEET TO THE STATEMENT OF NET POSITION December 31 2015

**Total Fund Balance - Governmental Funds** \$ 1,175,020

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

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

Governmental capital assets	\$ 4,460,627	
Less: Accumulated depreciation	(1,417,428)	3,043,199

Long-term asset not reported in the funds. This asset is the net pension asset. 48,715

Deferred outflows of resources related to pensions are applicable in future periods, and, therefore, are not reported in the funds. Deferred outflows of resources are related to the difference between projected and actual earnings on pension investments and the difference between contributions and proportionate share of contributions. 24,378

Deferred inflow of resources related to pensions are applicable in future periods, and, therefore, are not reported in the funds. Deferred inflows of resources are related to the difference between expected and actual experience. (1,004)

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

Compensated absences	(17,677)	
Line of credit	(779,500)	
Capital lease payable	(65,308)	(862,485)

**Net Position Of Governmental Activities In The Statement Of Net Position** \$ 3,427,823

# TOWN OF PAONIA, COLORADO

## GOVERNMENTAL FUNDS - STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCES For The Year Ended December 31, 2015

	General Fund	Sales Tax Capital Improvement Fund	Conser- ation Trust Fund	Grant Project Fund	Sidewalk Fund	Total Govern- mental Funds
<b>Revenues</b>						
Taxes	\$ 415,729	\$ 139,520	\$ 7,529	\$ —	\$ —	\$ 562,778
Fees and fines	8,721	—	—	—	29,058	37,779
Licenses and permits	16,221	—	—	—	—	16,221
Intergovernmental	134,183	—	—	1,608,250	—	1,742,433
Miscellaneous	83,953	7,650	3	—	—	91,606
<b>Total Revenues</b>	<b>658,807</b>	<b>147,170</b>	<b>7,532</b>	<b>1,608,250</b>	<b>29,058</b>	<b>2,450,817</b>
<b>Expenditures</b>						
Current						
General government	150,546	33,177	—	91,241	755	275,719
Public safety	249,577	—	—	—	—	249,577
Public works	97,331	—	—	—	—	97,331
Culture and recreation	64,555	—	—	—	—	64,555
Capital outlay	—	—	—	—	38,834	38,834
<b>Total Expenditures</b>	<b>562,009</b>	<b>33,177</b>	<b>—</b>	<b>91,241</b>	<b>39,589</b>	<b>726,016</b>
<b>Excess (Deficiency) Of Revenues Over (Under) Expenditures</b>	<b>96,798</b>	<b>113,993</b>	<b>7,532</b>	<b>1,517,009</b>	<b>(10,531)</b>	<b>1,724,801</b>
<b>Other Financing Sources (Uses)</b>						
Transfers in	—	15,000	—	519,477	—	534,477
Transfers out	(15,473)	—	—	(2,566,096)	—	(2,581,569)
Payment of principal on capital lease	—	(18,683)	—	—	—	(18,683)
Proceeds from line of credit	—	—	—	779,500	—	779,500
Proceeds from sale of assets	30,137	—	—	—	—	30,137
<b>Total Other Financing Sources (Uses)</b>	<b>14,664</b>	<b>(3,683)</b>	<b>—</b>	<b>(1,267,119)</b>	<b>—</b>	<b>(1,256,138)</b>
<b>Net Change To Fund Balance</b>	<b>111,462</b>	<b>110,310</b>	<b>7,532</b>	<b>249,890</b>	<b>(10,531)</b>	<b>468,663</b>
<b>Fund Balance, January 1</b>	<b>(16,562)</b>	<b>160,015</b>	<b>3,370</b>	<b>531,205</b>	<b>28,329</b>	<b>706,357</b>
<b>Fund Balance, December 31</b>	<b>\$ 94,900</b>	<b>\$ 270,325</b>	<b>\$ 10,902</b>	<b>\$ 781,095</b>	<b>\$ 17,798</b>	<b>\$ 1,175,020</b>

## TOWN OF PAONIA, COLORADO

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### RECONCILIATION OF THE GOVERNMENTAL FUNDS STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCES TO THE STATEMENT OF ACTIVITIES For The Year Ended December 31, 2015

**Net Changes In Fund Balances - Total Governmental Funds** \$ 468,663

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

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

Capital assets current additions	\$ 38,834	
Depreciation expense	(149,221)	
Excess of depreciation over capital outlay		(110,387)

Proceeds from the line of credit are current resources in the funds. However, these proceeds increase liabilities on the government-wide statement of net position and have no affect on the statement of activities.

(779,500)

Gains on disposals of assets are reported in the statement of activities, but proceeds from the sale of assets are reported in the governmental funds.

Gain on disposal of assets (4,443)

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 government funds. This is the change in net pension expense.

5,118

Payments of principle on capital leases are reported as expenditures in the governmental funds when actually paid. However, on the government-wide statement of net position, principle payments are recorded as a decrease in liability, and there is no effect on the statement of activities.

18,683

Payments of compensated absences are reported as expenditures in the governmental funds when actually paid. However, on the government-wide statement of activities, compensated absences are expensed as they are accrued. Changes in the compensated absences liability are a reconciling item.

4,885

**Changes In Net Position Of Governmental Funds** \$ (396,981)

# TOWN OF PAONIA, COLORADO

## STATEMENT OF NET POSITION - ENTERPRISE FUNDS

December 31, 2015

	Enterprise Funds		
	Water Fund	Sanitation Fund	Total Enterprise Funds
<b>Assets</b>			
<b>Current Assets</b>			
Cash and cash equivalents	\$ 165,976	\$ 65,853	\$ 231,829
Restricted cash	4,259	91,078	95,337
Accounts receivable, net	67,207	57,989	125,196
Grant receivable	3,000,000	—	3,000,000
Due from other funds	151,367	379,483	530,850
Inventories	70,316	4,228	74,544
<b>Total Current Assets</b>	3,459,125	598,631	4,057,756
<b>Capital Assets</b>			
Land and improvements	269,777	564,380	834,157
Construction in progress	2,596,405	—	2,596,405
Utility system	5,948,967	5,095,752	11,044,719
Equipment and furniture	187,506	215,492	402,998
Less: Accumulated depreciation	(2,812,818)	(1,354,485)	(4,167,303)
<b>Total Capital Assets</b>	6,189,837	4,521,139	10,710,976
<b>Total Assets</b>	9,648,962	5,119,770	14,768,732
<b>Liabilities</b>			
<b>Current Liabilities</b>			
Accounts payable	12,577	5,062	17,639
Accrued payroll liabilities	3,443	3,492	6,935
Accrued interest payable	16,423	2,452	18,875
Current portion of long-term debt	150,534	26,739	177,273
<b>Total Current Liabilities</b>	182,977	37,745	220,722
<b>Long-Term Debt</b>	3,011,750	1,678,189	4,689,939
<b>Total Liabilities</b>	3,194,727	1,715,934	4,910,661
<b>Net Position</b>			
Net investment in capital assets	3,027,553	2,816,211	5,843,764
Restricted for water storage	4,259	—	4,259
Restricted for debt service	—	91,078	91,078
Restricted for water maintenance	230,214	—	230,214
Unrestricted	3,192,209	496,547	3,688,756
<b>Total Net Position</b>	\$ 6,454,235	\$ 3,403,836	\$ 9,858,071

# TOWN OF PAONIA, COLORADO

## STATEMENT OF REVENUES, EXPENSES AND CHANGES IN FUND NET POSITION - ENTERPRISE FUNDS For The Year Ended December 31, 2015

	Enterprise Funds		
	Water Fund	Sanitation Fund	Total
<b>Operating Revenues</b>			
Charges for services	\$ 648,474	\$ 522,478	\$ 1,170,952
<b>Operating Expenses</b>			
Personal services	207,108	202,353	409,461
Contractual services	15,750	46,242	61,992
Utilities	11,592	51,283	62,875
Repairs and maintenance	118,221	51,479	169,700
Other supplies and expenses	23,932	44,434	68,366
Insurance claims and expenses	14,542	9,362	23,904
Depreciation	177,976	109,508	287,484
<b>Total Operating Expenses</b>	<b>569,121</b>	<b>514,661</b>	<b>1,083,782</b>
<b>Operating Income</b>	<b>79,353</b>	<b>7,817</b>	<b>87,170</b>
<b>Nonoperating Revenues (Expenses)</b>			
Interest income	2	—	2
Interest expense	(49,207)	(75,435)	(124,642)
Miscellaneous revenue	7,828	—	7,828
<b>Total Nonoperating (Expenses)</b>	<b>(41,377)</b>	<b>(75,435)</b>	<b>(116,812)</b>
<b>Income (Loss) Before Transfers And Capital Contributions</b>	<b>37,976</b>	<b>(67,618)</b>	<b>(29,642)</b>
<b>Transfers In</b>	<b>2,566,096</b>	<b>—</b>	<b>2,566,096</b>
<b>Transfers Out</b>	<b>(503,531)</b>	<b>(15,473)</b>	<b>(519,004)</b>
<b>Capital Contributions</b>	<b>76,733</b>	<b>—</b>	<b>76,733</b>
<b>Change In Net Position</b>	<b>2,177,274</b>	<b>(83,091)</b>	<b>2,094,183</b>
<b>Total Net Position - Beginning Of Year</b>	<b>4,276,961</b>	<b>3,486,927</b>	<b>7,763,888</b>
<b>Total Net Position - End Of Year</b>	<b>\$ 6,454,235</b>	<b>\$ 3,403,836</b>	<b>\$ 9,858,071</b>



# TOWN OF PAONIA, COLORADO

## STATEMENT OF CASH FLOWS - ENTERPRISE FUNDS For The Year Ended December 31, 2015

	Water Fund	Sanitation Fund	Total Enterprise Funds
<b>Cash Flows From Operating Activities</b>			
Cash received from charges for services	\$ 631,825	\$ 513,720	\$ 1,145,545
Cash payments for goods and services	(147,680)	(199,661)	(347,341)
Cash payments to employees for services	(203,665)	(203,957)	(407,622)
<b>Net Cash Provided By Operating Activities</b>	<b>280,480</b>	<b>110,102</b>	<b>390,582</b>
<b>Cash Flows From Noncapital Financing Activities</b>			
Transfers in	2,566,096	—	2,566,096
Transfers out	(503,531)	(15,473)	(519,004)
Due from other funds	259,797	(379,483)	(119,686)
Miscellaneous revenues	7,828	—	7,828
<b>Net Cash Provided By (Used In) Noncapital Financing Activities</b>	<b>2,330,190</b>	<b>(394,956)</b>	<b>1,935,234</b>
<b>Cash Flows From Capital And Related Financing Activities</b>			
Acquisition of capital assets	(2,566,096)	—	(2,566,096)
Issuance of debt	—	—	—
Principal paid on loans and leases	(148,840)	(25,611)	(174,451)
Interest expense	(52,935)	(75,434)	(128,369)
<b>Net Cash Used In Capital And Related Financing Activities</b>	<b>(2,767,871)</b>	<b>(101,045)</b>	<b>(2,868,916)</b>
<b>Cash Flows From Investing Activities</b>			
Interest on investments	2	—	2
<b>Net Decrease In Cash And Equivalent</b>	<b>(157,199)</b>	<b>(385,899)</b>	<b>(543,098)</b>
<b>Cash Balances - Beginning Of Year</b>	<b>327,434</b>	<b>542,830</b>	<b>870,264</b>
<b>Cash Balances - End Of Year</b>	<b>\$ 170,235</b>	<b>\$ 156,931</b>	<b>\$ 327,166</b>
<b>Cash Provided By (Used In) Operating Activities</b>			
Operating income	\$ 79,353	\$ 7,817	\$ 87,170
Adjustments to reconcile operating income to net cash provided by operating activities:			
Depreciation expense	177,976	109,508	287,484
Assets (increase) decrease			
Accounts receivable	(16,648)	(8,758)	(25,406)
Inventory	31,466	1,664	33,130
Liabilities increase (decrease)			
Accounts payable	8,995	1,512	10,507
Accrued payroll liabilities	3,443	(1,604)	1,839
Accrued interest payable	(4,105)	(37)	(4,142)
<b>Total Adjustments</b>	<b>201,127</b>	<b>102,285</b>	<b>303,412</b>
<b>Net Cash Provided By Operating Activities</b>	<b>\$ 280,480</b>	<b>\$ 110,102</b>	<b>\$ 390,582</b>
<b>Schedule Of Noncash Capital and Financing Activities</b>			
Capital contributions	\$ 76,733	\$ —	\$ 76,733

# TOWN OF PAONIA, COLORADO

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## NOTES TO BASIC FINANCIAL STATEMENTS

December 31, 2015

### 1. Summary Of Significant Accounting Policies

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

The Town's significant accounting policies are described below:

#### **Financial Reporting Entity**

The Town is a statutory municipality with a mayor - council form of government with six trustees and one separately elected mayor serving as elected Town Board of Trustees (the Town Board) members. The Town manager is an appointed position of the Town. As required by GAAP, these financial statements present the Town's (the primary government) financial position. The Town has no oversight responsibility for any other governmental entity since no other entities are considered to be controlled by or dependent on the Town. Control or dependence is determined on the basis of budget adoption, taxing authority, funding and appointment of the respective governing body.

