

TOWN OF BAYFIELD, COLORADO



FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED DECEMBER 31, 2011
WITH REPORT OF
CERTIFIED PUBLIC ACCOUNTANTS

TOWN OF BAYFIELD, COLORADO

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Independent Auditors' Report

The Honorable Mayor and Board
Town of Bayfield, Colorado

We have audited the accompanying financial statements of the governmental activities, the business-type activities, each major fund, and the aggregate remaining fund information of the Town of Bayfield, Colorado, as of and for the year ended December 31, 2011, which collectively comprise the Town's basic financial statements as listed in the table of contents. These basic financial statements are the responsibility of the Town's management. Our responsibility is to express an opinion on these basic 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 of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinion.

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of governmental activities, the business type activities, each major fund, and the aggregate remaining fund information of the Town of Bayfield, Colorado, as of December 31, 2011, and the respective changes in financial position and cash flows, where applicable, thereof for the year then ended in conformity with accounting principles generally accepted in the United States of America.

In accordance with *Government Auditing Standards*, we have also issued our report dated May 25, 2012, on our consideration of the Town of Bayfield'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 results of that testing, and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be considered in assessing the results of our audit.

The Management's Discussion and budgetary comparison schedules are not a required part of the basic financial statements but are supplementary information required by the Governmental Accounting Standards Board. We have applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of the supplementary information. However, we did not audit the information and express no opinion on it.

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the Town's basic financial statements. The budgetary comparison schedules, loan requirement disclosures, and the Local Highway Finance Report as listed in the table of contents are presented for purposes of additional analysis as required by the State of Colorado and are not a required part of the basic financial statements of the Town. Such information has been subjected to the auditing procedures applied in the audit of the basic financial statements and, in our opinion, are fairly stated in all material respects in relation to the basic financial statements taken as a whole.



HintonBurdick, PLLC

May 25, 2012

TOWN OF BAYFIELD, COLORADO
MANAGEMENT'S DISCUSSION AND ANALYSIS
For the Year Ended December 31, 2011

As management of the Town of Bayfield (Town), we offer readers of the Town's financial statements this narrative overview and analysis of the financial activities of the Town for the year ended December 31, 2011. Please read it in conjunction with the accompanying basic financial statements.

FINANCIAL HIGHLIGHTS

- Total assets exceeded total liabilities (net assets) by \$30.7 million at the close of the fiscal year.
- Total governmental and business-type net assets increased by a combined total of \$8,420,155.
- The total cost of all Town programs for 2011 was \$3,825,567.
- The Colorado Department of Transportation transferred Highway 160B, now called Bayfield Parkway, to the Town during 2011 along with \$6.8 million in maintenance incentive funds.
- The general fund unassigned fund balance at the end of 2011 was \$393,703 which is 23% of total General fund expenditures.

USING THIS ANNUAL REPORT

This annual report consists of a series of financial statements. The three components of the financial statements are: (1) Government-wide financial statements which include the Statement of Net Assets and the Statement of Activities. These statements provide information about the activities of the Town as a whole. (2) Fund financial statements tell how these services were financed in the short term as well as what remains for future spending. Fund financial statements also report the Town's operations in more detail than the government-wide statements by providing information about the Town's most significant funds. (3) Notes to the financial statements.

Reporting the Town as a Whole

The Statement of Net Assets and the Statement of Activities (Government-wide)

A frequently asked question regarding the Town's financial health is whether the year's activities contributed positively to the overall financial well-being. The Statement of Net Assets and the Statement of Activities report information about the Town as a whole and about its activities in a way that helps answer this question. These statements include all assets and liabilities using the accrual basis of accounting, which is similar to the accounting used by most private-sector companies. All of the current year's revenues and expenses are taken into account regardless of when cash is received or paid.

These two statements report the Town's net assets and changes in them. Net assets, the difference between assets and liabilities, are one way to measure the Town's financial health, or financial position. Over time, increases or decreases in net assets are an indicator of whether the financial health is improving or deteriorating. However, it is important to consider other non-financial factors such as changes in the condition of the Town's roads to accurately assess the overall health of the Town.

The Statement of Net Assets and the Statement of Activities, present information about the following:

- Government activities – All of the Town's basic services are considered to be governmental activities, including general government, public safety, public works/streets, parks and recreation, and interest on long-term debt. Sales taxes, property taxes, franchise taxes, intergovernmental revenues and charges for services finance most of these activities.
- Proprietary activities/Business type activities – The Town charges a fee to customers to cover most of the cost of the services provided.

Reporting the Town's Most Significant Funds

Fund Financial Statements

The fund financial statements provide detailed information about the most significant funds—not the Town as a whole. Some funds are required to be established by State law and by bond covenants. However, management establishes many other funds which aid in the management of money for particular purposes or meet legal responsibilities associated with the usage of certain taxes, grants, and other money. The Town's two major kinds of funds, governmental and proprietary, use different accounting approaches as explained below.

- Governmental funds – Most of the Town's basic services are reported in governmental funds. Governmental funds focus on how resources flow in and out with the balances remaining at year-end that are available for spending. These funds are reported using an accounting method called the modified accrual accounting method, which measures cash and all other financial assets that can readily be converted to cash. The governmental fund statements provide a detailed short-term view of the Town's general government operations and the basic services it provides. Government fund information shows whether there are more or fewer financial resources that can be spent in the near future to finance the Town's programs. We describe the relationship (or differences) between governmental activities (reported in the Statement of Net Assets and the Statement of Activities) and governmental funds in a reconciliation included with the Basic Financial Statements and in footnote 2.
- Proprietary funds – When the Town charges customers for the services it provides, these services are generally reported in proprietary funds. Proprietary funds are reported in the same way that all activities are reported in the Statement of Net Assets and the Statement of Activities.

GOVERNMENT-WIDE FINANCIAL ANALYSIS

Net assets may serve over time as a useful indicator of the Town's financial position. The Town's combined assets exceed liabilities by \$30.7 million as of December 31, 2011 as shown in the following condensed statement of net assets. Of this amount, \$3,464,113 is unrestricted and available to meet the Town's ongoing financial obligations.

By far the largest portion of net assets is the investment in capital assets (net of related debt) of \$20,470,872 (66.63% of total net assets). This amount reflects the investment in all capital assets (e.g. infrastructure, land, buildings, and equipment) less any related debt used to acquire those assets that are still outstanding. These capital assets are used to provide services to citizens; consequently, these assets are not available for future spending. Although the investment in capital assets is reported net of debt, it should be noted that the resources needed to repay this debt must be provided from other sources since capital assets themselves cannot be used to liquidate these liabilities.

The Town has chosen to account for its water, sewer, and garbage operations in enterprise funds which are shown as Business Activities.

The following table summarizes the Town's governmental and business-type net assets as of December 31, 2011 and 2010:

TOWN OF BAYFIELD, COLORADO Statement of Net Assets

	Governmental activities		Business-type activities		Combined Total	
	12/31/2011	12/31/2010	12/31/2011	12/31/2010	12/31/2011	12/31/2010
Current and other assets	\$ 9,225,930	\$ 3,865,005	\$ 1,455,591	\$ 1,299,246	\$ 10,681,521	\$ 5,164,251
Capital assets	13,858,077	11,539,403	13,792,974	14,040,125	27,651,051	25,579,528
Total assets	23,084,007	15,404,408	15,248,565	15,339,371	38,332,572	30,743,779
Long-term liabilities outstanding	2,395,018	2,711,688	4,837,796	5,075,486	7,232,814	7,787,174
Other liabilities	369,092	603,803	8,363	50,654	377,455	654,457
Total liabilities	2,764,110	3,315,491	4,846,159	5,126,140	7,610,269	8,441,631
Net assets:						
Invested in capital assets, net of related debt	11,504,541	8,821,833	8,966,331	8,975,757	20,470,872	17,797,590
Restricted	6,703,000	1,153,206	84,318	109,545	6,787,318	1,262,751
Unrestricted	2,112,356	2,113,878	1,351,757	1,127,929	3,464,113	3,241,807
Total net assets	\$ 20,319,897	\$ 12,088,917	\$ 10,402,406	\$ 10,213,231	\$ 30,722,303	\$ 22,302,148

An additional portion of net assets, \$6,787,318, represents resources that are subject to external restrictions on how they may be used. The remaining balance of unrestricted net assets, \$3,464,113 (11.287% of total net assets), may be used to meet the government's ongoing obligations to citizens and creditors.

Governmental Activities

The cost of all Governmental activities this year was \$2,438,224 as shown in the Changes in net Assets statement below. \$187,470 of this cost was paid for by those who directly benefited from the programs. \$8,769,604 was subsidized by grants or contributions received from other governmental organizations for both capital and operating activities. Overall governmental program revenues, including intergovernmental aid and fees for services were \$8,957,074. General taxes and investment earnings totaled \$1,679,194.

The Town's programs include: General Government, Public Safety, Public Works/Streets, and Parks & Recreation. Each program's revenues and expenses are presented below.

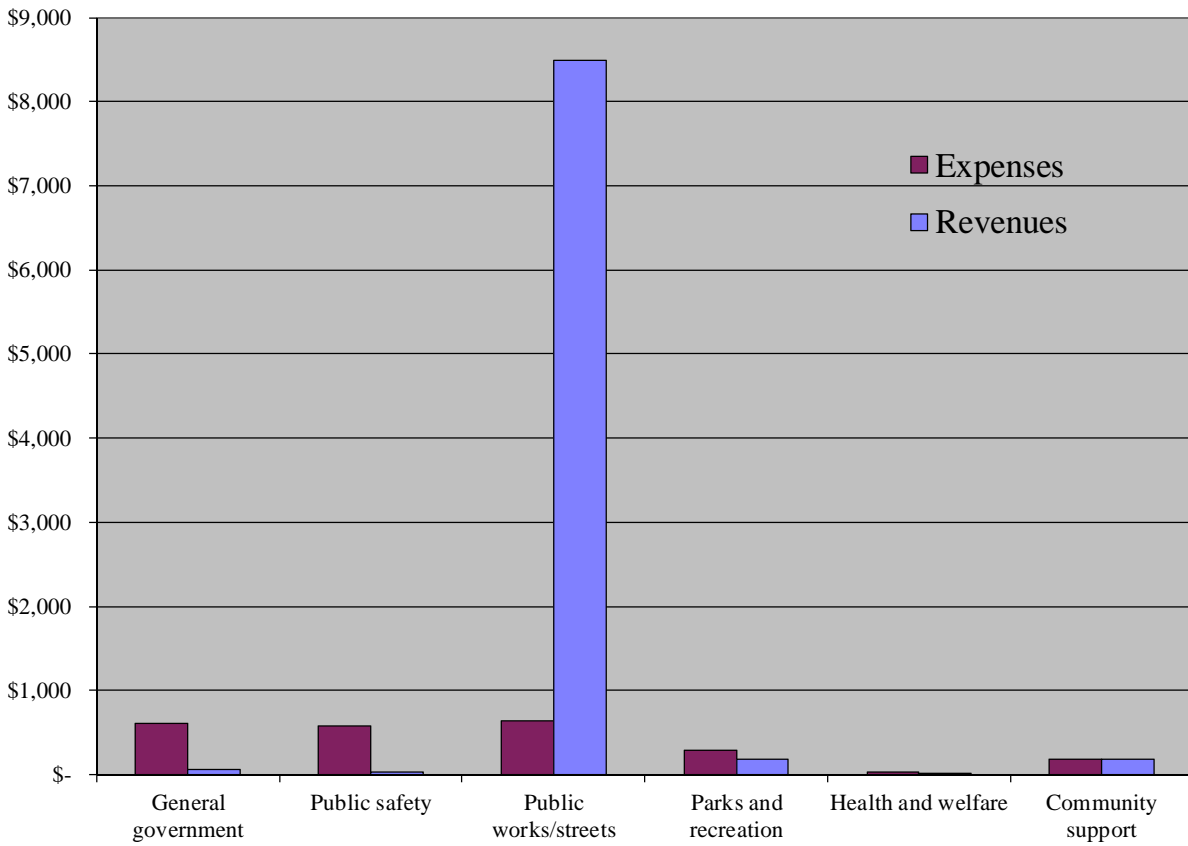
TOWN OF BAYFIELD, COLORADO Changes in Net Assets

