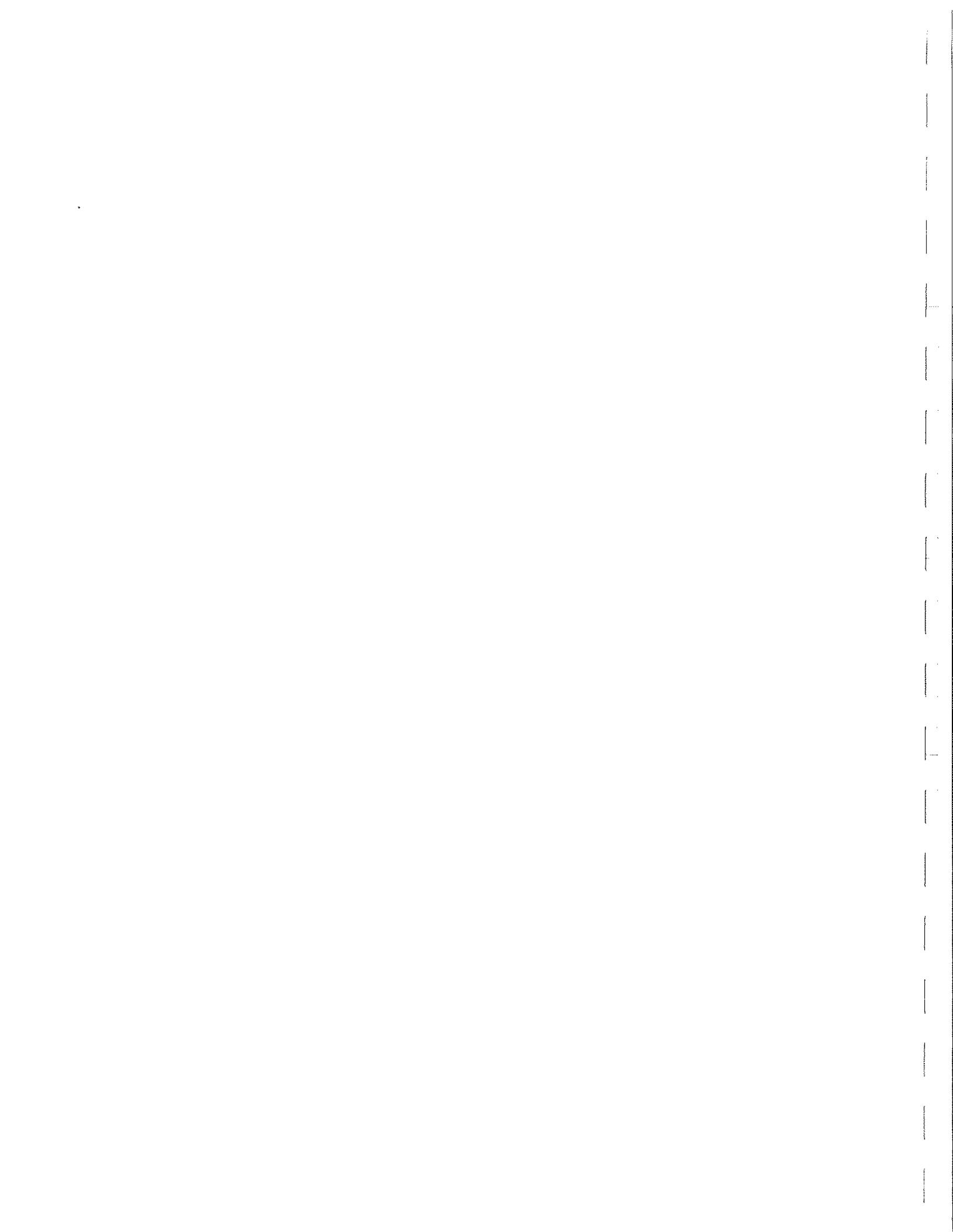


TOWN OF PAGOSA SPRINGS, COLORADO
REPORT OF EXAMINATION AND FINANCIAL STATEMENTS
YEAR ENDED DECEMBER 31, 2005



TOWN OF PAGOSA SPRINGS, COLORADO
YEAR ENDED DECEMBER 31, 2005
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INDEPENDENT AUDITOR'S REPORT

To the Board of Trustees
Town of Pagosa Springs
Pagosa Springs, Colorado

I have audited the accompanying financial statements of the governmental activities and the business type activities of the Town of Pagosa Springs, Pagosa Springs, Colorado as of and for the year ended December 31, 2005 as listed in the table of contents. These financial statements are the responsibility of the Town of Pagosa Springs' management. My responsibility is to express an opinion on these general-purpose financial statements based on my audit.