#### **Government-Wide Financial Statements**

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

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

## TOWN OF PAONIA, COLORADO

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### Notes To Basic Financial Statements (*Continued*)

#### **Fund Financial Statements**

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

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

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

The Town reports the following major governmental funds:

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

## TOWN OF PAONIA, COLORADO

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### Notes To Basic Financial Statements (*Continued*)

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

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

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

#### **Measurement Focus And Basis Of Accounting**

The government-wide financial statements are reported using the economic resources measurement focus and the accrual basis of accounting, as are the enterprise fund financial statements. Revenues are recorded when earned, and expenses are recorded when a liability is incurred, regardless of the timing of related cash flows. Property taxes are recognized as revenues in the year for which they are levied. Grants and similar items are recognized as revenue as soon as all eligibility requirements imposed by the provider have been met.

The modified accrual basis of accounting is used by all governmental funds. Under the modified accrual basis of accounting, revenues are recognized when susceptible to accrual (i.e., when they become both measurable and available). "Measurable" means the amount of the transaction can be determined, and "available" means collectible within the current period or soon enough thereafter to be used to pay liabilities of the current period. For the Town, "available" means collected within 60 days of year end. Expenditures are recorded when the related fund liability is incurred. Exceptions to this general rule include principal and interest on general long-term debt, which is recognized when due, and compensated absences, which are recognized when the obligations are expected to be liquidated with expendable available resources.

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

## **TOWN OF PAONIA, COLORADO**

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### Notes To Basic Financial Statements (*Continued*)

#### **Deferred Outflows/Inflows Of Resources**

In addition to liabilities, the statement of financial position reports a separate section for deferred inflows of resources. This separate financial statement element, deferred inflows of resources, represents an acquisition of net position that applies to a future period(s) and so will not be recognized as an inflow of resources (revenue) until that time. The Town reports deferred property tax revenue, which arises under both the full accrual (government-wide financial statement) and the modified accrual (fund financial statement) bases of accounting, that qualified for reporting in this category. Accordingly, the deferred property taxes are reported in both the statement of net position and in the balance sheet of governmental funds. These future revenues are deferred and recognized as an inflow of resources in the period that the amounts become available (calendar year 2016). The Town has recognized deferred inflows of resources in the government-wide financial statements in accordance with presentation requirements for GASB Statement No. 68, *Accounting and Financial Reporting for Pensions - An Amendment of GASB Statement No. 27* (GASB 68) and GASB Statement No. 71, *Pension Transition for Contributions Made Subsequent to the Measurement Date - an Amendment of GASB Statement No. 68* (GASB 71).

In addition to assets, the statement of net position will sometimes report a separate section for deferred outflows of resources. This separate financial statement element, deferred outflows of resources, represents a consumption of net position that applies to a future period(s) and so will not be recognized as an outflow of resources (expense/expenditure) until that time. The Town has recognized deferred outflows of resources in the government-wide financial statements in accordance with presentation requirements for GASB 68 and GASB 71.

#### **Cash And Cash Equivalents**

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

#### **Use Of Estimates**

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

## TOWN OF PAONIA, COLORADO

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### Notes To Basic Financial Statements (*Continued*)

#### **Property Taxes**

Property taxes for the current year are levied and attach as a lien on property the following January 1. They are payable in full by April 30 or in two equal installments due February 28 and June 15. Property taxes levied in the current year and collected in the following year are reported as a receivable and as deferred inflows of resources at December 31.

#### **Capital Assets**

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

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

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

<u>Asset Class</u>	<u>Useful Life</u>
Building and other improvements	25 - 40 years
Water and sewer systems	15 - 40 years
Furniture and equipment	5 - 10 years
Infrastructure	15 - 40 years

Public domain assets consisting of roads, bridges, curbs and gutters, streets and sidewalks, drainage systems and lighting systems are examples of infrastructure assets. Infrastructure assets are distinguished from other capitalized assets as their useful lives often extend beyond most other capital assets, and they are stationary in nature. General infrastructure assets are those associated with or arising from governmental activities.

## **TOWN OF PAONIA, COLORADO**

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### Notes To Basic Financial Statements (*Continued*)

#### **Long-Term Liabilities**

In the government-wide financial statements and enterprise fund types in the fund financial statements, long-term debt and other long-term obligations are reported as liabilities in the applicable governmental activities, business-type activities or enterprise fund type statement of net position. The long-term compensated absences are serviced from revenues of the General Fund from future appropriations. No interest costs were capitalized in 2015.

#### **Compensated Absences**

Vacation time is accumulated at the rate of 10 days a year for employees with 1 to 10 years of service. After 10 years of service, 15 days per year is the rate; and for 15 years of service and after, 20 days per year is the rate, with a maximum accumulation of vacation time of 96 hours. Unused vacation time is paid out to employees at 50% of their salaried rates up to the maximum allowed. Sick leave accumulates at 12 days per year with a maximum unused sick leave accumulated at 320 hours. Sick leave will be paid at a rate of 25% of pay upon termination.

#### **Net Position**

Net position represents the difference between assets, deferred outflows of resources, liabilities and deferred inflows of resources. Net investment in capital assets consists of capital assets, net of accumulated depreciation, 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 its use either through the enabling legislation adopted by the Town or through external restrictions imposed by creditors, grantors or laws or regulations of other governments. All other net position is reported as unrestricted. The Town applies restricted resources first when an expense is incurred for purposes for which both restricted and unrestricted net position is available.

#### **Interfund Transactions**

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

## TOWN OF PAONIA, COLORADO

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### Notes To Basic Financial Statements (*Continued*)

#### **Inventory**

Inventory is valued at the lower of cost (first-in, first-out) or market.

#### **Police Officers Pension Plan**

Eligible police officers of the Town are provided with pensions through the Statewide Defined Benefit Plan (SWDBP), a cost-sharing multi-employer defined benefit pension plan administered by the Fire & Police Pension Association of Colorado (FPPA). For the purposes of measuring the net pension liability, deferred outflows of resources and deferred inflows of resources related to pension and pension expense, information about the fiduciary net position of the SWDBP plan and additions to/deductions from fiduciary net position have been determined on the same basis as they are reported by FPPA. For this purpose, benefit payments (including refunds of employee contributions) are recognized when due and payable in accordance with the benefit terms. Investments are reported at fair value.

#### **Fund Balance**

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

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



## **TOWN OF PAONIA, COLORADO**

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### Notes To Basic Financial Statements (*Continued*)

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

## **2. Reconciliation Of Government-Wide And Fund Financial Statements**

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

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

## **3. Tax, Spending And Debt Limitations**

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

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

## **TOWN OF PAONIA, COLORADO**

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### Notes To Basic Financial Statements (*Continued*)

The Amendment requires that an emergency reserve be maintained at 3% of fiscal year spending. A portion of the General Fund's fund balance is classified as restricted for emergencies as required by the Amendment. The amount restricted at December 31, 2015 was \$25,137.

#### **4. Budgets**

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

- By mid-August of each year, the Town Manager, as the Budget Officer, gives public notice of the budget calendar for the next fiscal year. The Town Manager asks that all Town departments, boards, commissions or citizens submit, within 30 days from the notice, any request for funds under the budget being prepared. The Town Manager, with assistance from the Town Finance Officer, then prepares a proposed budget for the ensuing fiscal year and submits it to the Town Board no later than 45 days prior to any date required by state law for the certification to Delta County (the County) of the tax levy.
- The budget provides a complete financial plan of all Town funds and activities for the ensuing fiscal year indicating anticipated revenues, proposed operating and capital expenditures, a provision for contingencies and anticipated net surplus or deficit for the ensuing fiscal year.
- A public hearing on the proposed budget is held by the Town Board by no later than early December.
- The Town Board adopts the budget by resolution on or before the final day established by law for the certification of the ensuing year's tax levy to the County. Adoption of the budget by the Town Board shall constitute appropriations of the amounts specified therein as expenditures from the funds indicated and shall constitute a levy of the property tax therein proposed.

## **TOWN OF PAONIA, COLORADO**

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### Notes To Basic Financial Statements (*Continued*)

- If, during the fiscal year, the Town Manager and the Town Finance Officer determine that there are expenses in excess of those estimated in the budget, the Town Board by resolution may make supplemental appropriations for the year up to the amount of such excess. To meet an emergency affecting public property, health, peace or safety, the Town Board may make emergency appropriations. If, at any time during the fiscal year, it appears probable to the Town Manager and Town Finance Officer that the revenues available will be insufficient to meet the amount appropriated, the Town Manager reports to the Town Board, indicating the estimated amount of deficit, any remedial action already taken and a recommendation as to any other steps to be taken. At any time during the fiscal year, the Town Manager, as Budget Officer, may transfer part or all of any unencumbered appropriation balance within a department.
- Budget appropriations lapse at the end of each year.
- Expenditures may not exceed appropriations at the fund level. Budget amounts included in the financial statements are based on the final amended budget.
- Budgets for governmental funds are adopted on a basis consistent with GAAP, except for long-term receivables and advances and capital lease financing, which are budgeted when liquidated rather than when the receivable/liability is incurred. Budgets for enterprise funds are adopted on a basis consistent with the spending measurement focus of the governmental funds.

## **5. Deposits And Investments**

### **Deposits**

The Colorado Public Deposit Protection Act (PDPA) requires that all units of local government deposit cash in eligible public depositories. Eligibility is determined by state regulators. Amounts on deposit in excess of federal insurance levels must be collateralized. The eligible collateral is determined by PDPA. PDPA allows the institution to create a single collateral pool for all public funds. The pool is to be maintained by another institution or held in trust for all the uninsured public deposits as a group.

The market value of the collateral must be at least equal to 102% of the aggregate uninsured deposits. Collateral in the pool is considered to be equal to depository insurance pursuant to definitions listed in GASB Statement No. 40.

## TOWN OF PAONIA, COLORADO

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### Notes To Basic Financial Statements (*Continued*)

At December 31, 2015, the bank balance of the Town's deposits was \$1,381,641, of which \$500,000 was covered by federal depository insurance and \$881,641 was collateralized under PDPA.

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

Investments in First Financial Equity Corporation at December 31, 2015 are as follows:

	<u>Rating</u>	<u>Fair Value</u>
FHLB STEP CPN	AA+	\$ 167,481
FHLB STEP CPN	AA+	170,022
Money market account	Unrated	2,106
<b>Total</b>		<b>\$ 339,609</b>

*Interest Rate Risk* - The Town does not have a formal policy limiting investment maturities which would help manage its exposure to fair value losses from increasing interest rates, other than the five-year policy established by state statute.