	Governmental activities		Business-type activities		Combined Total	
	12/31/2011	12/31/2010	12/31/2011	12/31/2010	12/31/2011	12/31/2010
Revenues:						
Program revenues:						
Charges for services	\$ 187,470	\$ 199,832	\$ 1,347,632	\$ 1,479,477	\$ 1,535,102	\$ 1,679,309
Operating grants and contributions	221,536	376,737	-	-	221,536	376,737
Capital grants and contributions	8,548,068	501,360	236,257	646,392	8,784,325	1,147,752
General revenues:						
Taxes	1,666,527	1,657,638	-	-	1,666,527	1,657,638
Investment earnings	12,667	21,396	-	-	12,667	21,396
Gain on sales of assets	-	211,144	-	-	-	211,144
Other revenue/(expense)	-	-	25,565	4,870	25,565	4,870
Total revenues	<u>10,636,268</u>	<u>2,968,107</u>	<u>1,609,454</u>	<u>2,130,739</u>	<u>12,245,722</u>	<u>5,098,846</u>
Expenses:						
General government	614,928	605,481	-	-	614,928	605,481
Public safety	577,128	504,680	-	-	577,128	504,680
Public works/streets	633,995	871,713	-	-	633,995	871,713
Parks and recreation	291,670	280,309	-	-	291,670	280,309
Health and welfare	35,867	110,058	-	-	35,867	110,058
Community support	179,110	336,005	-	-	179,110	336,005
Interest on long-term debt	105,526	166,322	-	-	105,526	166,322
Water	-	-	458,795	512,157	458,795	512,157
Sewer	-	-	798,503	944,487	798,503	944,487
Garbage	-	-	130,045	114,830	130,045	114,830
Total expenses	<u>2,438,224</u>	<u>2,874,568</u>	<u>1,387,343</u>	<u>1,571,474</u>	<u>3,825,567</u>	<u>4,446,042</u>
Increase (decrease) in net assets before transfers	8,198,044	93,539	222,111	559,265	8,420,155	652,804
Transfers	32,936	(25,032)	(32,936)	25,032	-	-
Net assets, beginning	12,088,917	11,043,577	10,213,231	9,319,726	22,302,148	20,363,303
Prior period adjustment	-	976,833	-	309,208	-	1,286,041
Net assets, ending	<u>\$ 20,319,897</u>	<u>\$ 12,088,917</u>	<u>\$ 10,402,406</u>	<u>\$ 10,213,231</u>	<u>\$ 30,722,303</u>	<u>\$ 22,302,148</u>

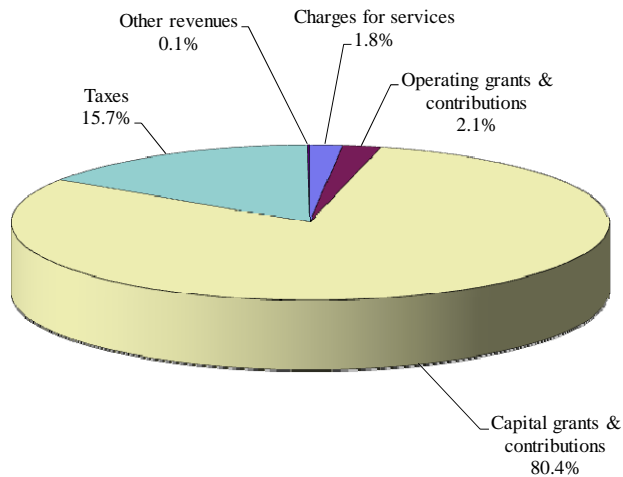
Total resources available during the year to finance governmental operations were \$22,725,185 consisting of Net assets at January 1, 2011 of \$12,088,917, program revenues of \$8,957,074, and General Revenues of \$1,679,194. Total Governmental Activities expenses during the year were \$2,438,224 and transfers from business-type funds were \$32,936; thus Governmental Net Assets were increased by \$8,230,980 to \$20,319,897.

The following graphs compare program expenses to program revenues and provide a breakdown of revenues by source for all governmental activities:

Expenses and Program Revenues - Governmental Activities
(in Thousands)



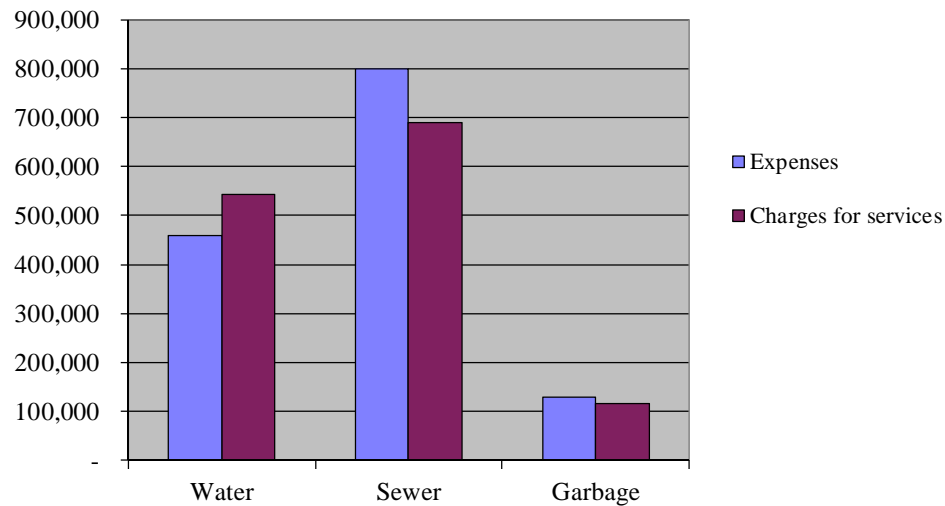
Revenue By Source - Governmental Activities



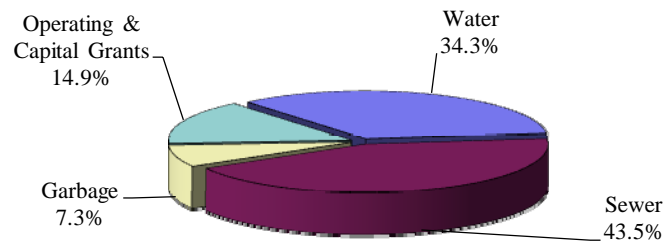
Business Type Activities

Net assets of the Business Type activities at December 31, 2011, as reflected in the Statement of Net Assets were \$10.4 million. The cost of providing all Proprietary (Business Type) activities this year was \$1,387,343. As shown in the statement of Changes in Net Assets, the amounts paid by users of the system were \$1,347,632 and there was \$236,257 subsidized by capital grants and contributions. Investment earnings and other revenues were \$25,565. Transfers to governmental activities totaled \$32,936. The Net Assets increased by \$189,175. The following graphs compare the total business-type activity expenses by service to the charges for those services and the graph at the bottom of the page provides a breakdown of the total revenues for business-type activities.

Expenses and Charges for Services - Business- type Activities



Revenue By Source - Business-type Activities



Financial Analysis of the Government's Funds

As noted earlier, the Town uses fund accounting to ensure and demonstrate compliance with finance-related legal requirements.

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

As of the end of the current fiscal year, the Town's governmental funds reported combined ending fund balances of \$7,879,534, an increase of \$5,671,003 in comparison with the prior year. Approximately 5.0% (\$393,703) constitutes unassigned fund balance, which is available for spending at the government's discretion.

The Town has four major governmental funds, the general fund, the debt service fund, the capital improvement fund, and the transportation fund.

The General fund is the primary operating fund for the Town. At December 31, 2011, unassigned fund balance in the General fund was \$393,703. As a measure of the General fund's liquidity, it may be useful to compare both unassigned fund balance and total fund balance to total fund expenditures. Total unassigned fund balance represents 23% of the total General fund expenditures. The fund balance of the Town's General fund increased by \$122,346 for the year ended December 31, 2011. As compared to the prior year, the General fund revenues were down due to decreased intergovernmental revenues. General fund expenses increased due to bringing the parks and recreation activities into the General fund.

The special assessments and interest earned in the debt service fund exceeded total expenditures in the fund by \$800.

The Capital Improvement fund received higher sales tax revenues than budgeted. The actual increase in fund balance was \$39,894.

The Transportation fund was a new fund created in 2011 to account for maintenance incentive revenues received from the Colorado Department of Transportation in connection with the transfer of US Highway 160B, now called the Bayfield Parkway, to the Town of Bayfield..

Proprietary funds: The Town's proprietary funds provide the same type of information found in the government-wide financial statements, but in more detail. Net assets and changes in net assets for the year-ended December 31, 2011 for the Town's three enterprise funds (Water, Sewer, and Garbage) are as follows:

	Water	Sewer	Garbage	Total
Unrestricted net assets	\$ 758,793	\$ 554,165	\$ 38,799	\$ 1,351,757
Total net assets	4,563,340	5,745,198	93,868	10,402,406
Change in net assets	179,711	24,322	(14,858)	189,175

The capital assets in the water fund increased \$164,750 for a tank recoating project. No other significant capital outlays occurred during the year.

Budgetary Highlights

General fund revenues of \$1,778,004 were less than budgeted revenues of 1,811,174 by \$33,170. The most significant factor contributing to this shortfall is related to budgeted grant revenues of \$238,084 of which only \$201,084 was received during the year.

CAPITAL ASSET AND DEBT ADMINISTRATION

Capital Assets

The capital assets of the Town are those assets that are used in performance of Town functions including infrastructure assets. Capital Assets include equipment, buildings, land, system improvements, park facilities and roads. At the end of 2011, net capital assets of the government activities totaled \$13.86 million and the net capital assets of the business-type activities were \$13.79 million. The most significant governmental capital additions were the Bayfield Parkway acquisition (formerly Highway 160B) and the Bayfield Parkway overlay. The most significant business-type capital addition was a tank recoating. Depreciation on capital assets for both government activities and business-type activities is recognized in the Government-Wide financial statements. (See note 6 to the financial statements.)

Debt

At year-end, the Town had \$2,395,018 in governmental type debt, and \$4,837,796 in proprietary debt. During the current fiscal year, the Town's total debt decreased by \$554,362. (See note 7 to the financial statements for detailed descriptions.)

NEXT YEAR'S BUDGET AND ECONOMIC FACTORS

In considering the Town Budget for the year 2012, the Town Board of Trustees and management were cautious as to the growth of revenues and expenditures due to a slow economy.

CONTACTING THE TOWN'S FINANCIAL MANAGEMENT

This financial report is designed to provide our citizens, taxpayers, customers, investors and creditors with a general overview of the Town's finances and to show the Town's accountability for the money it receives. If you have questions about this report or need additional financial information, contact the Finance Director at: 1199 US Highway 160B Bayfield, Colorado 81122.

BASIC FINANCIAL STATEMENTS

TOWN OF BAYFIELD, COLORADO
Statement of Net Assets
December 31, 2011

	<u>Governmental</u> <u>Activities</u>	<u>Business-type</u> <u>Activities</u>	<u>Total</u>
Assets			
Cash and cash equivalents	\$ 1,997,957	\$ 1,295,264	\$ 3,293,221
Receivables (net of allowance)	431,697	50,774	482,471
Internal balances	71,000	(71,000)	-
Inventories	20,252	96,235	116,487
Temporarily restricted assets:			
Cash and cash equivalents	5,676,317	84,318	5,760,635
Special improvement district receivable	1,028,707		1,028,707
Capital assets (net of accumulated depreciation):			
Land	752,600	103,766	856,366
Construction in progress	16,823	-	16,823
Buildings	5,838,431	113,589	5,952,020
Machinery and equipment	150,235	277,188	427,423
Vehicles	223,316	-	223,316
Infrastructure and systems	6,876,672	13,298,431	20,175,103
Total assets	<u>23,084,007</u>	<u>15,248,565</u>	<u>38,332,572</u>
Liabilities			
Accounts payable and other current liabilities	101,741	8,363	110,104
Interest payable	51,403	-	51,403
Unearned revenue	215,948	-	215,948
Noncurrent liabilities:			
Due within one year	351,608	255,380	606,988
Due in more than one year	2,043,410	4,582,416	6,625,826
Total liabilities	<u>2,764,110</u>	<u>4,846,159</u>	<u>7,610,269</u>
Net Assets			
Invested in capital assets, net of related debt	11,504,541	8,966,331	20,470,872
Restricted for:			
Parks and recreation	88,087	-	88,087
Public works	5,540,199	-	5,540,199
Debt service	1,074,714	84,318	1,159,032
Unrestricted	2,112,356	1,351,757	3,464,113
Total Net Assets	<u>\$ 20,319,897</u>	<u>\$ 10,402,406</u>	<u>\$ 30,722,303</u>

The accompanying notes are an integral part of the financial statements.

