TOWN OF PAGOSA SPRINGS GENERAL IMPROVEMENT DISTRICT

GENERAL PURPOSE FINANCIAL STATEMENTS

FOR THE PERIOD ENDED December 31, 2005

TOWN OF PAGOSA SPRINGS GENERAL IMPROVEMENT DISTRICT

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INDEPENDENT AUDITOR'S REPORT

To the Board of Directors
Town of Pagosa Springs General Improvement District
Pagosa Springs, Colorado

I have audited the accompanying general-purpose financial statements of the Town of Pagosa Springs General Improvement District, a component unit of the Town of Pagosa Springs, as of December 31, 2005 for the period then ended. These general purpose financial statements are the responsibility of the Town of Pagosa Springs General Improvement District's management. My responsibility is to express an opinion on these financial statements based on my audit.

I have conducted my audit in accordance with generally accepted auditing standards. Those standards require that I plan and perform the audit to obtain reasonable assurance about whether the general-purpose financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the general-purpose financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. I believe that my audit provides a reasonable basis for my opinion.

In my opinion, the general-purpose financial statements referred to in the above, present fairly, in all material respects, the financial position of the Town of Pagosa Springs General Improvement District as of December 31, 2005 the results of its operations and accepted accounting principles.

Michael C. Branch
Certified Public Accountant
February 7, 2006

TOWN OF PAGOSA SPRINGS GENERAL IMPROVEMENT DISTRICT
BALANCE SHEET
DECEMBER 31, 2005

		2005
ASSETS		
Current Assets		
Cash	$	277,391
Accounts receivable (net)		23,013
Taxes receivable		72,249
Cash with County		1,459
Total Current Assets		374,112
Property, Plant and Equipment (Net)		2,668,577
TOTAL ASSETS	$	3,042,689
LIABILITIES AND EQUITY		
Current Liabilities		
Accrued vacation	$	2,826
Deferred revenue		72,249
Bonds payable current		48,919
Total Current Liabilities		123,994
Long Term Liabilities		576,810
TOTAL LIABILITIES		700,804
Fund Equity		
Contributed Capital		965,626
Retained Earnings:		
Reserved for Emergencies		10,039
Unreserved		1,366,220
Total Fund Equity		2,341,885
TOTAL LIABILITIES AND EQUITY	$	3,042,689

See accompanying notes

TOWN OF PAGOSA SPRINGS GENERAL IMPROVEMENT DISTRICT
COMPARATIVE STATEMENT OF REVENUE, EXPENSES
AND CHANGES IN RETAINED EARNINGS
FOR THE PERIOD ENDED DECEMBER 31, 2005

	2005
SALES	$ 221,978
OPERATING EXPENSES	
Audit and legal	6,470
Salary	56,301
Depreciation	69,982
Electricity	31,602
Maintenance and supply	110,896
Administration	25,266
Engineering	34,068
Other	35
Total Operating Expenses	334,620
Income (Loss) From Operations	(112,642)
NON-OPERATING REVENUE (EXPENSE)	
Property tax	80,434
Interest expense	(28,034)
Interest income	5,948
Pant investment	106,632
Total Non-Operating revenue	164,980
Net Income	52,338
BEGINNING RETAINED EARNINGS	1,323,921
ENDING RETAINED EARNINGS	$ 1,376,259

See accompanying notes

TOWN OF PAGOSA SPRINGS GENERAL IMPROVEMENT DISTRICT
SCHEDULE OF REVENUE, EXPENSES AND CHANGES IN RETAINED EARNINGS
BUDGET & ACTUAL (NON-GAAP)
FOR THE PERIOD ENDED DECEMBER 31, 2005

	Budget	Actual	Variance-Favorable (Unfavorable)
OPERATING REVENUE			
Sales	$ 221,000	$ 221,978	$ 978
Total Operating Revenue	221,000	221,978	978
OPERATING EXPENSES			
Audit and legal	5,000	6,470	(1,470)
Salary	66,804	56,301	10,503
Electricity	30,000	31,602	(1,602)
Maintenance and supply	140,000	110,896	29,104
Administration	28,200	25,266	2,934
Engineering	10,000	34,068	(24,068)
Other	10,000	35	9,965
Total Operating Expenses	290,004	264,638	25,366
Income (Loss) from Operation	(69,004)	(42,660)	26,344
NON-OPERATING REVENUE (EXPENSES)			
Property tax	80,708	80,434	(274)
Debt service	(65,295)	(65,294)	1
Interest income and Miscellaneous	8,000	5,948	(2,052)
Plant investment fees	75,000	106,632	31,632
Total Non-Operating Revenue (Expenses)	98,413	127,720	29,307
Net Income (Loss)	$ 29,409	85,060	$ 55,651
ADJUSTMENTS TO GAAP			
Depreciation, Net		(69,982)	
Principal Payments		37,260	
BEGINNING RETAINED EARNINGS		1,323,921	
ENDING RETAINED EARNINGS		$ 1,376,259	