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

*Custodial Credit Risk* - For an investment, custodial credit risk is the risk that, in the event of the failure of the counterparty, the Town will not be able to recover the value of its investment or collateral securities that are in the possession of an outside party. The Town follows Colorado State Statutes for investing. The Town's investment policy does not specifically address this risk.

## TOWN OF PAONIA, COLORADO

### Notes To Basic Financial Statements (Continued)

The Town maintains a cash pool that is available to the General Fund, special revenue funds and enterprise funds.

<b>Cash And Investments</b>	
Cash on hand	\$ 176
Cash with County Treasurer	1,446
Deposits	955,132
Investments	
First Financial Equity Corporation	<u>339,609</u>
<b>Total</b>	<b><u>\$ 1,296,363</u></b>

<b>Cash And Investments</b>	
Cash and cash equivalents	\$ 580,241
Investments	20,785
Restricted cash and investments	<u>695,337</u>
<b>Total</b>	<b><u>\$ 1,296,363</u></b>

## 6. Long-Term Liabilities

	<b>Balance</b>			<b>Balance</b>	<b>Due</b>
	<b>January 1,</b>	<b>Additions</b>	<b>Reductions</b>	<b>December 31,</b>	<b>Within</b>
	<b>2015</b>			<b>2015</b>	<b>One Year</b>
<b>Governmental Activities</b>					
Compensated absences	\$ 22,562	\$ 17,677	\$ 22,562	\$ 17,677	\$ 8,411
Capital lease equipment	83,991	—	18,683	65,308	16,120
Line of credit	—	779,500	—	779,500	—
<b>Total</b>	<b>\$ 106,553</b>	<b>\$ 797,177</b>	<b>\$ 41,245</b>	<b>\$ 862,485</b>	<b>\$ 24,531</b>
<b>Business-Type Activities</b>					
RUS loan	\$ 1,730,539	\$ —	\$ 25,611	\$ 1,704,928	\$ 26,739
Loan - WPA	2,988,695	—	129,418	2,859,277	130,792
Premium - WPA	24,624	—	1,211	23,413	1,211
Loan - CWRPDA	297,805	—	18,211	279,594	18,531
<b>Total</b>	<b>\$ 5,041,663</b>	<b>\$ —</b>	<b>\$ 174,451</b>	<b>\$ 4,867,212</b>	<b>\$ 177,273</b>

## TOWN OF PAONIA, COLORADO

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### Notes To Basic Financial Statements (Continued)

#### RUS Loan Payable

The Town has an obligation to the U.S. Department of Agriculture's Rural Utilities Service (RUS) bearing interest at 4.375%. The bonds are payable in semi-annual installments of \$50,521, including interest, and are collateralized by the sewer system's pledged revenues through 2046, which is approximately \$3,250,000. Pledged revenues received amounted to \$101,042 during the year. The proportion of the pledged revenue to total sewer revenue is not estimable because annual total fees collected fluctuate. The purpose of the bonds was for construction improvements to the wastewater treatment plant and collection system. Principal and interest payments for the years following December 31, 2015 are as follows:

	<u>Principal</u>	<u>Interest</u>
2016	\$ 26,739	\$ 74,303
2017	27,922	73,120
2018	29,157	71,885
2019	30,446	70,596
2020	31,793	69,249
2021 - 2025	181,343	323,867
2026 - 2030	225,154	280,056
2031 - 2035	279,548	225,662
2036 - 2040	347,084	158,126
2041 - 2045	430,936	74,274
2046	94,806	3,089
<b>Total</b>	<b>\$ 1,704,928</b>	<b>\$ 1,424,227</b>

This loan requires a debt service reserve. See Note 10 for more information on this requirement.

#### CWRPDA Loan

The Town has a loan agreement with the Colorado Water Resources and Power Development Authority (CWRPDA) which originally enabled the Town to borrow up to \$448,200 at 1.75% interest annually, with payments of \$23,343 per year. The purpose of the loan was for upgrades to the lower water treatment plant. The project was completed in 2011, and the Town is no longer able to draw on the loan agreement. The Town pledged its net revenue from the operation of the water utility for repayment of the loan in the amount of approximately \$338,000 through 2029. Pledge revenues received during 2015 were \$23,343. The proportion of the pledged revenue to total related revenues is not estimable because annual total fees collected fluctuate. The Town is required to provide rates and charges in order to maintain coverage of 110% of the debt service due on the governmental agency bond coming due in each calendar year.

## TOWN OF PAONIA, COLORADO

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### Notes To Basic Financial Statements (*Continued*)

As of December 31, 2015, the Town borrowed \$395,969, of which the Town has made principal payments of \$116,375 with a remaining loan balance of \$279,594. Principal and interest payments for the years following December 31, 2015 are as follows:

	<u>Principal</u>	<u>Interest</u>
2016	\$ 18,531	\$ 4,812
2017	18,857	4,486
2018	19,188	4,155
2019	19,526	3,818
2020	19,869	3,475
2021 - 2025	104,707	12,010
2026 - 2029	78,916	2,785
<b>Total</b>	<b>\$ 279,594</b>	<b>\$ 35,541</b>

#### **WPA Loan**

The Town has a loan agreement with CWRPDA for \$2,996,494 at 1.75% interest annually, with twice yearly payments ranging from about \$83,000 to \$91,000. The purpose of the loan is for improvements and the expansion of existing water treatment facilities, including construction of a new water storage tank and rehabilitation of an existing water storage tank. The Town pledged its net revenue from the operation of the water utility for repayment of the loan in the amount of approximately \$3,707,000 through 2035. Pledge revenues received during 2015 were \$173,494. The proportion of the pledged revenue to total related revenues is not estimable because annual total fees collected fluctuate. The Town is required to provide rates and charges in order to maintain coverage of 110% of the debt service due on the governmental agency bond coming due in each calendar year. Principal and interest payments for the years following December 31, 2015 are as follows:

	<u>Principal</u>	<u>Interest</u>
2016	\$ 130,792	\$ 49,268
2017	132,512	48,468
2018	133,886	47,268
2019	127,806	46,068
2020	128,838	45,018
2021 - 2025	661,721	209,342
2026 - 2030	719,256	164,963
2031 - 2035	824,466	63,797
<b>Total</b>	<b>\$ 2,859,277</b>	<b>\$ 674,192</b>

## TOWN OF PAONIA, COLORADO

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### Notes To Basic Financial Statements (*Continued*)

The loan balance includes a premium of \$25,431, which will be amortized over the life of the loan on a straight-line basis. Yearly amortization will be \$1,211. The remaining premium balance is \$23,413 as of December 31, 2015.

The agreement states that the Town must maintain an operation and maintenance reserve in an amount equal to three months of operating expense, excluding depreciation of the water utility system, as set forth in the annual budget. At no time should the budget reserve be greater than \$1,250,000. As of December 31, 2015, the Town's budgeted reserve was \$230,214.

#### **Line of Credit**

The Town also has two working capital lines of credit, with total draws of \$779,500 having a maturity date of October 29, 2016 for one line of credit and a maturity date of June 15, 2017 for the other line of credit. For both lines of credit, there is a 1.8% interest rate and a minimum interest charge of \$50.

## **7. Lease Agreements**

The Town has entered into three capital lease commitments effective May and June 2014 in order to acquire public safety and public works vehicles and equipment. Monthly payments on the capital leases range from approximately \$550 to \$700 per lease. All leases are for 60 months, with maturity dates in May and June 2019. Future minimum lease obligations as of December 31, 2015 are as follows:

2016	\$	17,961
2017		21,552
2018		21,552
2019		8,430
Total		69,495
Less: Amount representing interest		4,187
		<u>65,308</u>
<b>Present Value Of Minimum</b>		
<b>Future Lease Payments</b>	<b>\$</b>	<b><u>65,308</u></b>



## TOWN OF PAONIA, COLORADO

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### Notes To Basic Financial Statements (*Continued*)

These capital leases represent agreements for certain capital assets, which have been included as governmental activities assets. Amortization is included in depreciation.

Vehicles	\$ 98,000
Accumulated amortization	<u>(23,690)</u>
<b>Net Capitalized Leases Equipment</b>	<b><u><u>\$ 74,310</u></u></b>

## 8. Employee Benefit Plans

### Defined Contribution Pension Plan

The Town provides pension benefits for all its employees through a defined contribution plan through Mutual of Omaha. In May 2014, the Town changed its 401(b) plan through Dreyfus Company to a defined contribution 457(b) plan through Mutual of Omaha.

The Town contributes 5%, and there are no matching requirements for the employees. Total contributions in 2015, 2014 and 2013 were \$24,701, \$30,690 and \$19,677, respectively. The employees are 100% vested at all times and are eligible for the plan after the probation period.

### Defined Benefit Plan

#### *Plan Description*

The Town initiated a defined benefit pension plan in 2007, which covers one former employee and is not available for new employees. Any changes in the plan's provisions must be approved by the Board of Trustees. The Town has generally used the Water Fund to liquidate any net pension obligation as the plan's participant was a former Town Manager. There is no separate trust or plan administrator for the plan.

The schedule of funding progress is included in the required supplementary information (RSI) section following the notes to the financial statements. The schedule of funding progress presents as RSI multiyear trend information about whether the actuarial value of plan assets are increasing or decreasing over time relative to the actuarial accrued liability for benefits.

#### *Funding Policy*

The pension plan is closed and has no participants who are current employees. The Town funds the plan on a pay-as-you-go basis.

## TOWN OF PAONIA, COLORADO

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### Notes To Basic Financial Statements (*Continued*)

#### *Annual Pension Cost*

For 2015, the Town's annual pension cost for the plan of \$20,160, equal to the Town's required and actuarially determined contributions.

The Town's annual pension cost and net pension obligation for the current year were as follows:

Annual required contribution (ARC)	\$ 20,160
Interest on net pension obligation	—
Adjustment to ARC	—
Annual pension cost	\$ 20,160
Contributions made	<u>(20,160)</u>
Increase (decrease) in net pension obligation (asset)	<u>—</u>
<b>Net Pension Obligation - Beginning Of Year (Asset)</b>	<b><u>—</u></b>
<b>Net Pension Obligation - End Of Year (Asset)</b>	<b><u><u>\$ —</u></u></b>

The contribution made was to the participant directly and paid out of the Water Fund.

The required contribution was determined as part of a December 31, 2012 actuarial valuation using future projected cash flows discounted by a yield curve rate utilizing expected mortality rates. The actuarial assumptions included a 3.2% interest rate. As the Town is contributing annually an amount equal to the required contribution, each year the plan's percentage of annual pension costs contributed each year is 100% for 2015, 2014 and 2013. Additionally, there is no net pension obligation or asset for 2015, 2014 and 2013.

#### **Statewide Defined Benefit Pension Plan For Police Officers**

##### *Plan Description*

Eligible police officers of the Town are provided with pensions through SWDBP, a cost-sharing multi-employer defined benefit pension plan administered by FPPA. FPPA issues a publicly available comprehensive annual financial report that can be obtained on FPPA's website at <http://www.fppaco.org>.

##### *Benefits Provided*

SWDBP provides retirement and disability, annual increases and death benefits for members or their beneficiaries. A member is eligible for a normal retirement pension once the member has completed 25 years of credited service and has attained the age of 55.

## TOWN OF PAONIA, COLORADO

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### Notes To Basic Financial Statements (*Continued*)

The annual normal retirement benefit is 2% of the average of the member's highest 3 years' base salary for each year of credited service up to 10 years, plus 2.5% for each year of service thereafter. The benefit earned prior to January 1, 2007 for members of affiliated Social Security employers will be reduced by the amount of Social Security income payable to the member annually. Effective January 1, 2007, members currently covered under Social Security will receive half the benefit when compared to the Statewide Defined Benefit Plan. Benefits paid to retired members are evaluated and may be re-determined every October 1. The amount of any increase is based on the Board's discretion and can range from 0 to the higher of 3% or the Consumer Price Index.