TOWN OF BAYFIELD, COLORADO
Statement of Activities
For the Year Ended December 31, 2011

Functions/Programs	Expenses	Program Revenues			Net (Expense) Revenue and Changes in Net Assets		
		Charges for Services	Operating Grants and Contributions	Capital Grants and Contributions	Primary Government		Total
					Governmental Activities	Business-type Activities	
Governmental activities:							
General government	\$ 614,928	\$ 53,450	\$ 14,500	\$ -	\$ (546,978)	\$ -	\$ (546,978)
Public safety	577,128	23,732	-	4,974	(548,422)	-	(548,422)
Public works/streets	633,995	47,063	-	8,436,196	7,849,264	-	7,849,264
Parks and recreation	291,670	52,346	19,899	106,898	(112,527)	-	(112,527)
Health and welfare	35,867	10,879	8,027	-	(16,961)	-	(16,961)
Community support	179,110	-	179,110	-	-	-	-
Interest on long-term debt	105,526	-	-	-	(105,526)	-	(105,526)
Total governmental activities	<u>2,438,224</u>	<u>187,470</u>	<u>221,536</u>	<u>8,548,068</u>	<u>6,518,850</u>	<u>-</u>	<u>6,518,850</u>
Business-type activities:							
Water	458,795	542,804	-	106,745	-	190,754	190,754
Sewer	798,503	689,738	-	129,512	-	20,747	20,747
Garbage	130,045	115,090	-	-	-	(14,955)	(14,955)
Total business-type activities	<u>1,387,343</u>	<u>1,347,632</u>	<u>-</u>	<u>236,257</u>	<u>-</u>	<u>196,546</u>	<u>196,546</u>
Total primary government	<u>\$ 3,825,567</u>	<u>\$ 1,535,102</u>	<u>\$ 221,536</u>	<u>\$ 8,784,325</u>	<u>6,518,850</u>	<u>196,546</u>	<u>6,715,396</u>
General Revenues:							
Taxes:							
Property tax					230,545	-	230,545
Sales tax					1,164,745	-	1,164,745
Other taxes					257,912	-	257,912
Franchise tax					13,325	-	13,325
Unrestricted investment earnings					12,667	25,565	38,232
Transfers					32,936	(32,936)	-
Total general revenues & transfers					<u>1,712,130</u>	<u>(7,371)</u>	<u>1,704,759</u>
Change in net assets					8,230,980	189,175	8,420,155
Net assets - beginning					<u>12,088,917</u>	<u>10,213,231</u>	<u>22,302,148</u>
Net assets - ending					<u>\$ 20,319,897</u>	<u>\$ 10,402,406</u>	<u>\$ 30,722,303</u>

The accompanying notes are an integral part of the financial statements.

TOWN OF BAYFIELD, COLORADO
Balance Sheet
Governmental Funds
December 31, 2011

Assets	General Fund	Debt Service Fund	Capital Improvement Fund	Transportation Fund	Nonmajor Conservation Trust Fund	Total Governmental Funds
Cash and cash equivalents	\$ 1,033,704	\$ -	\$ 964,253	\$ -	\$ -	\$ 1,997,957
Receivables, net of allowances:	522	1,028,707	-	-	-	1,029,229
Due from other governments	377,711	-	53,464	-	-	431,175
Due from other funds	-	-	71,000	-	-	71,000
Inventories	20,252	-	-	-	-	20,252
Restricted cash and investments	-	46,007	64,371	5,540,199	25,740	5,676,317
Total Assets	<u>\$ 1,432,189</u>	<u>\$ 1,074,714</u>	<u>\$ 1,153,088</u>	<u>\$ 5,540,199</u>	<u>\$ 25,740</u>	<u>\$ 9,225,930</u>
Liabilities and Fund Balances						
Liabilities:						
Accounts payable	\$ 43,875	\$ -	\$ 36	\$ -	\$ 2,024	\$ 45,935
Accrued liabilities	55,806	-	-	-	-	55,806
Deferred revenue	215,948	1,028,707	-	-	-	1,244,655
Total liabilities	<u>315,629</u>	<u>1,028,707</u>	<u>36</u>	<u>-</u>	<u>2,024</u>	<u>1,346,396</u>
Fund balances:						
Nonspendable	20,252	-	-	-	-	20,252
Restricted for:						
Emergency reserve	101,653	-	-	-	-	101,653
Debt service	-	46,007	-	-	-	46,007
Capital outlay	-	-	64,371	5,540,199	23,716	5,628,286
Committed to:						
Capital outlay	-	-	1,088,681	-	-	1,088,681
Assigned to:						
Public Safety	1,200	-	-	-	-	1,200
Health and welfare	12,002	-	-	-	-	12,002
Subsequent years	587,750	-	-	-	-	587,750
Unassigned	393,703	-	-	-	-	393,703
Total fund balances	<u>1,116,560</u>	<u>46,007</u>	<u>1,153,052</u>	<u>5,540,199</u>	<u>23,716</u>	<u>7,879,534</u>
Total liabilities and fund balances	<u>\$ 1,432,189</u>	<u>\$ 1,074,714</u>	<u>\$ 1,153,088</u>	<u>\$ 5,540,199</u>	<u>\$ 25,740</u>	<u>\$ 9,225,930</u>

The accompanying notes are an integral part of the financial statements.

TOWN OF BAYFIELD, COLORADO
Reconciliation of the Balance Sheet of Governmental Funds
to the Statement of Net Assets
December 31, 2011

Total fund balances - governmental funds		\$ 7,879,534
Amounts reported for governmental activities in the statement of net assets are different because:		
Some assets are not available to pay for current period expenditures, and therefore, are deferred in the funds.		1,028,707
Capital assets used in governmental activities are not financial resources and, therefore, are not reported in the funds.		
Governmental capital assets	17,400,269	
Accumulated depreciation	<u>(3,542,192)</u>	
		13,858,077
Long-term liabilities are not due and payable in the current period and therefore are not reported in the funds.		
Capital leases payable		(1,443,536)
Bonds payable		(910,000)
Interest payable		(51,403)
Compensated absences		<u>(41,482)</u>
Total net assets - governmental activities		<u><u>\$20,319,897</u></u>

The accompanying notes are an integral part of the financial statements.

TOWN OF BAYFIELD, COLORADO
Statement of Revenues, Expenditures and Changes in
Fund Balances - Governmental Funds
For the Year Ended December 31, 2011

	General Fund	Debt Service Fund	Capital Improvement Fund	Transportation Fund	Nonmajor Conservation Trust Fund	Total al Funds
Revenues						
Taxes	\$ 1,415,863	\$ -	\$ 250,665	\$ -	\$ -	\$ 1,666,528
Licenses and permits	44,606	-	-	-	-	44,606
Intergovernmental	201,084	-	164,501	6,800,000	19,899	7,185,484
Fines and forfeitures	17,568	-	-	-	-	17,568
Charges for services	85,286	-	-	-	-	85,286
Interest revenue	2,266	209	10,192	-	-	12,667
Special assessments	-	152,562	-	-	-	152,562
In lieu of parks fee	-	-	6,528	-	-	6,528
Other revenues	11,331	-	25,000	-	-	36,331
Total revenues	<u>1,778,004</u>	<u>152,771</u>	<u>456,886</u>	<u>6,800,000</u>	<u>19,899</u>	<u>9,207,560</u>
Expenditures						
Current:						
General government	502,280	1,696	-	-	-	503,976
Public safety	523,655	-	-	-	-	523,655
Public works/streets	235,080	-	-	-	-	235,080
Non-departmental	12,611	-	-	-	-	12,611
Parks and recreation	243,994	-	-	-	-	243,994
Payments to sub recipients	179,110	-	-	-	-	179,110
Capital outlay	11,063	-	185,046	1,259,801	-	1,455,910
Debt service:						
Principal retirement	-	95,000	213,706	-	-	308,706
Interest on long-term debt	-	55,275	54,176	-	-	109,451
Total expenditures	<u>1,707,793</u>	<u>151,971</u>	<u>452,928</u>	<u>1,259,801</u>	<u>-</u>	<u>3,572,493</u>
Excess of revenues over (under) expenditures	70,211	800	3,958	5,540,199	19,899	5,635,067
Other financing sources (uses):						
Transfers in	52,135	-	32,936	-	-	85,071
Transfers out	-	-	-	-	(52,135)	(52,135)
Sale of assets	-	-	3,000	-	-	3,000
Total other financing sources (uses)	<u>52,135</u>	<u>-</u>	<u>35,936</u>	<u>-</u>	<u>(52,135)</u>	<u>35,936</u>
Net change in fund balances	122,346	800	39,894	5,540,199	(32,236)	5,671,003
Fund balance, beginning of year	994,214	45,207	1,113,158	-	55,952	2,208,531
Fund balance, end of year	<u>\$ 1,116,560</u>	<u>\$ 46,007</u>	<u>\$ 1,153,052</u>	<u>\$ 5,540,199</u>	<u>\$ 23,716</u>	<u>\$ 7,879,534</u>

The accompanying notes are an integral part of the financial statements.

TOWN OF BAYFIELD, COLORADO
Reconciliation of the Statement of Revenues, Expenditures
and Changes in Fund Balances of Governmental Funds
To the Statement of Activities
For the Year Ended December 31, 2011

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

Net change in fund balances - total governmental funds		\$ 5,671,003
<p>Governmental funds report capital outlays as expenditures. However, in the statement of activities, the costs of those assets is allocated over their estimated useful lives and reported as depreciation expense. This is the amount by which capital outlay exceeded depreciation in the current period.</p>		
Capital outlay	1,395,579	
Depreciation expense	<u>(573,725)</u>	821,854
<p>The net effect of various transactions involving capital assets (i.e. sales and donations) is to increase net assets</p>		
		1,499,820
<p>Governmental funds report the gross proceeds from the sale of capital assets as revenue. However, in the statement of activities, the gain/(loss) on the sale of capital assets is reported net of its net book value.</p>		
		(3,000)
<p>Repayment of long term debt principal is an expenditure in the governmental funds, but the repayment reduces long-term liabilities in the statement of net assets.</p>		
		308,706
<p>Accrued interest for long-term debt is not reported as an expenditure for the current period while it is recorded in the statement of activities.</p>		
		3,925
<p>Compensated absences expenses reported in the statement of activities do not require the use of current financial resources and therefore are not reported as expenditures in governmental funds.</p>		
		7,964
<p>Deferred revenues in the governmental funds were recognized as revenues in the statement of activities in previous years.</p>		
		(79,292)
		\$ 8,230,980
Change in net assets of governmental activities		

The accompanying notes are an integral part of the financial statements.

TOWN OF BAYFIELD, COLORADO
Statement of Net Assets
Proprietary Funds
December 31, 2011

	Water Fund	Sewer Fund	Garbage Fund	Combined Total
Assets				
Current assets:				
Cash	\$ 769,782	\$ 490,890	\$ 34,592	\$ 1,295,264
Receivables (net of allowance)	17,719	28,455	4,600	50,774
Inventory	49,595	46,640	-	96,235
Restricted cash and investments	-	84,318	-	84,318
Total current assets	<u>837,096</u>	<u>650,303</u>	<u>39,192</u>	<u>1,526,591</u>
Noncurrent assets:				
Land	55,858	47,908	-	103,766
Buildings	9,250	250,993	57,967	318,210
Improvements and system	5,346,482	11,036,278	-	16,382,760
Machinery and equipment	150,154	208,220	-	358,374
Accumulated depreciation	(1,485,696)	(1,881,542)	(2,898)	(3,370,136)
Total noncurrent assets	<u>4,076,048</u>	<u>9,661,857</u>	<u>55,069</u>	<u>13,792,974</u>
Total assets	<u>\$ 4,913,144</u>	<u>\$ 10,312,160</u>	<u>\$ 94,261</u>	<u>\$ 15,319,565</u>
Liabilities				
Current liabilities:				
Accounts payable	2,834	5,529	-	8,363
Due to other funds	71,000	-	-	71,000
Loans payable - current	33,359	210,868	-	244,227
Compensated absences - current	4,469	6,291	393	11,153
Total current liabilities	<u>111,662</u>	<u>222,688</u>	<u>393</u>	<u>334,743</u>
Noncurrent liabilities:				
Loans payable (net of current portion)	238,142	4,344,274	-	4,582,416
Compensated absences (net of current portion)	-	-	-	-
Total long-term debt	<u>238,142</u>	<u>4,344,274</u>	<u>-</u>	<u>4,582,416</u>
Total liabilities	<u>349,804</u>	<u>4,566,962</u>	<u>393</u>	<u>4,917,159</u>
Net assets				
Invested in capital assets, net of related debt	3,804,547	5,106,715	55,069	8,966,331
Restricted	-	84,318	-	84,318
Unrestricted	758,793	554,165	38,799	1,351,757
Total net assets	<u>\$ 4,563,340</u>	<u>\$ 5,745,198</u>	<u>\$ 93,868</u>	<u>\$ 10,402,406</u>

The accompanying notes are an integral part of the financial statements.