I 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 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 general-purpose financial statement presentation. I believe that the audit provides a reasonable basis for my opinion.

In my opinion, the financial statements of the governmental activities and the business type activities referred to above present fairly, in all material respects, the financial position of the Town of Pagosa, Pagosa Springs, Colorado as of December 31, 2005 and the results of its operations for the year then ended in conformity with generally accepted accounting principles.

The management's discussion and analysis on pages 2 through 5 is not a required part of the basic financial statements but is supplementary information required by the Governmental Accounting Standards Board. I have applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of the required supplementary information. However, I did not audit the information and express no opinion on it.

As described in notes to the basic financial statements, the Town of Pagosa Springs adopted the provisions of Governmental Accounting Standards Board Statement No. 34, *Basic Financial Statements – and Management's Discussion and Analysis – for State and Local Governments*; Statement No. 37, *Basic Financial Statements – and Management's Discussion and Analysis – for State and Local Governments: Omnibus*; and Interpretation No. 6, *Recognition and Measurement of Certain Liabilities and Expenditures in Governmental Fund Financial Statements*, as of January 1, 2004. This results in a change in the format and content of the basic financial statements.

The information included in the introductory section listed in the accompanying table of contents is not a required part of the basic financial statements of the Town of Pagosa Springs. Accordingly, I did not audit this information and express no opinion on it.



Michael C. Branch
Certified Public Accountant
May 19, 2006

TOWN OF PAGOSA SPRINGS

MANAGEMENT'S DISCUSSION AND ANALYSIS

This section of Town of Pagosa Springs' annual financial report presents our discussion and analysis of the Town's financial performance during the fiscal year, which ended December 31, 2005. Please read it in conjunction with the Town's financial statements, which follow this section.

FINANCIAL HIGHLIGHTS

Town of Pagosa Springs

Management Discussion

The Town of Pagosa Springs experienced a very busy and productive year in 2005. Revenues from sales tax finished 12.35% above 2004 revenues. Expenditures were also in line with the budget with exception of salaries, which were increased across the board in June in order to fulfill recommendations from a 2004 Compensation and Salary Survey and was done so because of stronger than expected revenues. The reserve balance was increased by approximately \$175,000. Capital improvement projects were also initiated and include San Juan River Restoration project maintenance and improvements, reconstruction of the 8th and Apache Street intersection, reconstruction of the 7th and San Juan Street intersection, construction of the new Sports Complex and new sidewalk along Apache Street. Several planning projects were initiated during the year including a Comprehensive Plan complete with a full Transportation Plan, a Downtown Master Plan complete with Design Guidelines, and an Impact Fee Study. The Building and Planning Departments experienced a record year in terms of building permits issued and development projects submitted and reviewed, all consistent with the continued growth and development throughout the community. The Town began collecting impact fees for the first time and will assessing these new interim fees on all new development projects. A new 3.0% municipal lodging tax was approved by the voters in November and will result in an initial estimate of \$300,000 in revenue per year that will be used for marketing efforts.

The 2006 budget reflects continued growth in revenues and expenditures resulting from expected growth throughout the community. Sales tax revenues are projected to increase 3.63% from 2005 receipts. Expenditures are planned for several capital improvement projects and four (4) new full-time staff positions, which include a new patrol officer, a police department administrative assistant, an associate planner and building inspector. The major capital improvement projects are the continuation of the San Juan River Restoration project (Phase II), continued work on the Sports Complex (Phase I), construction and paving of portions of Cemetery Road, paving of portions of Greatwest Avenue, construction of the new Riverwalk Trail, construction and installation of a new pedestrian bridge in Town Park, construction and installation of a new pedestrian bridge at 1st and Pagosa Street, construction and paving of portions of Lewis Street and additional sidewalk along Apache Street. Designs and plans for two new facilities have begun and include a new 1.0 Mgd (Million gallons per day) wastewater treatment plant and a new public works facility. A feasibility study is also underway for the