A member is eligible for an early retirement at age 50 or after 30 years of service. The early retirement benefit equals the normal retirement benefit reduced on an actuarially equivalent basis. Upon termination, an employee may elect to have member contributions, along with 5% as interest, returned as a lump sum distribution. Alternatively, a member with at least 5 years of accredited service may leave contributions with the Plan and remain eligible for a retirement pension at age 55 equal to 2% of the member's average highest 3 years' base salary for each year of credited service up to 10 years, plus 2.5% for each year of service thereafter.

#### *Contributions*

Contribution rates are established by state statute. Employer contribution rates can only be amended by state statute. Member contribution rates can be amended by state statute or election of the membership.

Members of SWDBP and their employers are contributing at the rate of 8% of base salary for a total contribution rate of 16% through 2014. In 2014, the members elected to increase the member contribution rate to SWDBP beginning in 2015. Member contribution rates will increase 0.5% annually through 2022 to a total of 12% of base salary. Employer contributions will remain at 8.0%, resulting in a combined contribution rate of 20% in 2022.

Contributions from members and employers or departments re-entering the system are established by resolution and approved by the FPPA Board of Directors. The re-entry group has a combined contribution rate of 20% of base salary through 2014. It is a local decision as to whether the member or employer pays the additional 4% contribution. Per the 2014 member election, the re-entry group will also have their required member contribution rate increase 0.5% annually beginning in 2015 through 2022 for a total combined member and employer contribution rate of 24% in 2022.

## TOWN OF PAONIA, COLORADO

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### Notes To Basic Financial Statements (*Continued*)

The contribution rate for members and employers or affiliated social security employers is 4% of base salary for a total contribution rate of 8% through 2014. Per the 2014 member election, members of the affiliate social security group will have their required contribution rate increase 0.25% annually beginning in 2015 through 2022 to a total of 6% of base salary. Employer contributions will remain at 4%, resulting in a combined contribution rate of 10% in 2022.

Employer contributions are recognized by SWDBP in the period in which the compensation becomes payable to the member, and the Town is statutorily committed to pay the contributions to SWDBP. Employer contributions recognized by SWDBP from the Town were \$8,910 for the year ended December 31, 2015.

#### *Pension Asset, Pension Expense, Deferred Outflows Of Resources And Deferred Inflows Of Resources Related To Pensions*

At December 31, 2015, the Town reported a net pension asset of \$48,715 for its proportionate share of the net pension asset. The net pension asset was measured as of December 31, 2014, and the total pension asset was determined by an actuarial valuation as of January 1, 2015. The Town's proportion of the net pension asset was based on Town contributions to SWDBP for the calendar year 2014 relative to the total contributions of participating employers to SWDBP based upon the January 1, 2015 actuarial valuation.

At December 31, 2014, the Town's portion was 0.0431646621%, which was a decrease of 0.0144% from its proportion measured as of December 31, 2013.

For the year ended December 31, 2015, the Town recognized pension expense of \$5,118. At December 31, 2015, the Town reported deferred outflows of resources and deferred inflows of resources related to pensions from the following sources:

	<u>Governmental Activities</u>
<b>Deferred Outflows Of Resources</b>	
Net difference between projected and actual earnings on pension plan investments	\$ 3,841
Changes in proportion and differences between contributions and proportionate share of contributions	11,627
Contributions subsequent to measurement date	8,910
<b>Total Deferred Outflows Of Resources</b>	<b>\$ 24,378</b>
<b>Deferred Inflows Of Resources</b>	
Differences between expected and actual experience	\$ 1,004

## TOWN OF PAONIA, COLORADO

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### Notes To Basic Financial Statements (*Continued*)

The amount of \$8,910 reported as deferred outflows of resources related to pensions, resulting from contributions subsequent to the measurement date, will be recognized as a reduction of the net pension (asset) liability in the year ended December 31, 2016. Other amounts reported as deferred outflows of resources and deferred inflows of resources related to pensions will be recognized in pension expense as follows:

<b>For The Year</b>	
<b>Ended December 31,</b>	
2016	\$ 2,071
2017	2,071
2018	2,071
2019	2,071
2020	1,110
Thereafter	5,070
<b>Total</b>	<b>\$ 14,464</b>

#### *Actuarial Assumptions*

The January 1, 2014 actuarial valuation was used to determine the actuarially determined contribution for the fiscal year ending December 31, 2014. The valuation used the following actuarial assumption and other inputs:

Actuarial method	Entry age normal
Amortization method	Level % of payroll, open
Amortization period	30 years
Asset valuation	5-year smoothed fair value
Long-term investment rate of return	7.5%
Projected salary increases	4.0% - 14.0%
Cost of living adjustment	0.0%
Includes inflation	3.0%

The RP-2000 Combined Mortality Table with Blue Collar Adjustment, projected with Scale AA, is a 40% multiplier for off-duty mortality used in the valuation for off-duty mortality of active members. On-duty related mortality is assumed to be 0.00020 per year for all members. The RP-2000 Combined Mortality Table with Blue Collar Adjustment, projected with Scale AA, is used in the projection of post-retirement benefits.

## TOWN OF PAONIA, COLORADO

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### Notes To Basic Financial Statements (*Continued*)

At least every five years, the FPPA's Board of Directors, in accordance with best practices, reviews its economic and demographic actuarial assumptions. At its July 2011 meeting, the Board of Directors reviewed and approved recommended changes to the actuarial assumptions. The recommendations were made by the actuary based upon their analysis of past experience and expectations in the future. The assumption changes were cumulative for all actuarial valuations beginning January 1, 2012. The actuarial assumptions impacted actuarial factors for benefit purposes such as purchases of service credit and other benefits where actuarial factors are used. The date the new actuarial assumptions were effective for benefit purposes was October 1, 2012.

Effective with the January 1, 2013 valuations, the Board adopted a five-year smoothing methodology in the determination of the actuarial value of assets. Beginning in the January 1, 2014 valuations, the married assumption for active members was increased from 80% to 85% to reflect the passage of the Colorado Civil Union Act.

The long-term expected rate of return on pension plan investments was determined using a building-block method in which best-estimate ranges of expected future real rates of return (expected returns, net of pension plan investment expense and inflation) are developed for each major asset class. These ranges are combined to produce the long-term expected rate of return by weighing the expected future real rates of return by the target asset allocation percentage and by adding expected inflation. Best estimates of arithmetic real rates of return for each major asset class included in the Fund's target asset allocation as of December 31, 2014 are summarized in the following table:

<u>Asset Class</u>	<u>Target Allocation</u>	<u>Long-Term Expected Rate Of Return</u>
Global equity	40.00%	8.9%
Equity long/short	10.00%	7.5%
Illiquid alternatives	18.00%	10.5%
Fixed income	15.00%	4.6%
Absolute return	12.00%	6.5%
Managed futures	4.00%	5.5%
Cash	1.00%	2.5%
<b>Total</b>	<b>100.00%</b>	

## TOWN OF PAONIA, COLORADO

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### Notes To Basic Financial Statements (*Continued*)

#### *Discount Rate*

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

For the purpose of the valuation, the expected rate of return on pension plan investments is 7.50%, the municipal bond rate is 3.65% (based on the weekly rate closest to but not later than the measurement date of the "state and local bonds" rate from Federal Reserve statistical release (H.15)) and the resulting single discount rate is 7.50%.

#### *Sensitivity Of The Town's Proportionate Share Of The Net Pension (Asset) Liability To Changes In The Discount Rate*

Regarding the sensitivity of the net pension liability to changes in the single discount rate, the following presents the plan's net pension (asset) liability, calculated using a single discount rate of 7.50%, as well as what the plan's net pension (asset) liability would be if it were calculated using a single discount rate that is one percent lower (6.50%) or one percent higher (8.50%):

	<b>1% Decrease (6.50%)</b>	<b>Current Discount Rate (7.50%)</b>	<b>1% Increase (8.50%)</b>
<u>Proportionate share of the net pension asset (liability)</u>	<u>\$ (45,929)</u>	<u>\$ 48,715</u>	<u>\$ 127,659</u>

#### *Pension Plan Fiduciary Net Position*

Detailed information about SWDBP's fiduciary net position is available in FPPA's comprehensive annual financial report, which can be obtained at <http://www.fppaco.org>.

**Other Post-Employment Benefit Plan - Statewide Death And Disability Defined Benefit Plan**

*Plan Description*

The Town's full-time police officers participate in FPPA's Statewide Death and Disability Plan (the Plan), a cost-sharing, multiple-employer defined benefit plan. The Plan was established in 1980 pursuant to Colorado Revised Statutes and can only be amended through such statutes. Contributions to the Plan are used solely for the payment of death and disability benefits.

*Benefits*

If a member dies prior to retirement, the surviving spouse is entitled to a benefit equal to 40% of the member's monthly base salary. Dependent children are also entitled to benefits according to an established scale. Benefit entitlement continues until death or remarriage of the spouse and death, marriage or other termination of dependency of children.

A member who becomes disabled prior to retirement shall be eligible for disability benefits. The benefit is 2.6% of base salary for cases of total disability and 50% for cases of occupational disability, reduced by the amount of certain other benefits received.

Benefits paid to members are evaluated and may be re-determined on October 1 of each year. Any increase in the level of benefits cannot exceed the lesser of the increase in CPI or 3%.

*Contributions*

Prior to 1997, the Plan was primarily funded by the State of Colorado, whose contributions were established by Colorado Statute. The State made a one-time contribution in 1997 of \$39,000,000 to fund the past and future service costs for all firefighters and police officers hired prior to January 1, 1997. No further State contributions are anticipated. Members hired on or after January 1, 1997 contribute a percentage of the payroll based on actuarial experience. This percentage was 8% for 2015, 7% for 2014 and 8% for 2013. The Town contributed \$8,265, \$16,322 and \$24,755 to the Plan during 2015, 2014 and 2013, respectively.

**9. Risk Management**

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



## **TOWN OF PAONIA, COLORADO**

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### Notes To Basic Financial Statements (*Continued*)

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

#### **10. Restricted Cash**

The Town has restricted cash in the Sanitation Fund of \$91,078 for the RUS loan and \$4,259 for the Water Fund for water storage. The RUS loan documents require that \$842 per each month be designated into restricted cash until the sum of \$101,040 is reached. In 2015, the Town designated \$10,185 into this debt service reserve account.

As of December 31, 2015, the Town has restricted cash in the governmental activities of \$600,000 related to this Samuel Wade Road and Bridge. In January 2010, the Town entered into an intergovernmental agreement with the County. The Town has agreed to accept ownership of Samuel Wade Road and Bridge (the Bridge) in "as is" condition in exchange for \$800,000 from the County to be used only for transportation-related expenditures. The Town, in exchange, shall be responsible to maintain this section of the Bridge. If at any point there is noncompliance with the agreement terms, the title of the road will revert back to the County, and the Town will be responsible for return of the funds based on allocated use over the 20-year term of the agreement. The likelihood of noncompliance is considered remote.

## **11. Commitments**

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

In September 2009, the Town entered into an agreement with the County for the ownership, maintenance and management of the North Folk Valley Airport. Per the agreement, the Town owns 75% of the airport, and therefore, any future capital improvements will be 75% funded by the Town. The Town currently has one representative on the board and does not have control over the decisions of the board; accordingly, this arrangement does not constitute a joint venture or qualify for component unit reporting. The County assumes responsibility for the operations and maintenance of the airport. The agreement was amended in February 2014 to include how the proceeds from the wireless communication facility at the airport are to be divided. Per the agreement, any proceeds will be divided 75% to the Town and 25% to the County. The Town must hold its 75% share as a reserve for the Town's contributions to future capital improvements. As of December 31, 2015, the Town has a reserve for airport capital improvements of \$33,333.