TOWN OF BAYFIELD, COLORADO
Statement Revenues, Expenses, and Changes in Fund Net Assets
Proprietary Funds
For the Year Ended December 31, 2011

	Water Fund	Sewer Fund	Garbage Fund	Combined Total
Operating revenues				
Charges for services	\$ 542,804	\$ 689,663	\$ 115,090	\$ 1,347,557
Other revenues	-	75	-	75
Total operating revenues	<u>542,804</u>	<u>689,738</u>	<u>115,090</u>	<u>1,347,632</u>
Operating expenses				
Salaries and wages	99,856	148,341	12,691	260,888
Water storage	15,656	-	-	15,656
Pumping costs	38,781	-	-	38,781
Water treatment	57,744	-	-	57,744
Transmission and distribution	49,165	-	-	49,165
Collection and transmission	-	21,150	-	21,150
Sewer treatment	-	70,648	-	70,648
General operations	-	60,180	114,053	174,233
Administrative	30,346	35,178	1,853	67,377
Miscellaneous	-	1,772	-	1,772
Depreciation	153,132	306,269	1,448	460,849
Total operating expenses	<u>444,680</u>	<u>643,538</u>	<u>130,045</u>	<u>1,218,263</u>
Operating income	<u>98,124</u>	<u>46,200</u>	<u>(14,955)</u>	<u>129,369</u>
Non-operating revenues (expenses)				
Interest income	2,375	826	97	3,298
Bond premium amortization	-	10,868	-	10,868
Principal reduction from lender	-	11,399	-	11,399
Interest expense and fiscal charges	(14,115)	(105,051)	-	(119,166)
Decommissioning costs	-	(49,914)	-	(49,914)
Grant revenue	-	29,662	-	29,662
Connection and tap fees	106,745	99,850	-	206,595
Total non-operating revenues (expenses)	<u>95,005</u>	<u>(2,360)</u>	<u>97</u>	<u>92,742</u>
Income before transfers	193,129	43,840	(14,858)	222,111
Transfers:				
Transfers out	<u>(13,418)</u>	<u>(19,518)</u>	<u>-</u>	<u>(32,936)</u>
Change in net assets	179,711	24,322	(14,858)	189,175
Total net assets, beginning of year	<u>4,383,629</u>	<u>5,720,876</u>	<u>108,726</u>	<u>10,213,231</u>
Total net assets, end of year	<u>\$ 4,563,340</u>	<u>\$ 5,745,198</u>	<u>\$ 93,868</u>	<u>\$ 10,402,406</u>

The accompanying notes are an integral part of the financial statements.

TOWN OF BAYFIELD, COLORADO
Statement of Cash Flows
Proprietary Funds
For the Year Ended December 31, 2011

	Water Fund	Sewer Fund	Garbage Fund	Combined Total
Cash flows from operating activities:				
Cash received from customers, service fees	\$ 562,878	\$ 706,223	\$ 116,519	\$ 1,385,620
Cash received from customers, other	-	75	-	75
Cash paid to suppliers	(204,717)	(181,481)	(114,253)	(500,451)
Cash paid to employees	(130,202)	(183,804)	(14,450)	(328,456)
Cash paid for interfund services	(20,000)	-	-	(20,000)
Net cash flows from operating activities	<u>207,959</u>	<u>341,013</u>	<u>(12,184)</u>	<u>536,788</u>
Cash flows from noncapital financing activities:				
Transfers from/(to) other funds	<u>(13,418)</u>	<u>(19,518)</u>	-	<u>(32,936)</u>
Net cash flows from noncapital financing activities	<u>(13,418)</u>	<u>(19,518)</u>	-	<u>(32,936)</u>
Cash flows from capital and related financing activities:				
Purchase of capital assets	(164,750)	(48,946)	-	(213,696)
Principal paid on long-term debt	(31,857)	(183,601)	-	(215,458)
Interest paid	(14,115)	(105,051)	-	(119,166)
Decommissioning costs	-	(49,914)	-	(49,914)
Capital grants	-	29,662	-	29,662
Connection and tap fees	106,745	99,850	-	206,595
Net cash flows from capital and related financing activities	<u>(103,977)</u>	<u>(258,000)</u>	-	<u>(361,977)</u>
Cash flows from investing activities:				
Interest on investments	<u>2,375</u>	<u>826</u>	<u>97</u>	<u>3,298</u>
Net change in cash and cash equivalents	92,939	64,321	(12,087)	145,173
Cash and cash equivalents, including restricted cash beginning of year	<u>676,843</u>	<u>510,887</u>	<u>46,679</u>	<u>1,234,409</u>
Cash and cash equivalents, including restricted cash end of year	<u><u>\$ 769,782</u></u>	<u><u>\$ 575,208</u></u>	<u><u>\$ 34,592</u></u>	<u><u>\$ 1,379,582</u></u>
Reconciliation of operating income to net cash provided by operating activities:				
Net operating income (loss)	\$ 98,124	\$ 46,200	\$ (14,955)	\$ 129,369
Adjustments to reconcile net income to net cash provided by operating activities:				
Depreciation/amortization	153,132	306,269	1,448	460,849
Changes in operating assets and liabilities:				
(Increase)/decrease in receivables	20,074	16,560	1,429	38,063
Increase/(decrease) in payables	(1,025)	(2,591)	(200)	(3,816)
Increase/(decrease) in accrued liabilities & deposits	(38,251)	(285)	94	(38,442)
Increase/(decrease) in due to other funds	(20,000)	-	-	(20,000)
Net cash flows from operating activities	<u>\$ 207,959</u>	<u>\$ 341,013</u>	<u>\$ (12,184)</u>	<u>\$ 536,788</u>
Supplemental schedule of non-cash financing and investing activities:				
Bond premium amortization	\$ -	\$ 10,868	\$ -	\$ 10,868
Principal reduction from lender	\$ -	\$ 11,399	\$ -	\$ 11,399

The accompanying notes are an integral part of the financial statements.

TOWN OF BAYFIELD, COLORADO
Notes to the Financial Statements
December 31, 2011

Note 1. Summary of Significant Accounting Policies

General

The accounting policies of the Town of Bayfield, Colorado (the Town) conform to U.S. generally accepted accounting principles as applicable to governments. The following is a summary of the more significant policies.

Reporting Entity

The government is a statutory municipality with a mayor – Board form of government with six elected Board members. As required by accounting principles generally accepted in the United States of America, these financial statements present the government and any potential component units, entities for which the government is considered to be financially accountable. However, there are no blended or discretely presented component units that are applicable in defining the Town’s reporting entity. The financial statements include all funds and account groups that account for activities over which the Town’s elected mayor and Board exercise primary financial management and oversight responsibility.

Government-Wide and Fund Financial Statements

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

The statement of activities demonstrates the degree to which the direct expenses of a given function or segment are offset by program revenues. Direct expenses are those that are clearly identifiable with a specific function or segment. Program revenues include 1) charges to customers or applicants 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.

Separate financial statements are provided for governmental funds, proprietary funds, and fiduciary funds, even though the latter are excluded from government-wide financial statements. Major individual governmental funds and major individual enterprise funds are reported as separate columns in the fund financial statements.

TOWN OF BAYFIELD, COLORADO
Notes to the Financial Statements
December 31, 2011

Note 1. Summary of Significant Accounting Policies, Continued

Measurement Focus, Basis of Accounting, and Financial Statement Presentation

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

The use of financial resources to acquire capital assets are capitalized as assets in the government-wide financial statements, rather than as an expenditure. Proceeds from long-term debt are recorded as a liability in the government-wide financial statements, rather than as another financing source. Amounts paid to reduce long-term debt of the Town are reported as a reduction of a related liability, rather than an expenditure in the government-wide financial statements.

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

Property taxes, sales taxes, franchise tax, other taxes, licenses and interest associated with the current fiscal period are all considered to be susceptible to accrual and so have been recognized as revenues of the current fiscal period. When applicable, only the portion of special assessments receivable due within the current fiscal period is considered to be susceptible to accrual as revenue of the current period. All other revenue items are considered to be measurable and available only when cash is received by the Town.

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 general government, except for those required to be accounted for in another fund.

The **Debt Service Fund** is used to account for resources to meet current and future debt service requirements on the Special Improvement District.

The **Capital Improvement Fund** accounts for acquisition or construction of major capital facilities (other than those belonging to enterprise funds).

TOWN OF BAYFIELD, COLORADO
Notes to the Financial Statements
December 31, 2011

Note 1. Summary of Significant Accounting Policies, Continued

The **Transportation Fund** accounts for maintenance incentive revenues received from the Colorado Department of Transportation in connection with the transfer of US Highway 160B, now called the Bayfield Parkway, to the Town of Bayfield.

The Town reports the following major proprietary funds:

The **Water Fund** accounts for the activities related to the Town's water wells, treatment facilities and distribution operations.

The **Sewer Fund** accounts for the activities related to the Town's sewer collection and treatment operations.

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

As a general rule, the effect of inter-fund activity has been eliminated from the government-wide financial statements.

Amounts reported as *program revenues* include 1) charges to customers or applicants for goods, services, or privileges provided, 2) operating grants and contributions, and 3) capital grants and contributions, including special assessments. Internally dedicated resources are reported as general revenues rather than as program revenues. Likewise, general revenues include all taxes.

Proprietary funds distinguish operating revenues and expenses from non-operating items. Operating revenues and expenses generally result from providing services and producing and delivering goods in connection with a proprietary fund's principal ongoing operations. The principal operating revenues of the proprietary funds are charges to customers for sales and services.

Operating expenses for the proprietary funds include the cost of sales and services, administrative expenses, and depreciation on capital assets. All revenues and expenses not meeting this definition are reported as non-operating revenues and expenses.

Deposits and Investments

The Town's cash and cash equivalents are considered to be cash-on-hand, demand deposits and short-term investments with original maturities of three months or less from the date of acquisition for purposes of this note and the statement of cash flows.

TOWN OF BAYFIELD, COLORADO
Notes to the Financial Statements
December 31, 2011

Note 1. Summary of Significant Accounting Policies, Continued

Receivables and Payables

Activity between funds that are representative of lending/borrowing arrangements outstanding at the end of the fiscal year are referred to as “due to” or “due from other funds. All trade accounts receivable in the enterprise funds are shown net of an allowance for uncollectible accounts. Due to the nature of the accounts receivable in governmental type activities, management does not consider an allowance for uncollectible accounts receivable necessary or material. Therefore, no allowance for uncollectible accounts receivable is presented.

Property Taxes – Deferred Revenue

Property tax revenues are recognized as revenues in the year collected or if collected within 60 days thereafter unless they are prepaid. Property taxes levied in the current year and not collected within 60 days of year-end are not deemed available to pay current liabilities and therefore the receivable is recorded as deferred revenue in the governmental funds. Property taxes for the current year are levied by the County 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. The County also levies various personal property taxes during the year.

Inventories

Governmental fund-type inventories consist of street maintenance materials and other supplies and are valued at cost using the first-in/first-out (FIFO) method. Inventories for business type activities consist of various parts and supplies and are valued at cost using the first-in/first-out (FIFO) method.

Capital Assets

Capital assets, which include; property, plant, equipment, and infrastructure assets (e.g., roads, bridges, sidewalks, and similar items), are reported in the applicable governmental or business-type activity columns in the government-wide financial statements. Capital assets are defined by the Town as assets with an individual cost of more than \$5,000 and an estimated useful life of three years or more. Such assets are recorded at historical cost or estimated historical cost if purchased or constructed. Donated capital assets are recorded at estimated fair market value at the date of donation. The costs of normal maintenance and repairs that do not add to the value of the asset or materially extend assets lives are not capitalized. Interest incurred during the construction phase of capital assets of business-type activities is included as part of the capitalized value of the assets constructed. Property, plant and equipment is depreciated using the straight-line method over the following estimated useful lives:

Buildings and improvements	7 to 40 years
Utility plant and improvements	39 to 40 years
Machinery, equipment and vehicles	5 to 20 years
Infrastructure	7 to 25 years

TOWN OF BAYFIELD, COLORADO
Notes to the Financial Statements
December 31, 2011

Note 1. Summary of Significant Accounting Policies, Continued

Compensated Absences

For governmental funds, amounts of vested or accumulated vacation and sick leave that are not expected to be liquidated with expendable available financial resources are reported as liabilities in the government-wide statement of net assets and as expenses in the government-wide statement of activities. No expenditures are reported for these amounts in the fund financial statements. Vested or accumulated vacation and sick leave in the proprietary fund are recorded as an expense and a liability of that fund as the benefits accrue to the employees and are thus recorded in both the government-wide financial statements and the individual fund financial statements.

Long-term Obligations

In the government-wide financial statements and proprietary 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 proprietary fund type statement of net assets. Bond premiums, discounts, and issuance costs are deferred and amortized over the life of the applicable debt. In the fund financial statements, governmental fund types recognize bond premiums and discounts, as well as bond issuance costs, during the current period. The face amount of debt issued is reported as other financing sources while discounts on debt issuances are reported as other financing uses. Issuance costs, whether or not withheld from the actual debt proceeds received, are reported as debt service expenditures.

Net Assets and Fund Equity

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

Equity is classified in the government-wide financial statements and in the proprietary fund financial statements as net assets and is displayed in three components as follows:

Invested in capital assets, net of related debt represents capital assets, net of accumulated depreciation and reduced by the outstanding balances of any long-term debt attributable to the acquisition, construction, or improvement of those assets.

Restricted net assets are net assets with constraints placed on the use either by (1) external groups such as creditors, grantors, contributors, or laws or regulations of other governments; or (2) law through constitutional provisions or enabling legislation.

Unrestricted net assets are all other net assets that do not meet the definition of "restricted" or "invested in capital assets, net of related debt."

TOWN OF BAYFIELD, COLORADO
Notes to the Financial Statements
December 31, 2011

Note 1. Summary of Significant Accounting Policies, Continued

Equity is classified in the governmental fund financial statements as fund balance and is further classified as nonspendable, restricted, committed, assigned or unassigned as follows:

Nonspendable fund balance cannot be spent because it is either (1) not in spendable form, or (2) legally or contractually required to be maintained intact.