construction of a new recreation center, which if feasible may result in a November ballot question asking for voter approval of a 0.5% increase in sales tax designated for the construction of the facility. All the above mentioned planning projects are continuing into 2006 and are scheduled for completion and adoption, including the Impact Fee Study which will create a new fee structure and rescind the current interim fees. New planning projects for this year include a Land-Use Code update, execution of a comprehensive annexation plan and implementation of business licensing. Another lodging tax question is being considered in April and will ask for voter approval for a 1.9% lodging tax. If approved, this new lodging tax will be added to the previously approved 3.0% lodging tax and cumulatively will result in a 4.9% lodging tax that is initially estimated to generate approximately \$490,000 in revenue and will be used for marketing efforts.

The Town is expecting continued growth in 2007, which will result in increased service levels in all departments and impacts to all infrastructure. Several capital improvement projects will be planned for 2007 and include construction of the new wastewater treatment facility, reconstruction of Lewis Street, construction of Sports Complex facilities (Phase II), paving of major alleyways, paving of Hot Springs Boulevard (Phase II) and possibly construction of a new recreation center. Funds will be budgeted for ongoing and continuing maintenance of all Town infrastructure, including facilities, utilities, roads, parks and equipment. Staff will be added where necessary in order to meet required service levels.

OVERVIEW OF THE FINANCIAL STATEMENTS

This annual report consists of two parts — *management's discussion and analysis* (this section), and the *basic financial statements*. The basic financial statements include two kinds of statements that present different views of the Town's:

The first two statements are *government-wide financial statements* that provide both *long-term* and *short-term* information about the Town's overall financial status.

The remaining statements are *fund financial statements* that focus on *individual parts* of the government, reporting the Town's operations in more detail than the government-wide statements.

The governmental funds statements tell how *general government* services were financed in the *short term* as well as what remains for future spending. Governmental funds include the General and Conservation Trust Fund.

The financial statements also include notes that explain some of the information in the financial statements and provide more detailed data.

District-wide Statements

The Town-wide statements report information about the Town as a whole using accounting methods similar to those used by private companies. The statement of net assets includes all of the Town's assets and liabilities. All of the current year's revenues and expenses are accounted for in the statement of activities regardless of when cash is received or paid.

The two Town-wide statements report the Town's net assets and how they have changed. Net assets, the difference between the Town's assets and liabilities, are one way to measure the Town's financial health or *position*.

Over time, increases or decreases in the Town's net assets are an indicator of whether its financial health is improving or deteriorating, respectively.

To assess the overall health of the Town, one needs to consider additional non-financial factors such as changes in the Town's tax base, and the condition of the Town buildings along with major capital improvements.

The Town-wide financial statements of the Town include all of the *Governmental activities*. Most of the Town's basic services are included here. Sales taxes finance most of these activities.

Fund Financial Statements

The fund financial statements provide more detailed information about the Town's most significant *fund* — not the Town as a whole. Funds are accounting devices that the District uses to keep track of specific sources of funding and spending for particular purposes.

Some funds are required by State law and by bond covenants.

The Board of Trustees establishes other funds to control and manage money for particular purposes or to show that it is properly using certain taxes and grants.

The Town has the following funds:

Governmental funds — All of the Town's basic services are included in governmental funds, which focus on (1) how *cash and other financial assets* that can readily be converted to cash flow in and out and (2) the balances left at year-end that are available for spending. Consequently, the governmental fund statements provide a detailed *short-term* view that helps you determine whether there are more or fewer financial resources that can be spent in the near future to finance the Town's programs.

FINANCIAL ANALYSIS OF THE DISTRICT AS A WHOLE

Total net assets increased by \$1,211,322. Cash decreased \$21,016. Other current assets increased by \$213,151.

The Town's total governmental revenues were \$3,262,031. Over 80% the Town's revenues came from sales taxes.

Governmental Activities

Property tax revenues increased about 7% from the previous year due to increased assessed valuation.

General Fund Budgetary Highlights

Actual expenditures (including reserves) were \$630,972 below budget amounts. Actual revenues received exceeded budget amounts.

CAPITAL ASSETS AND DEBT ADMINISTRATION

Capital Assets

At the end of 2005, the Town had invested in a broad range of capital assets, including land, equipment and buildings.