**TOWN OF PAONIA, COLORADO**Notes To Basic Financial Statements (*Continued*)**12. Capital Assets**

	<b>Balance January 1, 2015</b>	<b>Additions</b>	<b>Dispositions</b>	<b>Balance December 31, 2015</b>
<b>Governmental Activities</b>				
Capital assets not being depreciated				
Land	\$ 246,481	\$ —	\$ —	\$ 246,481
Capital assets being depreciated				
Buildings	609,359	—	—	609,359
Improvements other than buildings	389,079	—	—	389,079
Infrastructure	2,537,509	38,834	—	2,576,343
Equipment	737,689	—	(98,324)	639,365
	4,273,636	38,834	(98,324)	4,214,146
Less accumulated depreciation				
Buildings	(286,042)	(15,878)	—	(301,920)
Improvements	(198,143)	(18,152)	—	(216,295)
Infrastructure	(357,721)	(68,606)	—	(426,327)
Equipment	(520,182)	(46,585)	93,881	(472,886)
	(1,362,088)	(149,221)	93,881	(1,417,428)
Capital assets depreciated, net	2,911,548	(110,387)	(4,443)	2,796,718
<b>Total Governmental Activities Capital Assets</b>	<b>\$ 3,158,029</b>	<b>\$ (110,387)</b>	<b>\$ (4,443)</b>	<b>\$ 3,043,199</b>

**TOWN OF PAONIA, COLORADO**

Notes To Basic Financial Statements (*Continued*)

	<b>Balance January 1, 2015</b>	<b>Additions</b>	<b>Dispositions</b>	<b>Balance December 31, 2015</b>
<b>Business-Type Activities</b>				
Capital assets not being depreciated				
Land and water rights	\$ 834,157	\$ —	\$ —	\$ 834,157
Construction in progress	889,924	2,235,051	(528,570)	2,596,405
	<u>1,724,081</u>	<u>2,235,051</u>	<u>(528,570)</u>	<u>3,430,562</u>
Capital assets being depreciated				
Reservoirs, improvements and other	66,254	—	—	66,254
Distribution system	1,049,848	63,198	—	1,113,046
Collection system	529,476	—	—	529,476
Vehicles and equipment	455,896	—	(52,897)	402,999
Treatment plant	8,462,792	873,150	—	9,335,942
Less: Accumulated depreciation	(3,932,716)	(287,484)	52,897	(4,167,303)
Capital assets being depreciated, net	<u>6,631,550</u>	<u>648,864</u>	<u>—</u>	<u>7,280,414</u>
<b>Total Business-Type Activities Capital Assets</b>				
	<u>\$ 8,355,631</u>	<u>\$ 2,883,915</u>	<u>\$ (528,570)</u>	<u>\$ 10,710,976</u>

Depreciation charged to governmental activities by department is as follows:

General government	\$ 15,878
Public safety	18,152
Public works	68,606
Culture and recreation	<u>46,585</u>
<b>Total</b>	<u><u>\$ 149,221</u></u>

**13. Interfund Balances And Transfers**

The composition of interfund balances at December 31, 2015 is as follows:

<u>Receivable Fund</u>	<u>Payable Fund</u>	<u>Amount</u>
Sanitation Fund	Grant Project Fund	\$ 379,483
Water Fund	Grant Project Fund	151,367
		<u><u>\$ 530,850</u></u>

## TOWN OF PAONIA, COLORADO

### Notes To Basic Financial Statements (Continued)

The outstanding balances between funds result mainly 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. The purposes of the interfund transactions were to finance capital projects. All interfund balances are not expected to be collected within one year.

Interfund transfers are used to report revenues from the fund that is required to collect them to the fund that is required to expend them as unrestricted revenues collected to finance various programs and capital purchases accounted for in other funds in accordance with budgetary authorizations, and to return money to a fund from which it was originally provided once a project is completed.

	<u>Transfers In</u>	<u>Transfers Out</u>
General Fund	\$ —	\$ (15,473)
Sales Tax Capital Improvement Fund	15,000	—
Grant Project Fund	519,477	(2,566,096)
Water Fund	2,566,096	(503,531)
Sanitation Fund	—	(15,473)
	<u>\$ 3,100,573</u>	<u>\$ (3,100,573)</u>

#### 14. Reconciliation Of Budget Basis To GAAP Basis For Enterprise Funds

	<u>Water</u>	<u>Sewer</u>	<u>Total</u>
<b>Revenues</b>			
GAAP-based revenues	\$ 3,299,133	\$ 522,478	\$ 3,821,611
Add (deduct):			
Transfer in from Grant Project Fund	(2,566,096)	—	(2,566,096)
Capital contributions	(76,733)	—	(76,733)
<b>Total Budgetary-Based Revenues</b>	<u>\$ 656,304</u>	<u>\$ 522,478</u>	<u>\$ 1,178,782</u>

	<u>Water</u>	<u>Sewer</u>	<u>Total</u>
<b>Expenditures</b>			
GAAP-based expenses	\$ 1,121,859	\$ 605,569	\$ 1,727,428
Add (deduct):			
Depreciation	(177,976)	(109,508)	(287,484)
<b>Total Budgetary-Based Expenditures</b>	<u>\$ 943,883</u>	<u>\$ 496,061</u>	<u>\$ 1,439,944</u>

## TOWN OF PAONIA, COLORADO

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### Notes To Basic Financial Statements (*Continued*)

#### 15. Budget Compliance

In fiscal year 2015, the expenditures for the Water Fund and the Sanitation Fund exceeded the final approved budgeted amounts. Final expenditures exceeding budgeted amounts do not comply with state statutes. Refer to the budget schedules for more information.

#### 16. Contingent Liabilities

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

The Town has received federal and state grants for specific purposes that are subject to review and audit by the grantor agencies or their designee. These audits could result in a request for reimbursement to the grantor agency for costs disallowed under terms of the grant. Based on prior experience, the Town believes such disallowances, if any, will be immaterial.

#### 17. Restatement Due To Change In Accounting Principle

During the year, the Town adopted GASB 68 and GASB 71 related to its participation in FPPA's defined benefit plan. The primary objective of these statements is to improve the accounting and financial reporting by state and local governments for pensions. As a result of implementing these statements, the Town recognized its proportionate share of a net pension asset and the related deferred inflows and outflows (refer to Note 8). The effects of the restatement noted above are as follows:

	<u>Governmental Activities</u>
Net position - December 31, 2014 as previously reported	\$ 3,757,833
Pension asset restatement	51,442
Deferred outflows of resources	15,529
<b><u>Net Position - December, 2014, As Restated</u></b>	<b><u>\$ 3,824,804</u></b>

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**Required Supplementary Information**

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# TOWN OF PAONIA, COLORADO

## GENERAL FUND - SCHEDULE OF REVENUES - BUDGET AND ACTUAL For The Year Ended December 31, 2015 Page 1 Of 2

	Original Budget	Final Budget	Actual	Favorable (Unfavorable)
<b>Taxes</b>				
General property taxes	\$ 100,128	\$ 100,128	\$ 99,925	\$ (203)
Specific ownership taxes	15,000	15,000	15,049	49
Sales tax - Town	140,000	140,000	139,578	(422)
Sales tax - County	92,000	92,000	97,858	5,858
Franchise taxes	63,000	63,000	60,350	(2,650)
Cigarette taxes	1,925	1,925	2,135	210
Delinquent taxes	42	42	42	—
Interest on delinquent taxes	400	400	588	188
Abatements	204	204	204	—
<b>Total Taxes</b>	<b>412,699</b>	<b>412,699</b>	<b>415,729</b>	<b>3,030</b>
<b>Licenses And Permits</b>				
Liquor licenses	3,175	3,175	3,425	250
Building permits	13,500	13,500	10,946	(2,554)
Miscellaneous permits	800	800	1,025	225
Special reviews	650	650	350	(300)
VIN inspection	200	200	475	275
<b>Total Licenses And Permits</b>	<b>18,325</b>	<b>18,325</b>	<b>16,221</b>	<b>(2,104)</b>
<b>Intergovernmental Revenue</b>				
State shared				
Highway user's tax	48,000	48,000	48,852	852
Motor vehicle fees	5,875	5,875	5,993	118
Severance tax	36,850	36,850	39,057	2,207
Mineral leasing	45,000	45,000	33,977	(11,023)
Other governmental units				
Road and bridge	8,500	8,500	6,304	(2,196)
<b>Total Intergovernmental Revenue</b>	<b>144,225</b>	<b>144,225</b>	<b>134,183</b>	<b>(10,042)</b>



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# TOWN OF PAONIA, COLORADO

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## GENERAL FUND - SCHEDULE OF REVENUES - BUDGET AND ACTUAL For The Year Ended December 31, 2015 Page 2 Of 2

	<u>Original</u> <u>Budget</u>	<u>Final</u> <u>Budget</u>	<u>Actual</u>	<u>Favorable</u> <u>(Unfavorable)</u>
<b>Fines And Forfeitures</b>				
Police fines	\$ 9,500	\$ 9,500	\$ 8,701	\$ (799)
Miscellaneous	20	20	20	—
<b>Total Fines And Forfeitures</b>	<b>9,520</b>	<b>9,520</b>	<b>8,721</b>	<b>(799)</b>
<b>Miscellaneous Revenues</b>				
Earnings on investments	5,900	5,900	10,116	4,216
Rents	18,142	18,142	12,332	(5,810)
Billing interest	3,500	3,500	8,757	5,257
Other	2,700	2,700	554	(2,146)
Motor fuel tax refunds	2,000	2,000	1,461	(539)
Refunds	10,328	10,328	10,328	—
Bridge revenue earned	—	—	40,000	40,000
PD grant	—	—	405	405
<b>Total Miscellaneous Revenues</b>	<b>42,570</b>	<b>42,570</b>	<b>83,953</b>	<b>41,383</b>
<b>Transfers</b>	<b>43,000</b>	<b>43,000</b>	<b>—</b>	<b>(43,000)</b>
<b>Total Revenues</b>	<b>\$ 670,339</b>	<b>\$ 670,339</b>	<b>\$ 658,807</b>	<b>\$ (11,532)</b>

# TOWN OF PAONIA, COLORADO

## GENERAL FUND - SCHEDULE OF EXPENDITURES - BUDGET AND ACTUAL For The Year Ended December 31, 2015

Page 1 Of 2

	Original Budget	Final Budget	Actual	Favorable (Unfavorable)
<b>General Government</b>				
Mayor and trustee	\$ 3,600	\$ 3,600	\$ 3,600	\$ —
Salaries and wages	21,560	21,560	29,394	(7,834)
Employee benefits	5,948	5,948	6,050	(102)
Supplies	3,300	3,300	6,095	(2,795)
Legal and professional fees	52,250	52,250	33,383	18,867
Telephone	2,225	2,225	2,248	(23)
Travel and meetings	2,225	2,225	1,078	1,147
Insurance and bonds	3,057	3,057	3,049	8
Utilities	3,050	3,050	3,951	(901)
Janitorial services	8,150	8,150	7,800	350
Building inspector	1,795	1,795	960	835
Publishing ads	1,750	1,750	1,347	403
Dues and subscriptions	3,117	3,117	2,048	1,069
Audit fees	15,000	15,000	20,800	(5,800)
Postage	2,000	2,000	889	1,111
Human services	7,585	7,585	6,981	604
Miscellaneous	3,200	3,200	—	3,200
Vehicle expense	300	300	566	(266)
Town Hall expense	2,090	2,090	4,253	(2,163)
Elections	302	302	302	—
Data processing	14,278	14,278	13,611	667
Pass-through funds	14,969	14,969	—	14,969
Treasurer's fees	704	704	2,141	(1,437)
<b>Total General Government</b>	<b>172,455</b>	<b>172,455</b>	<b>150,546</b>	<b>21,909</b>
<b>Public Safety</b>				
<b>Police Department</b>				
Salaries and wages	163,451	163,451	151,224	12,227
Trustee salaries	—	—	1,200	(1,200)
Judge	1,200	1,200	1,200	—
Employee benefits	48,022	48,022	39,954	8,068
Supplies	6,600	6,600	5,102	1,498
Repairs and maintenance	925	925	256	669
Legal services	500	500	800	(300)
Telephone	7,850	7,850	2,215	5,635
Travel and meetings	200	200	3	197
Insurance and bonds	13,903	13,903	13,894	9
Utilities	2,500	2,500	1,652	848
Vehicle expense	16,500	16,500	8,922	7,578
Dues and subscriptions	2,190	2,190	2,277	(87)
Miscellaneous	500	500	140	360
Uniforms	2,200	2,200	948	1,252
Publishing and ads	41	41	41	—
Officer's training	500	500	684	(184)
Juvenile diversion	1,600	1,600	1,602	(2)
Data processing	4,775	4,775	5,218	(443)
FPPA	16,138	16,138	11,734	4,404
<b>Total Police Department</b>	<b>289,595</b>	<b>289,595</b>	<b>249,066</b>	<b>40,529</b>