Restricted fund balance is fund balance with constraints placed on the use either by (1) external groups such as creditors, grantors, contributors, or laws or regulations of other governments; or (2) law through constitutional provisions or enabling legislation.

Committed fund balance can only be used for specific purposes pursuant to constraints imposed by formal action of the government's highest level of decision making authority, the Town Board. A resolution, ordinance or vote by the Town Board is required to establish, modify or rescind a fund balance commitment.

Assigned fund balance is constrained by the government's intent to be used for specific purposes, but are neither restricted nor committed. The Town Manager is authorized to assign amounts to a specific purpose in accordance with the Town's budget policy.

Unassigned fund balance is a residual classification of the General Fund. This classification represents fund balance that has not been assigned to other funds and that has not been restricted, committed, or assigned to a specific purpose within the General Fund.

Note 2. Reconciliation of Government-Wide and Fund Financial Statements

The governmental fund balance sheet includes a reconciliation between total governmental fund balances and net assets of governmental activities as reported in the government-wide statement of net assets. These differences primarily result from the long-term economic focus of the statement of net assets versus the current financial resources focus of the governmental fund balance sheets. The details of these differences are reported in the reconciliation.

The governmental fund statement of revenues, expenditures, and changes in fund balance includes a reconciliation between net changes in fund balances-total governmental funds and changes in net assets of governmental activities as reported in the government-wide statement of activities. These differences are the result of converting from the current resources measurement focus and modified accrual basis for governmental fund statements to the economic resources measurement focus and full accrual basis used for government-wide statements. The details of these differences are reported in the reconciliation.

TOWN OF BAYFIELD, COLORADO
Notes to the Financial Statements
December 31, 2011

Note 3. Stewardship, Compliance, and Accountability

Stewardship, compliance, and accountability are key concepts in defining the responsibilities of the Town. The use of budgets and monitoring of equity status facilitate the Town's compliance with legal requirements.

Budgets and Budgetary Accounting

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

- In accordance with State statutes, prior to October 15, the Town Clerk submits to the Town Board a proposed operating budget for the calendar year commencing the following January 1. The operating budget includes proposed expenditures and the means of financing them for the upcoming year, along with estimates for the current year and actual data for the two preceding years. The State statutes require more detailed line item budgets be submitted in summary form. In addition, more detailed line item budgets are included for administration control. The level of control for the detailed budgets is at the Fund level.
- Public hearings are conducted to obtain taxpayer comment.
- Prior to December 31, the budget is legally adopted through passage of a resolution.
- The Town Clerk is required to present a monthly report to the Town Board explaining any variance from the approved budget.
- Formal budgetary integration is employed as a management control device during the year for all funds of the Town.
- Appropriations lapse at the end of each calendar year.
- The Town Board may authorize supplemental appropriations during the year.

Budget amounts included in the financial statements report both the original and final amended budget. There were revisions made to the original budget during the year.

Budgets for governmental funds are adopted on a basis consistent with accounting principles generally accepted in the United States of America, 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.

TOWN OF BAYFIELD, COLORADO
Notes to the Financial Statements
December 31, 2011

Note 3. Stewardship, Compliance, and Accountability, Continued

Expenditures over Appropriations

Per C.R.S. 29-1-108(2), appropriations are made by fund or spending agency (e.g. department) within a fund at the discretion of the Town Board. The Board by Resolution has made appropriations at the fund level and thus, expenditures may not legally exceed budgeted appropriations at the fund level. The individual Schedules of Revenues, Expenditures and Changes in Fund Balances - Budget to Actual reports as listed in the table of contents report those funds that exceeded approved budget appropriations. The Capital Improvement and Garbage funds incurred expenditures/expenses over appropriations for the year ended December 31, 2011.

Tax, Spending and Debt Limitations

Colorado voters passed an amendment to the State Constitution, Article X, Section 20, which has several limitations, including revenue raising, spending abilities, and other specific requirements of state and local governments, excluding "enterprises."

The Amendment requires that an emergency reserve be maintained at three percent of fiscal year spending (excluding bonded debt service). A portion of the General Fund's fund balance is classified as restricted for emergencies as required by the Amendment. The Town is not allowed to use the emergency reserves to compensate for economic conditions, revenue shortfalls, or salary or benefit increases.

The Amendment is complex and subject to judicial interpretation. The Town believes it is in compliance with the requirements of the Amendment. However, the entity has made certain interpretations in the Amendment's language in order to determine its compliance.

Debt Covenants

See the supplementary information listed in the on page 55 for compliance with debt covenants.

Note 4. Deposits and Investments

A summary of cash and investments as shown on the statement of net assets follows:

Cash on hand	\$ 1,374
Cash in bank	6,984,230
Colorado Trust	976,790
Certificates of deposit	<u>1,091,462</u>
Total cash and investments	<u>\$ 9,053,856</u>

TOWN OF BAYFIELD, COLORADO
Notes to the Financial Statements
December 31, 2011

Note 4. Deposits and Investments, Continued

Deposits

Custodial Credit Risk

For deposits this is the risk that in the event of a bank failure, the government's deposit may not be returned to it. The Town does not have a formal policy for custodial credit risk; however, the Colorado Public Deposit Protection Act (PDPA) requires that all units of local government deposit cash in eligible public depositories; eligibility is determined by state regulators. Amounts on deposit in excess of federal insurance levels must be collateralized. The eligible collateral is determined by the PDPA. The PDPA allows the institution to create a single collateral pool for all public funds. The pool is to be maintained by another institution or held in trust for all the uninsured public deposits as a group. The market value of the collateral must be at least equal to the aggregate uninsured deposits. Collateral in the pool is considered to be equal to depository insurance pursuant to definitions listed in GASB Statement No. 40. At December 31, 2011 cash on hand was \$1,374 and the carrying amount of the Town's deposits was \$6,984,230. As of December 31, 2011 the bank balance of the Town's deposits was \$7,022,333 of which \$251,554 was insured by federal depository insurance and \$6,770,779 was collateralized by the PDPA as noted above.

Investments

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. At December 31, 2011 the Town's investments included certificates of deposit and funds held in the Colorado Government Liquid Asset Trust (COLOTRUST).

The COLOTRUST is an investment vehicle established for local government entities in Colorado to pool surplus funds. COLOTRUST operates similarly to a money market fund and each share is equal in value to \$1.00. Investments of COLOTRUST consist of U.S. Treasury bills, notes and note strips and repurchase agreements collateralized by U.S. Treasury securities.

A designated custodial bank provides safekeeping and depository services to COLOTRUST in connection with direct investment and withdrawal functions of COLOTRUST. Substantially all securities owned by COLOTRUST are held by the Federal Reserve Bank in the account maintained for the custodial bank. The custodian's internal records identify the investments owned by COLOTRUST. These pools are not required to and are not registered with the SEC.

As of December 31, 2011 the Town had \$976,790 invested in the COLOTRUST with a fair market value of \$976,790 and maturities of less than one year. The COLOTRUST's funds are rated AAA by Standard and Poor's, Fitch's and Moody's rating services.

TOWN OF BAYFIELD, COLORADO
Notes to the Financial Statements
December 31, 2011

Note 4. Deposits and Investments, Continued

Interest rate risk

Interest rate risk is the risk that changes in interest rates will adversely affect the fair value of an investment. The Town's policy for managing its exposure to fair value loss arising from increasing interest rates is to comply with the provisions of the Colorado Public Deposit Protection Act (PDPA) which requires that the Town's investment portfolio maturities do not exceed five years from the time of purchase.

Credit risk

Credit risk is the risk that an issuer or other counterparty to an investment will not fulfill its obligations. The Town's policy for reducing its exposure to credit risk is to comply with the provisions of the Colorado Public Deposit Protection Act (PDPA) which limits investment in commercial paper and corporate bonds to the top ratings issued by at least two nationally recognized statistical rating organizations such as Standard & Poor's and Moody's Investor Services.

Note 5. Restricted Assets

The Town reported \$84,318 in restricted cash in the Sewer Fund as of December 31, 2011 as required by the Colorado Water Resources and Power Development Authority Loan Agreement.

Restricted cash of \$5,676,317 associated with the restricted net assets and restricted fund balances of the Town is reported in the governmental fund balance sheets and government-wide statement of net assets.

The special improvement district receivable of \$1,028,707 is reported as a restricted asset in the government-wide statement of net assets. This receivable is associated with the special assessment bonds described in the long-term debt footnote.

TOWN OF BAYFIELD, COLORADO
Notes to the Financial Statements
December 31, 2011

Note 6. Capital Assets

The following table summarizes the changes to capital assets for governmental activities during the year.

Governmental Activities:	Balance 12/31/2010	Additions	Deletions	Balance 12/31/2011
Capital assets, not being depreciated:				
Land	\$ 752,600	\$ -	\$ -	\$ 752,600
Construction in progress	-	16,823	-	16,823
Total capital assets, not being depreciated	<u>752,600</u>	<u>16,823</u>	<u>-</u>	<u>769,423</u>
Capital assets, being depreciated:				
Buildings & improvements	6,365,148	33,448	-	6,398,596
Machinery and equipment	310,732	-	-	310,732
Vehicles	364,920	118,955	(78,335)	405,540
Infrastructure	6,781,625	2,734,353	-	9,515,978
Total capital assets, being depreciated	<u>13,822,425</u>	<u>2,886,756</u>	<u>(78,335)</u>	<u>16,630,846</u>
Less accumulated depreciation for:				
Buildings & improvements	(383,083)	(177,082)	-	(560,165)
Machinery and equipment	(130,505)	(29,993)	-	(160,498)
Vehicles	(219,601)	(29,777)	67,155	(182,223)
Infrastructure	(2,302,433)	(336,873)	-	(2,639,306)
Total accumulated depreciation	<u>(3,035,622)</u>	<u>(573,725)</u>	<u>67,155</u>	<u>(3,542,192)</u>
Total capital assets, being depreciated, net	<u>10,786,803</u>	<u>2,313,031</u>	<u>(11,180)</u>	<u>13,088,654</u>
Governmental activities capital assets, net	<u>\$ 11,539,403</u>	<u>\$ 2,329,854</u>	<u>\$ (11,180)</u>	<u>\$ 13,858,077</u>

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

Governmental Activities:	
General government	\$ 100,810
Public safety	16,395
Public works/streets	374,888
Parks & recreation	44,809
Health & welfare	<u>36,823</u>
Total depreciation expense - governmental activities	<u>\$ 573,725</u>

TOWN OF BAYFIELD, COLORADO
Notes to the Financial Statements
December 31, 2011

Note 6. Capital Assets, Continued

The following table summarizes the changes to capital assets for business-type activities during the year.

Business Type Activities:	Balance 12/31/2010	Additions	Deletions	Balance 12/31/2011
Capital assets not being depreciated:				
Land and water rights	\$ 103,766	\$ -	\$ -	\$ 103,766
Construction in progress	-	-	-	-
Total capital assets, not being depreciated	<u>103,766</u>	<u>-</u>	<u>-</u>	<u>103,766</u>
Capital assets being depreciated:				
Buildings	291,860	26,350	-	318,210
Improvements and systems	16,218,010	164,750	-	16,382,760
Machinery and equipment	335,778	22,596	-	358,374
Total capital assets, being depreciated	<u>16,845,648</u>	<u>213,696</u>	<u>-</u>	<u>17,059,344</u>
Less accumulated depreciation for:				
Buildings	(196,799)	(7,822)	-	(204,621)
Improvements and systems	(2,659,351)	(424,978)	-	(3,084,329)
Machinery and equipment	(53,139)	(28,047)	-	(81,186)
Total accumulated depreciation	<u>(2,909,289)</u>	<u>(460,847)</u>	<u>-</u>	<u>(3,370,136)</u>
Total capital assets, being depreciated, net	<u>13,936,359</u>	<u>(247,151)</u>	<u>-</u>	<u>13,689,208</u>
Business-type activities capital assets, net	<u>\$ 14,040,125</u>	<u>\$ (247,151)</u>	<u>\$ -</u>	<u>\$ 13,792,974</u>

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

Business-Type Activities:	
Water	\$ 153,132
Sewer	306,268
Garbage	<u>1,447</u>
Total depreciation expense - business-type activities	<u>\$ 460,847</u>

TOWN OF BAYFIELD, COLORADO
Notes to the Financial Statements
December 31, 2011

Note 7. Long-Term Debt

The following is a summary of changes in long-term obligations for the year ended December 31, 2011:

	Balance 12/31/2010	Additions	Retirements	Balance 12/31/2011	Current Portion
Governmental Activities:					
Town hall lease	\$ 1,657,241	\$ -	\$ (213,705)	\$ 1,443,536	\$ 220,126
Special assessment bond	1,005,000	-	(95,000)	910,000	90,000
Compensated absences	49,446	40,726	(48,691)	41,482	41,482
Total Governmental activity					
Long-term liabilities	<u>\$ 2,711,687</u>	<u>\$ 40,726</u>	<u>\$ (357,396)</u>	<u>\$ 2,395,018</u>	<u>\$ 351,608</u>
Business-Type Activities:					
Drinking Water Revolving Fund Loan	\$ 137,646	\$ -	\$ (21,446)	\$ 116,200	\$ 22,428
Energy/Mineral Impact Assistance Loan	165,712	-	(10,411)	155,301	10,931
Water Pollution Control Fund Loan	4,580,000	-	(195,000)	4,385,000	200,000
Plus deferred amounts:					
For issuance premiums	181,010	-	(10,868)	170,142	10,868
Total loans payable	5,064,368	-	(237,725)	4,826,643	244,227
Compensated absences	11,119	13,968	(13,935)	11,153	11,153
Total Business-type activity					
Long-term liabilities	<u>\$ 5,075,487</u>	<u>\$ 13,968</u>	<u>\$ (251,660)</u>	<u>\$ 4,837,796</u>	<u>\$ 255,380</u>

Long-term liabilities for the primary government at December 31, 2011 are comprised of the following:

Governmental Activities:

Special assessment debt:

Special Assessment Bonds for the Town of Bayfield Special Improvement District No. 2000-1 (Bayfield Center Subdivision), due in annual principal and interest installments ranging from \$144,375 to \$148,325, bearing interest at 5.5%, maturing April 1, 2020. Repayment payable solely from the assessments levied on the SID. \$ 910,000

TOWN OF BAYFIELD, COLORADO
Notes to the Financial Statements
December 31, 2011

Note 7. Long-Term Debt, Continued

Business-Type Activities:

Loans payable:

Loan payable to Colorado Water Resources and Power Development Authority Drinking Water Revolving Fund, secured by net system revenue, bearing interest at 4.5%, due in quarterly principal and interest installments of \$6,819, maturing September 1, 2016. \$ 116,200

Energy and Mineral Impact Assistance loan payable to the Colorado Department of Local Affairs, bearing interest at 5%, due in annual principal and interest payments of \$18,697, maturing September 1, 2022. 155,301

Loan payable to Colorado Water Resources and Power Development Authority, secured by system property and net revenue, bearing interest from 2 to 3%, due in semi-annual principal, interest and fee installments ranging from \$23,367 to \$183,806, maturing August 1, 2028. The loan proceeds and obligations under the loan agreement were transferred to the Town on January 1, 2008 under the dissolution agreement of the Bayfield Sanitation District. 4,385,000

\$ 4,656,501

Total Loans and Notes Payable \$ 5,566,501

Debt service requirements to maturity are as follows:

Years ending June 30:	Business-Type Activities		Governmental Activities	
	Principal	Interest	Principal	Interest
2012	\$ 233,359	\$ 178,571	\$ 90,000	\$ 55,825
2013	239,932	170,943	95,000	50,875
2014	246,580	163,090	100,000	45,650
2015	258,305	155,008	105,000	40,150
2016	258,427	146,542	110,000	34,375
2017-2021	1,307,092	613,539	410,000	72,600
2022-2026	1,442,806	400,211	-	-
2027-2028	670,000	56,574	-	-
	<u>\$ 4,656,501</u>	<u>\$ 1,884,478</u>	<u>\$ 910,000</u>	<u>\$ 299,475</u>

TOWN OF BAYFIELD, COLORADO
Notes to the Financial Statements
December 31, 2011

Note 8. Capital Leases Payable

The Town has entered into a lease agreement, which is considered a capital lease in accordance with Financial Accounting Standard Board ASC 840-30-25. The lease is shown in the governmental activities of the government-wide statements.

The following is an annual schedule of future minimum lease payments with an interest rate of 3.5 percent under the capital lease, together with the present value of the net minimum lease payments:

<u>December 31,</u>	<u>Governmental Activities</u>
2012	\$ 267,782
2013	267,782
2014	267,782
2015	267,782
2016	267,782
2017	<u>267,782</u>
Total remaining lease payments	\$ 1,606,691
Less: Amount representing interest	<u>(163,156)</u>
Present value of net remaining minimum lease payments	<u>\$ 1,443,536</u>

A summary of assets acquired through capital leases follows:

	<u>Governmental Activities</u>
Buildings & improvements	\$ 3,796,030
Accumulated depreciation	<u>(308,427)</u>
Net total	<u>\$ 3,487,603</u>

TOWN OF BAYFIELD, COLORADO
Notes to the Financial Statements
December 31, 2011

Note 9. Interfund Receivables, Payables and Transfers

As of December 31, 2011, interfund receivables and payables that resulted from various interfund transactions were as follows:

	Due from Other Funds	Due to Other Funds
Water Fund	\$ -	\$ 71,000
Capital Improvement Fund	71,000	-
	\$ 71,000	\$ 71,000

With the exception of the interfund loan between the capital improvement fund and water fund described below, interfund balances resulted from the time lag between the dates that (1) Interfund goods and services are provided or reimbursable expenditures occur, (2) transactions are recorded in the accounting system, and (3) payments between funds are made.

In previous years the Capital improvement fund loaned money to the Water fund. The loan is interest free and the Town makes payments each year to reduce the interfund balance.

Interfund transfers for the year ended December 31, 2011 were as follows:

Transfers Out:	Transfers In		Total
	Capital Project Fund	General Fund	
Conservation Trust Fund	\$ -	\$ 52,135	\$ 52,135
Sewer Fund	19,518	-	19,518
Water Fund	13,418	-	13,418
	\$ 32,936	\$ 52,135	\$ 85,071

Note 10. Pension Plans

Public Employees' Retirement Association

All of the Town's full-time and part-time employees, except for policemen, are eligible to participate in the Public Employees' Retirement Association of Colorado (PERA); a multiple-employer public retirement system. The payroll for employees covered by the PERA for the year ended December 31, 2011 was \$608,088.

TOWN OF BAYFIELD, COLORADO
Notes to the Financial Statements
December 31, 2011

Note 10. Pension Plans, Continued

Employees are eligible for retirement benefits upon reaching (a) age 65 with five or more years of credited service, (b) age 60 with 20 or more years of credited service or (c) age 55 with 30 or more years of service. Such benefits are equivalent to 2.4 percent of their Final Average Salary (FAS) during their highest paid three years of service prior to retirement for each year of service up to 20 years, and 1 percent for each year over 20 years. The maximum benefit available is 70 percent of their FAS. Participants may elect to receive their benefits in the form of single life or joint life payments. The Association also provides death and disability benefits. Benefits are established by State statute.

The Town and participant contributions are defined by State Statute. Participants are required to contribute 8% of their annual salary to the PERA. Participants' contributions are fully refundable, without interest, upon request at termination of employment from the Town. If participants have at least five years of credited service, they are eligible to receive a future monthly retirement benefit. Any refund of contributions paid waives all future rights to any benefits.

PERA's funding policy also requires contributions by the Town of 13.7% of the participants' salaries. These contributions are credited to the participant's division for the purpose of creating actuarial reserves so each employee's benefits will be fully provided for upon retirement. The contribution for the year ended December 31, 2011 was \$131,955 which consisted of \$83,308 from the Town and \$48,647 from employees. PERA issues publicly available report which includes financial statements and required supplementary information. This report can be obtained online at www.copera.org or by writing to Colorado PERA, 1301 Pennsylvania Street, Denver, Colorado 80203 or by calling PERA at 303-832-9550 or 1-800-759-PERA.

The Town has no post-employment healthcare benefits provided to retirees, their beneficiaries or covered dependents.

Fire and Police Pension Association of Colorado

The Town's full-time policemen are eligible to participate in the Fire and Police Pension Association Pension Fund, (the fund) a multiple employer public employee retirement system. The payroll for employees covered by the fund for the year ended December 31, 2011 was \$287,161.

Employees are eligible for retirement benefits upon reaching (a) age 55 with 25 or more years of credited service, or (b) age 50 with 30 or more years of credited service. Such benefits are equivalent to 2% of their Final Average Salary (FAS) during their highest paid three years of service prior to retirement for each year of service up to 25 years. Benefits are established by State statute.

The Town and participant contributions are defined by State statute. Participants are required to contribute 8% of their annual salary to the fund. Participants' contributions are fully refundable, with 5% interest, upon request at termination of employment from the Town. If participants have at least 10 years of credited service, they are eligible to receive a future monthly retirement benefit. Any refund of contributions paid waives all future right to any benefits.

TOWN OF BAYFIELD, COLORADO
Notes to the Financial Statements
December 31, 2011

Note 10. Pension Plans, Continued

The funding policy also requires contributions by the Town of 8% of the participants' salaries. These contributions are credited to the participant's division for the purpose of creating actuarial reserves so each employee's benefits will be fully provided for upon retirement. Contributions to the plan for the year ended December 31, 2011 and the preceding two years were as follows:

	2011	2010	2009
Employer contributions	\$22,765	\$21,593	\$19,624
Employee contributions	22,765	21,592	14,733
Total	45,530	43,185	34,357

The Fire and Police Pension Association of Colorado issues a report available to the public that includes financial statements and required supplementary information. This report may be obtained by writing to Fire and Police Pension Association, Two DTC, 5290 DTC Parkway, #100, Englewood, Colorado 80111.

Note 11. 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. Claims have not exceeded coverage in any of the last three fiscal years.

The Town is a member of the Colorado Intergovernmental Risk Sharing Agency (CIRSA), a separate and independent governmental and legal entity formed by an intergovernmental agreement by member municipalities pursuant to the provision of 24-10-1155, Colorado Revised Statutes (1982 Replacement Volume) and the Colorado Constitution, Article XIV, Section 18(2).

The purposes of CIRSA are to provide members defined liability and property coverage's and to assist members to prevent and reduce losses and injuries to municipal property and to persons or property which might result in claims being made against members of CIRSA, their employees or officers.

The Town is insured by CIRSA/WC (Workers Compensation), a separate insurance pool, for potential worker related accidents.

TOWN OF BAYFIELD, COLORADO
Notes to the Financial Statements
December 31, 2011

Note 11. Risk Management, Continued

It is the intent of the members of CIRSA to create an entity in perpetuity which will administer and use funds contributed by the members to defend and indemnify, in accordance with the bylaws, any member of CIRSA against liability or loss, to the limit of the financial resources of CIRSA. It is also the intent of the members to have CIRSA provide continuing stability and availability of needed coverage's at reasonable costs. All income and assets of CIRSA shall at all times be dedicated to the exclusive benefit of its members.

All Colorado municipalities who are members of the Colorado Municipal League and own property, are eligible to participate. The general objectives of the Agency are to provide member municipalities defined liability and property coverage through joint self-insurance and to assist members in loss prevention measures. Any member may withdraw from the Agency by giving written notice to the Board of Directors of the prospective effective date of its withdrawal.

The Town recognizes an expense for coverage for the amount paid to CIRSA annually for these coverage's. Contingent liability claims for the coverage have not been recognized to date after reviewing claim history and the remoteness of potential loss in excess of actual contributions by the Town.

CIRSA is a separate legal entity and the Town does not approve budgets nor does it have the ability to significantly affect the operations of CIRSA. The Board of Directors of the Agency is composed of seven directors elected by the members at the annual meeting to be scheduled in December each year.

Note 12. Garbage Disposal Contract

The Town has a 5 year contract, which was renewed in 2007 for garbage disposal with a third party contractor. Under terms of the agreement the Town remits 95% of billed refuse collections fees to the contracting party, with the Garbage Fund retaining 5% of the fees as service revenue. The activity under this contract is reflected in the Garbage Fund.

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TOWN OF BAYFIELD, COLORADO

REQUIRED SUPPLEMENTARY INFORMATION

BUDGETARY COMPARISON SCHEDULES

FOR THE FOLLOWING MAJOR FUNDS:

The **General Fund** is used to account for resources traditionally associated with government which are not required legally or by sound financial management to be accounted for in another fund.