See accompanying notes

TOWN OF PAGOSA SPRINGS GENERAL IMPROVEMENT DISTRICT
COMPARATIVE STATEMENT OF CASH FLOWS
FOR THE PERIOD ENDED DECEMBER 31, 2005

		2005
CASH FLOWS FROM OPERATING ACTIVITIES		
Cash received from customers	$	215,378
Cash paid to suppliers		(208,335)
Cash paid to employees		(57,630)
Net Cash Provided By (Used In) Operating Activities		(50,587)
CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES		
Proceeds from tap fees paid		106,632
Principal payments on long-term debt		(37,260)
Interest payments on long-term debt		(28,034)
Cash Provided By (Used In) Capital and Related Financing Activities		41,338
CASH FLOWS FROM NON-CAPITAL FINANCING ACTIVITIES		
Taxes received		79,842
Cash Provided By Non-Capital Financing Activities		79,842
CASH FLOWS FROM INVESTING ACTIVITIES		
Interest income		5,948
Net Increase (Decrease) In cash and Cash Equivalents		76,541
CASH AND CASH EQUIVALENTS, BEGINNING OF YEAR		200,850
CASH AND CASH EQUIVALENTS, END OF YEAR	$	277,391

See accompanying notes

TOWN OF PAGOSA SPRINGS GENERAL IMPROVEMENT DISTRICT
COMPARATIVE STATEMENT OF CASH FLOWS
FOR THE PERIOD ENDED DECEMBER 31, 2005

RECONCILIATION OF OPERATING INCOME TO NET CASH PROVIDED BY OPERATING ACTIVITIES

		2005
Operating Income (Loss)	$	(112,642)
ADJUSTMENTS TO RECONCILE OPERATING INCOME (LOSS) TO NET CASH PROVIDED BY OPERATING ACTIVITIES		
Depreciation		69,982
Increase in receivables		(6,600)
Decrease in payables		(1,327)
NET CASH PROVIDED BY (USED IN) OPERATING ACTIVITIES	$	(50,587)

See accompanying notes

NOTE (1) SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

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

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

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

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

(A) Governmental Reporting Entity

The District is a component unit of The Town of Pagosa Springs.

(B) Fund Accounting

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

The various funds are grouped, in the financial statements in this report, into generic fund types and broad fund categories as follows:

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

Proprietary Fund Types:

Enterprise Funds--Enterprise Funds are used to account for operations (a) that are financed and operated in a manner similar to private business enterprises - where the intent of the governing body is that the costs (expenses, including depreciation) of providing goods or services to the general public on a continuing basis be financed or recovered primarily through user charges or (b) where the governing body has decided that periodic determination of revenue earned, expenses incurred, and/or net income is appropriate for capital maintenance, public policy, management control, accountability, or other purposes.

The District has elected, under the GASB Statement #20 not to apply statements issued by the Financial Accounting Standards Board after November 30, 1989. New GASG pronouncements on accounting and financial reporting for proprietary activities will be followed.

(C) Basis of Accounting

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

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

(D) Budgets and Budgetary Accounting

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

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

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

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

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

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

(D) Budgets and Budgetary Accounting continued

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

(E) Cash and Deposits

Colorado State statutes govern the District's deposit of cash. The statutes specify that eligible depositories for public cash deposits must be Colorado institutions and must maintain federal insurance on deposits held.

Each eligible depository with deposits in excess of the insured levels must pledge all of its local government depositors as a group to a collateral pool of defined eligible assets that is maintained by another institution or held in trust. This collateral pool must have a market value equal to or greater than the uninsured deposits. The State Regulatory Commissions for banks and savings and loan associations are required by statute to monitor the naming of eligible depositories and reporting of the uninsured deposits and assets maintained in the collateral pool. At December 31, 2005, the carrying amount of the District's deposits was $277,291 the bank balance was $295,399

Of the bank balance, $279,574 was covered by the FDIC and $16,825 was in an eligible depository and collateralized by deposits with a third party institution.

(F) Comparative Data

No comparative data is provided because this is the first period for the District.

(G) Encumbrances

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

NOTE (2) FIXED ASSETS

(A) Property and Equipment

All property and equipment, including infrastructure, are recorded at cost. Depreciation is calculated on a straight-line method using the estimated useful life of each respective asset. Depreciation on assets acquired from contributed capital funds is charged against contributed capital.

NOTE (2) FIXED ASSETS (continued)

(B) Current Year Additions

Current year additions are added to the proper category and depreciated over their estimated useful lives.