# TOWN OF PAONIA, COLORADO

## GENERAL FUND - SCHEDULE OF EXPENDITURES - BUDGET AND ACTUAL For The Year Ended December 31, 2015 Page 2 Of 2

	Original Budget	Final Budget	Actual	Favorable (Unfavorable)
<b>Public Safety (Continued)</b>				
<b>Animal Control</b>				
Vet fees	\$ 350	\$ 350	\$ 511	\$ (161)
<b>Total Public Safety</b>	289,945	289,945	249,577	40,368
<b>Public Works</b>				
Salaries and wages	27,042	27,042	25,351	1,691
Employee benefits	8,544	8,544	8,441	103
Supplies	1,174	1,174	1,491	(317)
Council	1,200	1,200	1,200	—
Repairs and maintenance	17,400	17,400	1,384	16,016
Legal and engineering	250	250	—	250
Telephone	1,025	1,025	669	356
Insurance and bonds	4,210	4,210	4,108	102
Utilities	625	625	1,577	(952)
Snow removal	5,000	5,000	16,534	(11,534)
Street lighting	21,800	21,800	20,850	950
Street cleaning	1,200	1,200	1,264	(64)
Vehicle expense	10,500	10,500	12,899	(2,399)
Miscellaneous	219	219	69	150
Shop expense	1,200	1,200	1,494	(294)
<b>Total Public Works</b>	101,389	101,389	97,331	4,058
<b>Culture And Recreation</b>				
Salaries and wages	1,200	1,200	550	650
Employee benefits	357	357	339	18
Supplies	3,454	3,454	5,070	(1,616)
Council	1,200	1,200	1,200	—
Repairs and maintenance	15,500	15,500	7,320	8,180
Legal fees	1,035	1,035	1,035	—
Telephone	450	450	143	307
Insurance and bonds	3,320	3,320	3,220	100
Utilities	6,500	6,500	6,645	(145)
Contract services	39,900	39,900	38,575	1,325
Vehicle expense	600	600	80	520
Miscellaneous	863	863	378	485
<b>Total Culture And Recreation</b>	74,379	74,379	64,555	9,824
<b>Totals</b>	\$ 638,168	\$ 638,168	\$ 562,009	\$ 76,159

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**TOWN OF PAONIA, COLORADO**

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**CONSERVATION TRUST FUND -  
STATEMENT OF REVENUES, EXPENDITURES AND CHANGES  
IN FUND BALANCE - BUDGET AND ACTUAL  
For The Year Ended December 31, 2015**

	<b>Original Budget</b>	<b>Final Budget</b>	<b>Actual</b>	<b>Favorable (Unfavorable)</b>
<b>Revenues</b>				
Lottery	\$ 6,736	\$ 6,736	\$ 7,529	\$ 793
Interest	2	2	3	1
<b>Total Revenues</b>	<b>6,738</b>	<b>6,738</b>	<b>7,532</b>	<b>794</b>
<b>Expenditures</b>				
Parks	10,000	10,000	—	10,000
<b>Excess (Deficit) Of Revenues Over (Under) Expenditures</b>	<b>(3,262)</b>	<b>(3,262)</b>	<b>7,532</b>	<b>10,794</b>
<b>Fund Balance - Beginning Of Year</b>	<b>—</b>	<b>—</b>	<b>3,370</b>	<b>3,370</b>
<b>Fund Balance - End Of Year</b>	<b>\$ (3,262)</b>	<b>\$ (3,262)</b>	<b>\$ 10,902</b>	<b>\$ 14,164</b>

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**TOWN OF PAONIA, COLORADO**

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**SIDEWALK FUND -  
STATEMENT OF REVENUES, EXPENDITURES AND CHANGES  
IN FUND BALANCE - BUDGET AND ACTUAL  
For The Year Ended December 31, 2015**

	<b>Original Budget</b>	<b>Final Budget</b>	<b>Actual</b>	<b>Favorable (Unfavorable)</b>
<b>Revenues</b>				
Sidewalk revenues	\$ 29,034	\$ 29,034	\$ 29,058	\$ 24
<b>Expenditures</b>				
Repairs and maintenance	49,500	49,500	755	48,745
Capital outlay	—	—	38,834	(38,834)
<b>Total Expenditures</b>	49,500	49,500	39,589	9,911
<b>Excess (Deficit) Of Revenues Over (Under) Expenditures</b>	(20,466)	(20,466)	(10,531)	9,935
<b>Fund Balance - Beginning Of Year</b>	—	—	28,329	28,329
<b>Fund Balance - End Of Year</b>	\$ (20,466)	\$ (20,466)	\$ 17,798	\$ 38,264

**TOWN OF PAONIA, COLORADO**

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**SCHEDULE OF FUNDING PROGRESS  
Defined Benefit Retirement Plan  
For The Year Ended December 31, 2015**

<b>Actuarial Valuation Date</b>	<b>Actuarial Value Of Assets</b>	<b>Actuarial Accrued Liability</b>	<b>Unfunded Actuarial Accrued Liability</b>	<b>Funded Ratio</b>	<b>Covered Payroll</b>	<b>Unfunded Actuarial Accrued Liability As A Percentage Of Covered Payroll</b>
12/31/2012	\$ —	\$ —	\$ 289,533	0%	N/A	N/A

# TOWN OF PAONIA, COLORADO

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## SCHEDULE OF THE TOWN'S PROPORTIONATE SHARE OF THE NET PENSION ASSET

### FPPA Statewide Defined Benefit Plan

Year One<sup>(1)</sup>

For The Year Ended December 31, 2014 (Measurement Date)

	<u>2015</u>
Town's portion of the net pension asset	0.0432%
Town's proportionate share of the net pension asset	\$ 48,715
Town's covered-employee payroll	198,701
Town's proportionate share of the net pension asset as a percentage of its covered payroll	25%
Plan fiduciary net position as a percentage of the total pension asset	106.80%

(1) This schedule is presented to illustrate the requirement to show information for 10 years. However, until a full 10-year trend is compiled, the Town is presenting information for those years for which information is available.

**TOWN OF PAONIA, COLORADO**

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**SCHEDULE OF THE TOWN'S CONTRIBUTIONS  
TO THE PENSION PLAN  
FPPA Statewide Defined Benefit Plan  
Year One<sup>(1)</sup>  
For The Year Ended December 31, 2015**

	<u>2015</u>
Contractually required contribution	\$ 8,910
Contributions in relation to the contractually required contribution	<u>8,910</u>
Contribution (excess) deficiency	<u>\$ —</u>
Town's covered-employee payroll	\$ 103,306
Contributions as a percentage of covered-employee payroll	8.62%

(1) This schedule is presented to illustrate the requirement to show information for 10 years. However, until a full 10-year trend is compiled, the Town is presenting information for those years for which information is available.



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**Supplementary Information**

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# TOWN OF PAONIA, COLORADO

## SALES TAX - CAPITAL IMPROVEMENTS FUND - SCHEDULE OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCE - BUDGET AND ACTUAL For The Year Ended December 31, 2015

	<b>Original Budget</b>	<b>Final Budget</b>	<b>Actual</b>	<b>Favorable (Unfavorable)</b>
<b>Revenues</b>				
Sales tax	\$ 140,000	\$ 140,000	\$ 139,520	\$ (480)
Miscellaneous	21,153	21,153	7,650	(13,503)
<b>Total Revenues</b>	<b>161,153</b>	<b>161,153</b>	<b>147,170</b>	<b>(13,983)</b>
<b>Expenditures</b>				
Improvements	—	—	33,177	(33,177)
Capital outlay	340,043	340,043	—	340,043
<b>Total Expenditures</b>	<b>340,043</b>	<b>340,043</b>	<b>33,177</b>	<b>306,866</b>
<b>Excess (Deficit) Of Revenues Over (Under) Expenditures</b>	<b>(178,890)</b>	<b>(178,890)</b>	<b>113,993</b>	<b>292,883</b>
<b>Other Financing Sources (Uses)</b>				
Payment of principal and interest on capital lease	—	—	(18,683)	(18,683)
Fund transfers	15,000	15,000	15,000	—
<b>Total Other Financing Sources (Uses)</b>	<b>15,000</b>	<b>15,000</b>	<b>(3,683)</b>	<b>(18,683)</b>
<b>Net Change To Fund Balance</b>	<b>(163,890)</b>	<b>(163,890)</b>	<b>110,310</b>	<b>274,200</b>
<b>Fund Balance - Beginning Of Year</b>	<b>—</b>	<b>—</b>	<b>160,015</b>	<b>160,015</b>
<b>Fund Balance - End Of Year</b>	<b>\$ (163,890)</b>	<b>\$ (163,890)</b>	<b>\$ 270,325</b>	<b>\$ 434,215</b>

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## TOWN OF PAONIA, COLORADO

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### GRANT PROJECT FUND - SCHEDULE OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCE - BUDGET AND ACTUAL For The Year Ended December 31, 2015

	Original Budget	Final Budget	Actual	Favorable (Unfavorable)
<b>Revenues</b>				
Grant revenues	\$ 2,127,727	\$ 2,127,727	\$ 1,608,250	\$ (519,477)
<b>Expenditures</b>				
Grant expenses	2,657,337	2,657,337	91,241	2,566,096
<b>Excess (Deficit) Of Revenues Over (Under) Expenditures</b>	<b>(529,610)</b>	<b>(529,610)</b>	<b>1,517,009</b>	<b>2,046,619</b>
<b>Other Financing Source (Uses)</b>				
Proceeds from line of credit	—	—	779,500	779,500
Fund transfers	649,433	649,433	(2,046,619)	(2,696,052)
<b>Total Other Financing Sources (Uses)</b>	<b>649,433</b>	<b>649,433</b>	<b>(1,267,119)</b>	<b>(1,916,552)</b>
<b>Net Change To Fund Balance</b>	<b>119,823</b>	<b>119,823</b>	<b>249,890</b>	<b>130,067</b>
<b>Fund Balance - Beginning Of Year</b>	<b>—</b>	<b>—</b>	<b>531,205</b>	<b>531,205</b>
<b>Fund Balance - End Of Year</b>	<b>\$ 119,823</b>	<b>\$ 119,823</b>	<b>\$ 781,095</b>	<b>\$ 661,272</b>

# TOWN OF PAONIA, COLORADO

## WATER FUND - SCHEDULE OF REVENUES, EXPENDITURES AND CHANGES IN AVAILABLE RESOURCES - BUDGET AND ACTUAL (NON-GAAP BUDGETARY BASIS) For The Year Ended December 31, 2015