TOWN OF BAYFIELD, COLORADO
General Fund
Schedule of Revenues, Expenditures and Changes in Fund Balance
Budget and Actual
For the Year Ended December 31, 2011

Revenues	<u>Budgeted Amounts</u>		<u>Actual Amounts</u>	<u>Variance with Final Budget</u>
	<u>Original</u>	<u>Final</u>		
Taxes:				
Property tax	\$ 230,266	\$ 248,459	\$ 230,545	\$ (17,914)
Sales tax	877,454	877,669	914,080	36,411
Severance tax	75,000	86,695	86,695	-
Federal mineral leasing	22,000	41,488	41,488	-
Franchise tax	14,000	14,794	13,325	(1,469)
Highway users tax	75,032	72,819	72,419	(400)
Other taxes	55,840	60,755	57,311	(3,444)
Total taxes	<u>1,349,592</u>	<u>1,402,679</u>	<u>1,415,863</u>	<u>13,184</u>
Licenses, permits and fees:				
Licenses, permits and fees	21,975	18,423	17,215	(1,208)
Building permits	20,000	29,824	27,391	(2,433)
Charges for services	85,430	89,335	85,286	(4,049)
Total licenses, permits and fees	<u>127,405</u>	<u>137,582</u>	<u>129,892</u>	<u>(7,690)</u>
Intergovernmental:				
Grant revenues	39,724	238,094	201,084	(37,010)
Total intergovernmental	<u>39,724</u>	<u>238,094</u>	<u>201,084</u>	<u>(37,010)</u>
Fines and forfeitures:				
Fines and forfeitures	13,900	16,822	17,568	746
Total fines and forfeitures	<u>13,900</u>	<u>16,822</u>	<u>17,568</u>	<u>746</u>
Interest:				
Interest revenue	6,027	6,604	2,266	(4,338)
Total interest	<u>6,027</u>	<u>6,604</u>	<u>2,266</u>	<u>(4,338)</u>
Other revenues:				
Miscellaneous	7,100	9,393	11,331	1,938
Total other revenues	<u>7,100</u>	<u>9,393</u>	<u>11,331</u>	<u>1,938</u>
Total revenues	<u>1,543,748</u>	<u>1,811,174</u>	<u>1,778,004</u>	<u>(33,170)</u>

(continued)

TOWN OF BAYFIELD, COLORADO
General Fund
Schedule of Revenues, Expenditures and Changes in Fund Balance
Budget and Actual, (Continued)
For the Year Ended December 31, 2011

Expenditures	<u>Budgeted Amounts</u>		<u>Actual Amounts</u>	<u>Variance with Final Budget</u>
	<u>Original</u>	<u>Final</u>		
General Government:				
Town board	10,182	10,921	10,899	22
Town manager's office	61,192	87,072	93,955	(6,883)
Intern	25,379	20,795	19,724	1,071
Planning and development	33,000	32,319	31,902	417
Town clerk and finance	165,128	148,690	157,699	(9,009)
Elections	-	-	-	-
Municipal	7,500	7,260	6,660	600
Administrative	94,305	87,993	93,116	(5,123)
Town hall	36,397	26,185	28,344	(2,159)
Information technology	13,500	19,208	13,429	5,779
Community development	50,952	50,252	46,552	3,700
Total General Government	<u>497,535</u>	<u>490,695</u>	<u>502,280</u>	<u>(11,585)</u>
Public Safety:				
Wages and benefits	423,479	383,590	405,599	(22,009)
Operations	120,224	99,805	100,402	(597)
Administrative	20,160	14,540	15,290	(750)
Miscellaneous	3,000	1,358	2,364	(1,006)
Total Public Safety	<u>566,863</u>	<u>499,293</u>	<u>523,655</u>	<u>(24,362)</u>
Public Works:				
Wages and benefits	211,997	160,300	169,072	(8,772)
Streets	45,700	42,800	32,514	10,286
Operations	18,800	18,645	20,219	(1,574)
Administrative	17,330	13,070	13,275	(205)
Total Public Works	<u>293,827</u>	<u>234,815</u>	<u>235,080</u>	<u>(265)</u>
Parks & Recreation				
Wages and benefits	160,761	167,100	168,385	(1,285)
Adult sports & athletics	9,200	5,528	5,435	93
Youth sports & athletics	7,100	5,922	5,895	27
Park expenses	30,700	39,162	38,803	359
Special events	11,200	10,228	10,455	(227)
Senior center	25,178	17,265	15,021	2,244
Total Parks & Recreation	<u>244,139</u>	<u>245,205</u>	<u>243,994</u>	<u>1,211</u>

(continued)

TOWN OF BAYFIELD, COLORADO
General Fund
Schedule of Revenues, Expenditures and Changes in Fund Balance
Budget and Actual, (Continued)
For the Year Ended December 31, 2011

Expenditures	<u>Budgeted Amounts</u>		<u>Actual Amounts</u>	<u>Variance with Final Budget</u>
	<u>Original</u>	<u>Final</u>		
Non-departmental:	17,415	12,943	12,611	332
Total Non-departmental	<u>17,415</u>	<u>12,943</u>	<u>12,611</u>	<u>332</u>
Payments to sub recipients	-	179,110	179,110	-
Total payments to sub recipients	<u>-</u>	<u>179,110</u>	<u>179,110</u>	<u>-</u>
Capital outlay:				
Capital outlay	316,500	11,088	11,063	25
Total capital outlay	<u>316,500</u>	<u>11,088</u>	<u>11,063</u>	<u>25</u>
Total expenditures	<u>1,936,279</u>	<u>1,673,149</u>	<u>1,707,793</u>	<u>(34,644)</u>
Excess of revenues over (under) expenditures	<u>(392,531)</u>	<u>138,025</u>	<u>70,211</u>	<u>(67,814)</u>
Other financing sources (uses):				
Transfers in	65,570	65,570	52,135	(13,435)
Transfer out	<u>(75,000)</u>	<u>(77,000)</u>	-	<u>77,000</u>
Total other financing sources (uses)	<u>(9,430)</u>	<u>(11,430)</u>	<u>52,135</u>	<u>63,565</u>
Net change in fund balance	<u>(401,961)</u>	<u>126,595</u>	<u>122,346</u>	<u>(4,249)</u>
Fund balance, beginning of year	<u>994,214</u>	<u>994,214</u>	<u>994,214</u>	<u>-</u>
Fund balance, end of year	<u>\$ 592,253</u>	<u>\$ 1,120,809</u>	<u>\$ 1,116,560</u>	<u>\$ (4,249)</u>

TOWN OF BAYFIELD, COLORADO
SUPPLEMENTARY INFORMATION
BUDGETARY COMPARISON SCHEDULES

FOR THE FOLLOWING FUNDS:

Major Capital Project Funds

The **Capital Improvement Fund** accounts for acquisition or construction of major capital facilities (other than those belonging to enterprise funds).

The **Transportation Fund** accounts for maintenance incentive revenues received from the Colorado Department of Transportation in connection with the transfer of US Highway 160B, now called the Bayfield Parkway, to the Town of Bayfield.

Major Debt Service Fund

The **Debt Service Fund** is used to account for resources to meet current and future debt service requirements on the Special Improvement District.

Nonmajor Special Revenue Fund

The **Conservation Trust Fund** accounts for the State of Colorado lottery funds to be used for parks and recreation services and capital investment.

Major and Nonmajor Enterprise Funds

Enterprise Funds are used to 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. The budgets for the enterprise funds have been prepared and presented on a modified accrual basis which is an accounting basis other than GAAP for enterprise funds.

The **Water Fund** is used to account for the Town's water wells, treatment facilities and distribution system.

The **Sewer Fund** is used to account for the Town's sewer collection and treatment services.

The **Garbage Fund** is used to account for the Town's garbage collection services.

TOWN OF BAYFIELD, COLORADO
Capital Improvement Capital Project Fund
Schedule of Revenues, Expenditures and Changes in Fund Balance
Budget and Actual
For the Year Ended December 31, 2011

	Budgeted Amounts		Actual	Variance with Final Budget
	Original	Final		
Revenues				
Sales taxes	\$ 236,070	\$ 207,369	\$ 250,665	\$ 43,296
Intergovernmental revenue	344,154	154,020	164,501	10,481
In lieu of parks fee	1,000	7,121	6,528	(593)
Interest income	1,110	7,089	10,192	3,103
Miscellaneous	-	25,000	25,000	-
Total revenue	<u>582,334</u>	<u>400,599</u>	<u>456,886</u>	<u>56,287</u>
Expenditures				
Debt service				
Principal	213,604	213,706	213,706	-
Interest	54,176	54,176	54,176	-
Capital outlay	<u>424,372</u>	<u>172,944</u>	<u>185,046</u>	<u>(12,102)</u>
Total expenditures	<u>692,152</u>	<u>440,826</u>	<u>452,928</u>	<u>(12,102)</u>
Excess of revenue and other sources over (under) expenditures and other uses	<u>(109,818)</u>	<u>(40,227)</u>	<u>3,958</u>	<u>44,185</u>
Other financing sources (uses):				
Transfers in	127,936	129,936	32,936	(97,000)
Transfers out	(10,000)	(10,000)	-	10,000
Proceeds from the sale of capital assets	<u>500</u>	<u>3,000</u>	<u>3,000</u>	<u>-</u>
Total other financing sources (uses):	<u>118,436</u>	<u>122,936</u>	<u>35,936</u>	<u>(87,000)</u>
Net change in fund balance	8,618	82,709	39,894	(42,815)
Fund balance, beginning of year	<u>1,113,158</u>	<u>1,113,158</u>	<u>1,113,158</u>	<u>-</u>
Fund balance, end of year	<u>\$1,121,776</u>	<u>\$1,195,867</u>	<u>\$ 1,153,052</u>	<u>\$ (42,815)</u>

TOWN OF BAYFIELD, COLORADO
Transportation Capital Project Fund
Schedule of Revenues, Expenditures and Changes in Fund Balance
Budget and Actual
For the Year Ended December 31, 2011

	Budgeted Amounts		Actual	Variance with Final Budget
	Original	Final		
Revenues				
Intergovernmental revenue	\$ -	\$ 6,800,000	\$ 6,800,000	\$ -
Total revenue	-	6,800,000	6,800,000	-
Expenditures				
Capital outlay	-	1,426,585	1,259,801	166,784
Total expenditures	-	1,426,585	1,259,801	166,784
Excess of revenue and other sources over (under) expenditures and other uses	-	5,373,415	5,540,199	166,784
Net change in fund balance	-	5,373,415	5,540,199	166,784
Fund balance, beginning of year	-	-	-	-
Fund balance, end of year	\$ -	\$ 5,373,415	\$ 5,540,199	\$ 166,784

TOWN OF BAYFIELD, COLORADO
Debt Service Fund
Schedule of Revenues, Expenditures and Changes in Fund Balance
Budget and Actual
For the Year Ended December 31, 2011

	Budgeted Amounts		Actual Amounts	Variance with Final Budget
	Original	Final		
Revenues				
Special assessments	\$ 151,049	\$ 152,562	\$ 152,562	\$ -
Interest	600	241	209	(32)
Total revenues	<u>151,649</u>	<u>152,803</u>	<u>152,771</u>	<u>(32)</u>
Expenditures				
General government	1,600	1,696	1,696	-
Debt service:				
Principal	85,000	95,000	95,000	-
Interest	60,500	55,275	55,275	-
Total expenditures	<u>147,100</u>	<u>151,971</u>	<u>151,971</u>	<u>-</u>
Excess of revenues over (under) expenditures	4,549	832	800	(32)
Fund balance, beginning of year	<u>45,207</u>	<u>45,207</u>	<u>45,207</u>	<u>-</u>
Fund balance, end of year	<u>\$ 49,756</u>	<u>\$ 46,039</u>	<u>\$ 46,007</u>	<u>\$ (32)</u>

TOWN OF BAYFIELD, COLORADO
Conservation Trust Fund
Schedule of Revenues, Expenditures and Changes in Fund Balance
Budget and Actual
For the Year Ended December 31, 2011

	Budgeted Amounts		Actual	Variance with Final Budget
	Original	Final		
Revenues				
Intergovernmental revenue	\$ 18,000	\$ 19,918	\$ 19,899	\$ (19)
Total revenues	18,000	19,918	19,899	(19)
Expenditures				
Capital outlay	-	-	-	-
Total expenditures	-	-	-	-
Excess of revenue and other sources over (under) expenditures and other uses	18,000	19,918	19,899	(19)
Other financing sources (uses):				
Transfers out	-	-	(52,135)	(52,135)
Total other financing sources (uses):	-	-	(52,135)	(52,135)
Net change in fund balance	18,000	19,918	(32,236)	(52,154)
Fund balance, beginning of year	55,952	55,952	55,952	-
Fund balance, end of year	<u>\$ 73,952</u>	<u>\$ 75,870</u>	<u>\$ 23,716</u>	<u>\$ (52,154)</u>

TOWN OF BAYFIELD, COLORADO
Water Fund
Schedule of Revenues, Expenses and Changes in Available Resources
Budget and Actual
For the Year Ended December 31, 2011

	Budgeted Amounts		Actual Amounts	Variance with Final Budget
	Original	Final		
Operating revenues				
Charges for services	\$ 468,900	\$ 516,245	\$ 542,804	\$ 26,559
Total operating revenues	468,900	516,245	542,804	26,559
Operating expenses				
Salaries and wages	137,819	137,819	99,856	37,963
Water storage	20,500	15,656	15,656	-
Pumping costs	41,000	35,892	38,781	(2,889)
Water treatment	54,800	66,799	57,744	9,055
Transmission and distribution	89,775	51,419	49,165	2,254
Administrative	32,533	22,964	30,346	(7,382)
Total operating expenses	376,427	330,549	291,548	39,001
Operating income (loss)	92,473	185,696	251,256	65,560
Non-operating revenues (expenses)				
Interest income	2,000	2,906	2,375	(531)
Connection and tap fees	66,000	116,449	106,745	(9,704)
Total non-operating revenues (expenses)	68,000	119,355	109,120	(10,235)
Income before contributions, transfers and capital and related financing activities	160,473	305,051	360,376	55,325
Contributions, transfers and capital and related financing activities				
Capital outlay	(140,000)	(164,750)	(164,750)	-
Debt service	(66,014)	(65,972)	(45,972)	20,000
Transfers out	(13,418)	(13,418)	(13,418)	-
Total contributions and transfers	(219,432)	(244,140)	(224,140)	20,000
Change in available resources	(58,959)	60,911	136,236	75,325
Available resources, beginning of year	622,557	622,557	622,557	-
Available resources, end of year	\$ 563,598	\$ 683,468	\$ 758,793	\$ 75,325