(C) Major Classifications

Major classifications of property, plant, and equipment and their respective depreciable lives are summarized below:

	December 31, 2005	Depreciable Lives
Sewer System	$ 3,457,144	50 Years
Right of Way	16,376	
Furniture & Fixtures	8,945	20 Years
Equipment	78,481	20 Years
Total	3,560,946	
Accumulated Depreciation	(892,369)	
	$ 2,668,577	

NOTE (3) BONDS PAYABLE

Bonds payable at December 31, 2005 are comprised of the following:

General Obligation Sewer Bonds, issued May 1977, are due in annual installments of $15,000 plus 5% interest through 1989. The bonds were due and payable in 1989 and were paid when coupons were turned in to Pagosa Springs Sanitation. Bonds totaling $10,000 are still outstanding as of December 31, 2005 and are currently due and payable.

A note payable to Water Pollution Control Revolving Fund in the original amount of $640,000. Total loan is $434,103. Note is payable in semi-annual payments of $25,234 including interest at 4.5%.

Note payable to Water Pollution Control revolving Fund in the original amount of $200,000. Loan balance at December 31 2005 was $181,626. Note is payable in semi annual payments of $7,414 including interest at 4%.

NOTE (3) BONDS PAYABLE (continued)

Year	Payment	Principal	Interest	Balance
2006	$ 75,295	$ 48,919	$ 26,376	$ 576,810
2007	65,295	40,651	24 26,644	536,159
2008	65,295	42,460	22,835	493,699
2009	65,295	44,350	20,945	499,349
2010	65,295	46,324	18,971	403,025
2011-2015	326,475	264,459	62,016	138,566
2016-2020	124,604	110,337	14,267	28,229
2021-2022	29,655	28,229	1,426	
	$ 817,209	$ 625,729	$ 191,480	

There are a number of limitations and restrictions contained in the various bond indentures. The District believes to be in compliance with all significant limitations and restrictions.

NOTE (4) ACCUMULATED SICK \ VACATION PAY

The District has only one employee. An accrual of $2,826 existed at December 31, 2005 for vacation. There is no pension plan.

NOTE (5) RECEIVABLES

Receivables at December 31, 2005 consist of the following:

Accounts receivable	$ 23,013
Property tax receivable	$ 72,249

NOTE (6) PROPERTY TAXES

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

NOTE (7) STATEMENT OF CASH FLOWS

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

NOTE (8) RISK MANAGEMENT

The District is exposed to various risks of loss related to injuries of employees while on the job and to property and casualty losses. The District has joined together with other municipalities to form The Colorado Intergovernmental Risk Sharing Agency to insure against said risk.

The Colorado Intergovernmental Risk Sharing Agency (CIRSA), a separate and independent governmental and legal entity, was formed by intergovernmental agreement by member municipalities pursuant to the provisions of 24-10-115.5, C.R.S. (1985 Repl. Vol.), as amended, 29-1-201 et. seq., C.R.S. (1977 Repl. Vol.), as amended, 29-13-102, C.R.S. (1977 Repl.Vol., as amended, and Colorado Constitution, Article XIV, Section 18(2).

The purpose of CIRSA is to provide members with a defined liability and property coverage and to assist members in preventing losses to municipal property by reducing injuries to persons or property that might result in claims being made against members of CIRSA, their employees or their officers. It is the intent of the members of CIRSA to create an entity in perpetuity which will administer and use funds contributed by the members to defend and indemnify, in accordance with the Bylaws, any member of CIRSA against stated liability or loss, to the limit of the financial resources of CIRSA. It is also the intent of the members to have CIRSA provide continuing stability and availability of needed coverage at a reasonable cost. All income and assets of CIRSA shall be at all times dedicated to the exclusive benefit of its members. The Bylaws shall constitute the substance of the intergovernmental contract among the members. The District is one member out of a total of ninety-nine towns and cities. CIRSA is directed by a seven member board of directors composed of municipal officials from member cities and towns.

Board directors are nominated and elected by members to two year staggered terms and must meet at least monthly to direct CIRSA operations.

The participants have control over the financial operation of CIRSA only in their ability to elect board members and their ability to change the bylaws. CIRSA has no formal budgeting requirements.

Summary of financial information:

Balance sheet date	12/31/07
Total assets	$ 42,536,167
Total liabilities	$ 25,475,677
Total equity	$ 17,060,490
Revenue	$ 14,280,279
Expenses	16,655,841
Excess of revenue over Expenses	$ (2,375,562)

The December 31, 2005 financial statement was not available when this report was issued.

NOTE (9) RISK MANAGEMENT-WORKMAN'S COMPENSATION

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

NOTE (10) TAX, SPENDING, AND DEBT LIMITATIONS

Colorado voters passed an amendment to the State Constitution, Article X, Section 20, which has several limitations including revenue raising, spending abilities, and other specific requirements of State and local governments. The amendment is complex and subject to judicial interpretation. The District believes it is in compliance with the requirements of the amendment. However, the District has made certain interpretations of the amendment's language in order to determine its compliance.