	Original Budget	Final Budget	Actual	Favorable (Unfavorable)
<b>Available Resources - Beginning Of Year</b>	\$ 973,657	\$ 973,657	\$ 973,657	\$ —
<b>Revenues</b>				
Water charges	545,200	545,200	598,087	52,887
Water taps	60,000	60,000	6,000	(54,000)
Sales and service	5,500	5,500	6,659	1,159
Water tank	2,000	2,000	612	(1,388)
Standby tap fees	29,000	29,000	36,111	7,111
Shut off notice	125	125	5	(120)
Penalties	825	825	1,607	782
Rents	1,000	1,000	1,000	—
Miscellaneous income	—	—	6,221	6,221
Interest income	4	4	2	(2)
<b>Total Revenues</b>	643,654	643,654	656,304	12,650
<b>Total Available Resources</b>	1,617,311	1,617,311	1,629,961	12,650
<b>Expenditures</b>				
Salaries and wages	148,441	148,441	153,983	(5,542)
Employee benefits	33,173	33,173	31,765	1,408
Council	—	—	1,200	(1,200)
John Norris retirement	20,160	20,160	20,160	—
Supplies	18,150	18,150	6,672	11,478
Legal and engineering	5,000	5,000	2,550	2,450
Repairs and maintenance	30,000	30,000	102,704	(72,704)
Professional fees	9,500	9,500	13,200	(3,700)
Telephone	1,975	1,975	3,659	(1,684)
Postage	3,000	3,000	3,344	(344)
Travel and meetings	750	750	(1,188)	1,938
Insurance and bonds	13,278	13,278	14,542	(1,264)
Utilities	13,900	13,900	11,592	2,308
Vehicle expense	13,000	13,000	15,517	(2,517)
Dues and subscriptions	600	600	394	206
Shop expense	2,000	2,000	3,609	(1,609)
Miscellaneous	3,265	3,265	1,144	2,121
Fees and permits	8,384	8,384	6,297	2,087
Capital outlay	15,000	15,000	15,000	—
Pass-through funds	15,800	15,800	488,531	(472,731)
Water Power Authority Loan	173,500	173,500	169,572	3,928
Drinking water revolving funds	23,343	23,343	23,343	—
Debt service	—	—	(143,708)	143,708
<b>Total Expenditures</b>	552,219	552,219	943,882	(391,663)
<b>Available Resources - End Of Year</b>	\$ 1,065,092	\$ 1,065,092	\$ 686,079	\$ 379,013

# TOWN OF PAONIA, COLORADO

## SANITATION FUND - SCHEDULE OF REVENUES, EXPENDITURES AND CHANGES IN AVAILABLE RESOURCES - BUDGET AND ACTUAL (NON-GAAP BUDGETARY BASIS)

For The Year Ended December 31, 2015

Page 1 Of 2

	Original Budget	Final Budget	Actual	Favorable (Unfavorable)
<b>Available Resources - Beginning Of Year</b>	\$ 560,559	\$ 560,559	\$ 560,559	\$ —
<b>Revenues</b>				
Sewer charges	351,267	351,267	342,714	(8,553)
Garbage charges	181,389	181,389	174,814	(6,575)
Sewer rental property	1,125	1,125	1,200	75
Sewer taps	3,750	3,750	3,750	—
Transfers in	60	60	—	(60)
<b>Total Revenues</b>	<b>537,591</b>	<b>537,591</b>	<b>522,478</b>	<b>(15,113)</b>
<b>Total Available Resources</b>	<b>1,098,150</b>	<b>1,098,150</b>	<b>1,083,037</b>	<b>(15,113)</b>
<b>Expenditures</b>				
<b>Sewer</b>				
Salaries and wages	79,779	79,779	85,856	(6,077)
Employee benefits	18,433	18,433	17,705	728
Supplies	26,625	26,625	25,166	1,459
Repairs and maintenance	28,750	28,750	28,694	56
Professional fees	6,000	6,000	24,220	(18,220)
Telephone	1,750	1,750	1,554	196
Postage	1,950	1,950	2,072	(122)
Travel and meetings	500	500	517	(17)
Insurance and bonds	5,836	5,836	5,874	(38)
Utilities	51,350	51,350	49,322	2,028
Vehicle expense	12,800	12,800	14,848	(2,048)
Fees and permits	6,401	6,401	6,942	(541)
Debt service payments	75,431	75,431	75,435	(4)
Pass-through funds	15,801	15,801	15,473	328
Gaging station	3,600	3,600	4,500	(900)
Miscellaneous	(1,845)	(1,845)	701	(2,546)
<b>Total Sewer</b>	<b>333,161</b>	<b>333,161</b>	<b>358,879</b>	<b>(25,718)</b>

# TOWN OF PAONIA, COLORADO

## SANITATION FUND - SCHEDULE OF REVENUES, EXPENDITURES AND CHANGES IN AVAILABLE RESOURCES - BUDGET AND ACTUAL (NON-GAAP BUDGETARY BASIS)

For The Year Ended December 31, 2015

Page 2 Of 2

	Original Budget	Final Budget	Actual	Favorable (Unfavorable)
<b>Garbage</b>				
Salaries and wages	\$ 76,599	\$ 76,599	\$ 75,845	\$ 754
Employee benefits	24,771	24,771	22,947	1,824
Supplies	2,545	2,545	1,049	1,496
Repairs and maintenance	1,000	1,000	33	967
Legal and engineering services	50	50	50	—
Telephone	680	680	143	537
Postage	1,000	1,000	1,023	(23)
Insurance and bonds	3,665	3,665	3,488	177
Utilities	2,125	2,125	1,961	164
Vehicle expense	12,000	12,000	7,882	4,118
Landfill fees	21,000	21,000	22,022	(1,022)
Miscellaneous	1,569	1,569	740	829
<b>Total Garbage</b>	<b>147,004</b>	<b>147,004</b>	<b>137,183</b>	<b>9,821</b>
<b>Total Expenditures</b>	<b>480,165</b>	<b>480,165</b>	<b>496,062</b>	<b>(15,897)</b>
<b>Available Resources - End Of Year</b>	<b>\$ 617,985</b>	<b>\$ 617,985</b>	<b>\$ 586,975</b>	<b>\$ (31,010)</b>



## Calendar Year 2015

(Please wait a few moments for the page to load...)

### ANNUAL HIGHWAY FINANCE REPORT

Step 1: Enter your email and select your City or County from the list below.

Step 2: Click on "Start" to edit/update your data.

Step 3: Click on "Submit" at the bottom of the form to edit/update your data.

Your Email Address:

Select City:

#### II - RECEIPTS FOR ROAD AND STREET PURPOSES

##### A. Receipts from local sources

2. General Fund Appropriations:	\$	0
3. Other local imposts: <i>(from A.3. Total below)</i>	\$	26,991
4. Miscellaneous local receipts: <i>(from A.4. Total below)</i>	\$	9,197
5. Transfers from toll facilities	\$	0
6. Proceeds of sale of bonds and notes		
a. Bonds - Original Issues:	\$	0
b. Bonds - Refunding Issues:	\$	0
c. Notes:	\$	0
SubTotal:	\$	0

B. Private Contributions \$ 0

#### II - RECEIPTS FOR ROAD AND STREET PURPOSES (Detail)

##### A.3. Other local imposts

a. Property Taxes and Assessments	\$	11941
b. Other Local Imposts		
1. Sales Taxes:	\$	0
2. Infrastructure and Impact Fees:	\$	0
3. Liens:	\$	0
4. Licenses:	\$	0
5. Specific Ownership and/or Other:	\$	15050
Total: <i>(a + b) carried to 'Other local imposts' above)</i>	\$	26,991

##### A.4. Miscellaneous local receipts

a. Interest on Investments:	\$	0
-----------------------------	----	---

b. Traffic fines & Penalties:	\$	8722
c. Parking Garage Fees:	\$	0
d. Parking Meter Fees:	\$	0
e. Sale of Surplus Property:	\$	0
f. Charges for Services:	\$	475
g. Other Misc. Receipts:	\$	0
h. Other:	\$	0

Total: (a through h) carried to Misc local receipts' above) \$ 9,197

**C. Receipts from State Government**

1. Highway User Taxes:	\$	48852
3. Other State funds:		
c. Motor Vehicle Registrations:	\$	5993
d. Other (Specify) - DOLA Grant:	\$	0
<i>(Specify in comments section below)</i>		
e. Other (Specify):	\$	6304
<i>(Specify in comments section below)</i>		

Total: (1+3c,d,e) \$ 61,149

**D. Receipts from Federal Government**

**2. Other Federal Agencies**

a. Forest Service:	\$	0
b. FEMA:	\$	0
c. HUD:	\$	0
d. Federal Transit Administration:	\$	0
e. U.S. Corp of Engineers	\$	0
f. Other Federal:	\$	0

Total: (2a-f) \$ 0

**III - DISBURSEMENTS FOR ROAD AND STREET PURPOSES**

**A. Local highway disbursements**

1. Capital outlay: <i>(from A.1.d. Total Capital Outlay below)</i>	\$	0
2. Maintenance:	\$	39507
3. Road and street services		
a. Traffic control operations:	\$	0
b. Snow and ice removal:	\$	16534
c. Other:	\$	0
4. General administration & miscellaneous	\$	4840
5. Highway law enforcement and safety	\$	12517

Total: (A.1-5) \$ 73,398

**B. Debt service on local obligations**

1. Bonds		
a. Interest	\$	0
b. Redemption	\$	0
2. Notes		
a. Interest	\$	0
b. Redemption	\$	0

SubTotal: (1+2) \$ 0



C. Payments to State for Highways:	\$	0
D. Payments to Toll Facilities:	\$	0
Total Disbursements: <i>(A+B+C+D)</i>		\$ 73,398

III - DISBURSEMENTS FOR ROAD AND STREET PURPOSES - (Detail)

	A. ON NATIONAL HIGHWAY SYSTEM	B. OFF NATIONAL HIGHWAY SYSTEM	C. TOTAL
<b>A.1. Capital Outlay</b>			
a. Right-Of-Way Costs:	\$ 0	\$ 0	\$ 0
b. Engineering Costs:	\$ 0	\$ 0	\$ 0
c. Construction			
1. New Facilities:	\$ 0	\$ 0	\$ 0
2. Capacity Improvements:	\$ 0	\$ 0	\$ 0
3. System Preservation:	\$ 0	\$ 0	\$ 0
4. System Enhancement:	\$ 0	\$ 0	\$ 0
5. Total Construction:			\$ 0
d. Total Capital Outlay: <i>(Lines A.1.a. + 1.b. + 1.c.5)</i>			\$ 0

IV. LOCAL HIGHWAY DEBT STATUS

	OPENING DEBT	AMOUNT ISSUED	REDEMPTIONS	CLOSING DEBT
<b>A. Bonds (Total)</b>	\$ 0	\$ 0	\$ 0	\$ 0
1. Bonds (Refunding Portion)	\$ 0	\$ 0	\$ 0	\$ 0
<b>B. Notes (Total):</b>	\$ 0	\$ 0	\$ 0	\$ 0

V - LOCAL ROAD AND STREET FUND BALANCE

A. Beginning Balance	B. Total Receipts	C.Total Disbursements	D. Ending Balance	E. Reconciliation
\$ 0	\$ 61,149	\$ 73,398	\$ 0	\$ -12,249

Notes & Comments:

Please enter your name: Jane A. Berry

Please provide a telephone number where you may be reached: (970)527-4101

If all entries are to be considered final and no more editing is expected, please check here:

Submit

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**Single Audit Section**

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**Independent Auditors' Report On  
Internal Control Over Financial Reporting  
And On Compliance And Other Matters  
Based On An Audit Of Financial Statements  
Performed In Accordance With  
Government Auditing Standards**

Board of Trustees  
Town of Paonia, Colorado

We have audited, in accordance with the auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States, the financial statements of the governmental activities, the business-type activities and each major fund of the Town of Paonia, Colorado (the Town), as of and for the year ended December 31, 2015, and the related notes to the financial statements, which collectively comprise the Town's basic financial statements, and have issued our report thereon dated July 19, 2016.