TOWN OF BAYFIELD, COLORADO
Sewer Fund
Schedule of Revenues, Expenses and Changes in Available Resources
Budget and Actual
For the Year Ended December 31, 2011

	Budgeted Amounts		Actual Amounts	Variance with Final Budget
	Original	Final		
Operating revenues				
Charges for services	\$ 669,800	\$ 686,441	\$ 689,664	\$ 3,223
Other revenues	-	150	75	(75)
Total operating revenues	<u>669,800</u>	<u>686,591</u>	<u>689,739</u>	<u>3,148</u>
Operating expenses				
Salaries and wages	193,944	193,944	148,341	45,603
Collection and transmission	22,400	22,698	21,152	1,546
Sewer treatment	114,300	102,032	70,648	31,384
General operations	50,000	60,133	60,180	(47)
Administrative	34,533	26,918	35,178	(8,260)
Miscellaneous	10,000	1,772	1,772	-
Total operating expenses	<u>425,177</u>	<u>407,497</u>	<u>337,271</u>	<u>70,226</u>
Operating income	<u>244,623</u>	<u>279,094</u>	<u>352,468</u>	<u>73,374</u>
Non-operating revenues (expenses)				
Interest income	240	757	826	69
Connection and tap fees	60,000	99,850	99,850	-
Decommissioning costs	(50,000)	(49,578)	(49,914)	(336)
Total non-operating revenues (expenses)	<u>10,240</u>	<u>51,029</u>	<u>50,762</u>	<u>(267)</u>
Income before contributions, transfers and capital and related financing activities	254,863	330,123	403,230	73,107
Contributions, transfers and capital and related financing activities				
Capital outlay	-	(48,946)	(48,946)	-
Debt service	(288,651)	(288,651)	(288,652)	(1)
Capital contributions and grants	-	29,662	29,662	-
Transfers out	(19,518)	(19,518)	(19,518)	-
Total contributions and transfers	<u>(308,169)</u>	<u>(327,453)</u>	<u>(327,454)</u>	<u>(1)</u>
Change in available resources	(53,306)	2,670	75,776	73,106
Available resources, beginning of year	<u>562,707</u>	<u>562,707</u>	<u>562,707</u>	<u>-</u>
Available resources, end of year	<u>\$ 509,401</u>	<u>\$ 565,377</u>	<u>\$ 638,483</u>	<u>\$ 73,106</u>

TOWN OF BAYFIELD, COLORADO
Garbage Fund
Schedule of Revenues, Expenses and Changes in Available Resources
Budget and Actual
For the Year Ended December 31, 2011

	Budgeted Amounts		Actual Amounts	Variance with Final Budget
	Original	Final		
Operating revenues				
Charges for services	\$ 113,000	\$ 114,757	\$ 115,090	\$ 333
Total operating revenues	113,000	114,757	115,090	333
Operating expenses				
Salaries and wages	15,581	15,048	12,691	2,357
General operations	102,160	104,578	114,054	(9,476)
Administrative	1,500	97	1,853	(1,756)
Total operating expenses	119,241	119,723	128,598	(8,875)
Operating income (loss)	(6,241)	(4,966)	(13,508)	(8,542)
Non-operating revenues (expenses)				
Interest income	200	133	97	(36)
Total non-operating revenues (expenses)	200	133	97	(36)
Income (loss) before contributions, transfers and capital and related financing activities	(6,041)	(4,833)	(13,411)	(8,578)
Contributions, transfers and capital and related financing activities				
Capital contributions and grants	-	-	-	-
Change in available resources	(6,041)	(4,833)	(13,411)	(8,578)
Available resources, beginning of year	52,210	52,210	52,210	-
Available resources, end of year	\$ 46,169	\$ 47,377	\$ 38,799	\$ (8,578)

TOWN OF BAYFIELD, COLORADO
SUPPLEMENTARY INFORMATION
COLORADO WATER RESOURCES AND
POWER DEVELOPMENT AUTHORITY
LOAN COVENANTS AND REQUIREMENTS

The Colorado Water Resources and Power Development Authority Loan Agreement set forth certain covenants and restrictions. As of December 31, 2011, the Town appears to be in compliance with all covenants and restrictions as set forth in Exhibit F, Additional Covenants and Requirements. See note 7 for details on the loan. The following are additional disclosures required by the loan agreement.

- **Rate Covenant:** The Town is required to maintain rates and fees at levels that will generate enough revenue to cover operating expenses and annual debt service at 1.10 times. The December 31, 2011 calculation for the rate covenant is as follows:

Total Revenues	842,344
Total Operating Exp (-) Depreciation	<u>(337,270)</u>
	505,074
Annual Debt Service	365,958
Coverage Ratio	<u>1.38</u>
Coverage Ratio Requirement	1.10
Over/(Under)	<u><u>0.28</u></u>

- **Operations and Maintenance Reserve Fund Covenant:** The Town is required to maintain reserves equal to three months of operation and maintenance expenses of the system. The reserve fund is reported as restricted on the Statement of Net Assets – Proprietary Funds. The December 31, 2011 reserve calculation is as follows:

Current Assets	650,303
Current Liabilities	<u>211,820</u>
CA-CL Calculation	438,483
Operating Expense	643,539
Depreciation	<u>(306,269)</u>
Total Operating Exp Used	337,270
25% of Operating Exp (-) Depreciation Exp	84,318
Restricted Reserve for Debt Service	<u>84,318</u>
Over/(Short)	<u><u>-</u></u>

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SUPPLEMENTARY INFORMATION
LOCAL HIGHWAY FINANCE REPORT

Section 43-2-132 of the Colorado Revised Statutes requires municipalities receiving Highway User Tax Funds to include a schedule of highway receipts and expenditures with the audit report. The said report is presented on the following two pages.

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

LOCAL HIGHWAY FINANCE REPORT	City or County: Town of Bayfield, CO
	YEAR ENDING : December 2011
Prepared By: Chad Atkinson, CPA Phone: 1-435-628-3663	

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

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

II. RECEIPTS FOR ROAD AND STREET PURPOSES

III. DISBURSEMENTS FOR ROAD AND STREET PURPOSES

ITEM	AMOUNT	ITEM	AMOUNT
A. Receipts from local sources:		A. Local highway disbursements:	
1. Local highway-user taxes		1. Capital outlay (from page 2)	1,276,624
a. Motor Fuel (from Item I.A.5.)		2. Maintenance:	
b. Motor Vehicle (from Item I.B.5.)		3. Road and street services:	
c. Total (a.+b.)		a. Traffic control operations	
2. General fund appropriations		b. Snow and ice removal	7,705
3. Other local imposts (from page 2)	16,823	c. Other	36,300
4. Miscellaneous local receipts (from page 2)	13,472	d. Total (a. through c.)	44,005
5. Transfers from toll facilities		4. General administration & miscellaneous	-
6. Proceeds of sale of bonds and notes:		5. Highway law enforcement and safety	
a. Bonds - Original Issues		6. Total (1 through 5)	1,320,629
b. Bonds - Refunding Issues		B. Debt service on local obligations:	
c. Notes		1. Bonds:	
d. Total (a. + b. + c.)	0	a. Interest	
7. Total (1 through 6)	30,295	b. Redemption	
B. Private Contributions		c. Total (a. + b.)	0
C. Receipts from State government (from page 2)	6,882,623	2. Notes:	
D. Receipts from Federal Government (from page 2)	0	a. Interest	
E. Total receipts (A.7 + B + C + D)	6,912,918	b. Redemption	
		c. Total (a. + b.)	0
		3. Total (1.c + 2.c)	0
		C. Payments to State for highways	
		D. Payments to toll facilities	
		E. Total disbursements (A.6 + B.3 + C + D)	1,320,629

IV. LOCAL HIGHWAY DEBT STATUS

(Show all entries at par)

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

V. LOCAL ROAD AND STREET FUND BALANCE

	A. Beginning Balance	B. Total Receipts	C. Total Disbursement	D. Ending Balance	E. Reconciliation
	0	6,912,918	1,320,629		5,592,289

Notes and Comments:

LOCAL HIGHWAY FINANCE REPORT

STATE:
Colorado
YEAR ENDING (mm/yy):
December 2011

II. RECEIPTS FOR ROAD AND STREET PURPOSES - DETAIL

ITEM	AMOUNT	ITEM	AMOUNT
A.3. Other local imposts:		A.4. Miscellaneous local receipts:	
a. Property Taxes and Assessments		a. Interest on investments	
b. Other local imposts:		b. Traffic Fines & Penalties	
1. Sales Taxes	16,823	c. Parking Garage Fees	
2. Infrastructure & Impact Fees		d. Parking Meter Fees	
3. Liens		e. Sale of Surplus Property	
4. Licenses		f. Charges for Services	
5. Specific Ownership &/or Other		g. Other Misc. Receipts	
6. Total (1. through 5.)	16,823	h. Other - Road and Bridge	13,472
c. Total (a. + b.)	16,823	i. Total (a. through h.)	13,472
	(Carry forward to page 1)		(Carry forward to page 1)

ITEM	AMOUNT	ITEM	AMOUNT
C. Receipts from State Government		D. Receipts from Federal Government	
1. Highway-user taxes	72,419	1. FHWA (from Item I.D.5.)	
2. State general funds		2. Other Federal agencies:	
3. Other State funds:		a. Forest Service	
a. State bond proceeds		b. FEMA	
b. Project Match		c. HUD	
c. Motor Vehicle Registrations	10,204	d. Federal Transit Admin	
d. Other - CDOT Road Transfer	6,800,000	e. U.S. Corps of Engineers	
e. Other - Road and bridge		f. Other Federal	
f. Total (a. through e.)	6,810,204	g. Total (a. through f.)	0
4. Total (1. + 2. + 3.f)	6,882,623	3. Total (1. + 2.g)	
			(Carry forward to page 1)

III. DISBURSEMENTS FOR ROAD AND STREET PURPOSES - DETAIL

	ON NATIONAL HIGHWAY SYSTEM (a)	OFF NATIONAL HIGHWAY SYSTEM (b)	TOTAL (c)
A.1. Capital outlay:			
a. Right-Of-Way Costs			0
b. Engineering Costs			0
c. Construction:			
(1). New Facilities		33,448	33,448
(2). Capacity Improvements			0
(3). System Preservation		1,226,353	1,226,353
(4). System Enhancement & Operation		16,823	16,823
(5). Total Construction (1) + (2) + (3) + (4)	0	1,276,624	1,276,624
d. Total Capital Outlay (Lines 1.a. + 1.b. + 1.c.5)	0	1,276,624	1,276,624
			(Carry forward to page 1)

Notes and Comments:

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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***

The Honorable Mayor and Board
Town of Bayfield, Colorado

We have audited the accompanying financial statements of the governmental activities, the business type activities, each major fund, and the aggregate remaining fund information of the Town of Bayfield, Colorado, as of and for the year ended December 31, 2011, which collectively comprise the Town's basic financial statements, and have issued our report thereon dated May 25, 2012. 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.

Internal Control over Financial Reporting

In planning and performing our audit, we considered the Town of Bayfield, Colorado's internal control over financial reporting as a basis for designing our auditing procedures for the purpose of expressing our opinion on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the Town's internal control over financial reporting. Accordingly, we do not express an opinion on the effectiveness of the Town's internal control over financial reporting.

Our consideration of the internal control over financial reporting was for the limited purpose described in the preceding paragraph and would not necessarily identify all deficiencies in internal control over financial reporting that might be significant deficiencies or material weaknesses and therefore, there can be no assurance that all deficiencies, significant deficiencies, or material weaknesses have been identified. However, as described in the findings and recommendations letter dated May 25, 2012, we identified certain deficiencies in internal control over financial reporting that we consider to be material weaknesses and other deficiencies that we consider to be significant deficiencies.

A deficiency in internal control exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct 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. We consider the following deficiencies described in the findings and recommendations letter dated May 25, 2012 to be material weaknesses:

10-1 Accounting Adjustments

A *significant deficiency* is a deficiency or a combination of deficiencies in internal control that is less severe than a material weakness, yet important enough to merit attention by those charged with governance. We consider the following deficiencies described in the findings and recommendations letter dated May 25, 2012 to be significant deficiencies:

- 10-2 Capital Asset Accounting
- 10-4 Financial Statement Preparation

Compliance and Other Matters

As part of obtaining reasonable assurance about whether the Town's financial statements are free of 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*.

We noted certain other matters that we have reported to the management of the Town in a separate letter dated May 25, 2012.

This report is intended solely for the information of the mayor, audit committee, management, Town Board, and various federal and state awarding agencies and pass-through entities and is not intended to be an should not be used by anyone other than these specified part parties. However, this report is a matter of public record and its distribution is not limited.



HintonBurdick, PLLC
May 25, 2012