**Internal Control Over Financial Reporting**

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

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

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

### **Compliance And Other Matters**

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

### **Purpose Of This Report**

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

*RubinBrown LLP*

July 19, 2016

**Independent Auditors' Report On Compliance  
For The Major Federal Program And Report  
On Internal Control Over Compliance  
Required By The Uniform Guidance**

Board of Trustees  
Town of Paonia, Colorado

**Report On Compliance For The Major Federal Program**

We have audited the Town of Paonia, Colorado's (the Town) compliance with the types of compliance requirements described in the Office of Management and Budget (OMB) *OMB Compliance Supplement* that could have a direct and material effect on the Town's major federal program for the year ended December 31, 2015. The Town's major federal program is identified in the summary of auditors' results section of the accompanying schedule of findings and questioned costs.

**Management's Responsibility**

Management is responsible for compliance with federal statutes, regulations and the terms and conditions of its federal awards applicable to its federal programs.

**Auditors' Responsibility**

Our responsibility is to express an opinion on compliance for the Town's major federal program 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 the audit requirements of *Title 2 U.S. Code of Federal Regulations Part 200, Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards* (the Uniform Guidance). Those standards and the Uniform Guidance 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 Town'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 the major federal program. However, our audit does not provide a legal determination of the Town's compliance.

### **Opinion On The Major Federal Program**

In our opinion, the Town 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 program for the year ended December 31, 2015.

### **Other Matters**

The results of our auditing procedures disclosed an instance of noncompliance, which is required to be reported in accordance with the Uniform Guidance and which is described in the accompanying schedule of findings and questioned costs as item 2015-001. Our opinion on the major federal program is not modified with respect to these matters.

The Town's response to the noncompliance finding identified in our audit is described in the accompanying schedule of findings and questioned costs. The Town's response was not subjected to the auditing procedures applied in the audit of compliance, and accordingly, we express no opinion on the response.

### **Report On Internal Control Over Compliance**

Management of the Town 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 Town's internal control over compliance with the types of requirements that could have a direct and material effect on the major federal program to determine the auditing procedures that are appropriate in the circumstances for the purpose of expressing an opinion on compliance for the major federal program and to test and report on internal control over compliance in accordance with the Uniform Guidance, 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 Town'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 a 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, and therefore, material weaknesses or significant deficiencies may exist that have not been identified. We did not identify any deficiencies in internal control over compliance that we consider to be material weaknesses. However, we identified a certain deficiency in internal control over compliance, as described in the accompanying schedule of findings and questioned costs as item 2015-001, that we consider to be a significant deficiency.

The Town's response to the internal control over compliance finding identified in our audit is described in the accompanying schedule of findings and questioned costs. The Town's response was not subjected to the auditing procedures applied in the audit of compliance, and accordingly, we express no opinion on the response.

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 the Uniform Guidance. Accordingly, this report is not suitable for any other purpose.

*RubinBrown LLP*

July 19, 2016

**TOWN OF PAONIA**

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**SCHEDULE OF FINDINGS AND QUESTIONED COSTS  
For The Year Ended December 31, 2015**

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**Section I - Summary Of Auditors' Results**

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**Financial Statements**

Type of auditors' report issued on whether the financial statements audited were prepared in accordance with generally accepted accounting standards

Unmodified

Internal control over financial reporting:

Material weakness(es) identified?

\_\_\_ yes

X no

Significant deficiency(ies) identified?

\_\_\_ yes

X none reported

Noncompliance material to financial statements noted?

\_\_\_ yes

X no

**Federal Awards**

Internal control over major federal program:

Material weakness(es) identified?

\_\_\_ yes

X no

Significant deficiency(ies) identified?

X yes

\_\_\_ none reported

Type of auditors' report issued on compliance for major federal program:

Unmodified

Any audit findings disclosed that are required to be reported in accordance with 2 CFR 200.516(a)?

X yes

\_\_\_ no

Identification of major federal programs:

**CFDA Number(s)**

**Name Of Federal Program Or Cluster**

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66.468

Capitalization Grants for Drinking Water State Revolving Funds

Dollar threshold used to distinguish between Type A and Type B programs:

\$750,000

Auditee qualified as low-risk auditee?

\_\_\_ yes

X no



# TOWN OF PAONIA

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## SCHEDULE OF FINDINGS AND QUESTIONED COSTS *(CONTINUED)* For The Year Ended December 31, 2015

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### Section II - Financial Statement Findings

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There were no findings relating to the Town's financial statements that are required to be reported.

### Section III - Federal Award Findings And Questioned Costs

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#### Finding 2015-001

#### Significant Deficiency

#### Inaccurate Schedule of Expenditures of Federal Awards (SEFA)

#### Environmental Protection Agency

#### Passed Through Colorado Water Resources & Power Development Authority Project # 130200D

#### 66.468 Capitalization Grants for Drinking Water State Revolving Funds

**Criteria:** *Title 2 U.S. Code of Federal Regulations (CFR) Part 200, Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards* (the Uniform Guidance) identifies the required elements of the SEFA. The Town is required to prepare a complete and accurate SEFA and to have a system of internal controls, the design and operation of which allows management or employees in the normal course of performing their assigned functions to prevent, or detect and correct, errors on a timely basis.

**Condition:** The Town had material federal funding, which met the threshold of requiring a single audit. The Town did not have training regarding SEFA reporting requirements.

**Questioned Costs:** None

**Effect:** The Town did not report the appropriate federal and state share of funds on the prepared SEFA.

**Cause:** The Town does not have proper monitoring and oversight over SEFA preparation.

## TOWN OF PAONIA

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### SCHEDULE OF FINDINGS AND QUESTIONED COSTS *(CONTINUED)* For The Year Ended December 31, 2015

**Recommendation:** We recommend that an individual who is independent of the administration function of the grant programs review the SEFA for completeness and accuracy.

**Views Of Responsible Officials And Planned Corrective Actions:**

The Town of Paonia should take all necessary steps to fully comply with OMB Uniform Guidance regarding the Single Audit A-133 provisions, specifically the Schedule of Expenditures of Federal Awards (SEFA), identifying in its accounts all federal awards received and expended, as well as the federal programs under which they were received.

Federal program and award identification includes, as applicable, the CFDA title and number, the award number and year, the name of the federal granting agency (example: EPA), and the name of the pass-through entity (example: Colorado Water Resources & Power Development Authority). Using this information, the Town should be able to reconcile amounts presented in the financial statements to related amounts in the SEFA.

Management of the Town of Paonia recognizes its responsibilities for follow-up and corrective action on all audit findings and as such is submitting the following as our corrective action plan for current year (FY'2015) audit findings.

**Corrective Action Plan**

As a result of the findings of the Single Audit, the Town submits this corrective action plan that will address each audit finding included in the FY'2015 (and any subsequent years) auditor's reports:

- (1) Should the Town of Paonia not agree with the audit findings or believes corrective action is not required, then the corrective action plan shall include an explanation and specific reasons.
- (2) When audit findings are fully corrected, the summary schedule will list the audit findings and state that corrective action was taken.
- (3) If audit findings were not corrected or were only partially corrected, the summary schedule shall describe the planned corrective action as well as any partial corrective action taken.
- (4) When corrective action taken is significantly different from corrective action previously reported in a corrective action plan or in the Federal agency or pass-through entity's management decision, the summary schedule shall provide an explanation.

# TOWN OF PAONIA

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## SCHEDULE OF FINDINGS AND QUESTIONED COSTS (*CONTINUED*) For The Year Ended December 31, 2015

Specifically for FY'2015 audit findings:

### **Finding 2015-001**

#### **Significant Deficiency**

#### **Inaccurate Schedule of Expenditures of Federal Awards (SEFA)**

#### **Environmental Protection Agency**

#### **Passed Through Colorado Water Resources & Power Development Authority Project # 130200D**

#### **66.648 Capitalization Grants for Drinking Water State Revolving Funds**

**Auditor's Recommendation:** Recommended to the Town that an individual who is independent of the administration functions of the grant programs review the SEFA for completeness and accuracy.

Management of the Town of Paonia accepts the "Auditor's Recommendation" for this Finding 2015-001 Significant Deficiency for an independent review of the SEFA by an individual who has no administrative functions for the federal grant award programs. This recommendation can be accommodated by either the Town Treasurer and or the Town Board Finance and Personnel Committee as both the Town Manager and Finance Officer do not perform administrative functions for all federal grant award programs.

However, it must be noted the Management of Town of Paonia disagrees with the "Condition, Effect and Cause" as stated in this audit finding. The 2015 SEFA prepared by Town Staff was the first such undertaking without any prior training and or knowledge regarding the provisions required for this document. In addition, Management also disagrees with the statement in this finding that "the Town does not have proper monitoring and oversight over SEFA preparation". Training sponsored by GFOA is the more appropriate issue and or cause for which improvement can be obtained to assist with the development of future SEFA reports. For future SEFA's, additional oversight and support by the supervisor of the employee preparing the SEFA will be provided alleviating this cause.

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### **Section IV - Prior-Year Financial Statement Findings**

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There are no findings relating to the Town's prior-year financial statements that are required to be reported.

**TOWN OF PAONIA**

**SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS  
For The Year Ended December 31, 2015**

FEDERAL AGENCY NAME	PASS THROUGH AGENCY	FEDERAL PROGRAM TITLE	CFDA NUMBER	OTHER IDENTIFICATION NUMBER	EXPENDITURES
ENVIRONMENTAL PROTECTION AGENCY	COLORADO WATER RESOURCES AND POWER DEVELOPMENT AUTHORITY	CAPITALIZATION GRANT FOR DRINKING WATER STATE REVOLVING FUNDS	66.468	PROJECT#: 130200D D14F327  DWRP	\$ 445,626
ENVIRONMENTAL PROTECTION AGENCY	COLORADO WATER RESOURCES AND POWER DEVELOPMENT AUTHORITY	CAPITALIZATION GRANT FOR DRINKING WATER STATE REVOLVING FUNDS	66.468	PROJECT: 130200D D14A212 DRINKING WATER REVENUE BONDS 2014 SERIES A	475,127
<b>TOTAL FEDERAL AWARDS</b>					<b>\$ 920,753</b>

# TOWN OF PAONIA

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## NOTES TO SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS For The Year Ended December 31, 2015

### 1. **Basis Of Accounting**

The accompanying Schedule of Expenditures of Federal Awards (SEFA) presents the activity of all federal award programs of the Town of Paonia (the Town). The information on the SEFA is presented in accordance with the requirements of *Title 2 U.S. Code of Federal Regulations Part 200, Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards* (the Uniform Guidance). Therefore, some amounts presented in the SEFA may differ from amounts presented in, or used in the preparation of, the Town's financial statements. The Town uses the accrual basis of accounting. Expenditures represent only the federally funded portions of the program. Town records should be consulted to determine amounts expended or matched from nonfederal sources.

### 2. **Program Costs**

The amounts shown as current-year expenses represent only the federal grant portion of the program costs. Entire program costs, including the Town's local matching share, may be more than shown.

### 3. **DWSRF Project Requirements**

Public Law No. 113-76, Consolidated Appropriations Act, 2014, Section 436, requires that, unless exempted by the EPA Administrator, all iron and steel products used for a DWSRF project for the construction, alteration, maintenance or repair of treatment work be produced in the United States. This requirement does not apply with respect to projects prior to January 17, 2014 if a state agency approved the engineering plans and specifications for the project, in that agency's capacity to approve such plans and specifications prior to a project requesting bids.