Town's Capital Assets

Streets	\$ 10,053,201
Buildings	6,061,201
Improvements	2,316,634
Equipment	1,263,790
Geothermal	1,184,673
Sanitation	<u>3,560,946</u>
Totals	24,440,445
Less Accumulated Depreciation	(1,481,430)
Net Capital Assets	\$ 22,959,015

CONTACTING THE DISTRICT'S FINANCIAL MANAGEMENT

This financial report is designed to provide our citizens, taxpayers, customers, and creditors with a general overview of the District's finances and to demonstrate the District's accountability for the money it receives. If you have questions about this report or need additional financial information, contact the District's Management.

TOWN OF PAGOSA SPRINGS
STATEMENT OF NET ASSETS
December 31, 2005

		Primary Government
ASSETS		
Cash	\$	1,990,970
Cash held by Treasurer		3,049
Account receivables		615,349
Tax receivables		139,378
Due from other funds		21,389
Fixed assets (net)		10,607,374
Total Assets	\$	13,377,509
LIABILITIES		
Accounts Payable	\$	69,612
Due other funds		21,389
Deferred income		139,378
Current portion of debt		205,630
Long term debt		2,126,119
Total Liabilities		2,562,128
NET ASSETS		
Investment in Capital Assets		
Net of related debt		8,275,625
Restricted for emergencies		120,063
Unrestricted		2,419,693
Total Net Assets	\$	10,815,381

See accompanying notes

TOWN OF PAGOSA SPRINGS
STATEMENT OF ACTIVITIES
For the Year Ended December 31, 2005

Functions/Programs	Program Revenues			Net (Expense) Revenues and Changes in Net Assets		
	Expenses	Charges for Services	Miscellaneous Grants	Governmental Activities	Business- Type Activities	Total
Governmental Activities:						
General Government	\$ 1,071,264	\$ 116,689	\$ 5,781	\$ (948,794)		\$ (948,794)
Public safety	486,979	28,108	12,465	(446,406)		(446,406)
Public works	706,477	86,563		(619,914)		(619,914)
Total	<u>2,264,720</u>	<u>231,360</u>	<u>18,246</u>	<u>(2,015,114)</u>		<u>(2,015,114)</u>
Business-type Activities:						
Enterprise funds	395,755	254,740			(141,015)	(141,015)
Total	<u>395,755</u>	<u>254,740</u>			<u>(141,015)</u>	<u>(141,015)</u>
Governmental and Business- Type Activities Totals	\$ 2,660,475	\$ 486,100	\$ 18,246	\$ (2,015,114)	\$ (141,015)	\$ (2,156,129)
General revenues:						
Other				67,353		67,353
Taxes				3,079,171	80,434	3,159,605
Intergovernmental				1,038,791		1,038,791
Other				67,353		67,353
Interest					5,948	5,948
Tap Fees					106,632	106,632
Interest expense					(28,034)	(28,034)
Total General Revenues				<u>4,252,668</u>	<u>164,980</u>	<u>4,417,648</u>
Changes in net assets				2,237,554	23,965	2,261,519
Net assets, January 1, 2005				7,246,990	1,306,872	8,553,862
Net assets, December 31, 2005				<u>\$ 9,484,544</u>	<u>\$ 1,330,837</u>	<u>\$ 10,815,381</u>

See accompanying notes

TOWN OF PAGOSA SPRINGS, COLORADO
BALANCE SHEET
ALL GOVERNMENTAL FUNDS
DECEMBER 31, 2005

	Governmental Fund Types		Total
	General	Conservation Trust	December 31, 2005
ASSETS			
Cash	\$ 1,692,261	\$ 30,683	\$ 1,722,944
Cash held by County	4,590		4,590
Account receivables	561,059		561,059
Taxes receivable	67,129		67,129
Due from other funds	3,257	18,132	21,389
Total Assets	\$ 2,328,296	\$ 48,815	\$ 2,377,111
LIABILITIES			
Account payables	\$ 66,786		\$ 66,786
Due to other funds	18,132		18,132
Deferred revenue	67,129		67,129
Total Liabilities	152,047		152,047
FUND EQUITY			
Fund Balances:			
Reserved for emergencies	120,063		120,063
Undesignated	2,053,186	48,815	2,102,001
Total Fund Equity	2,173,249	48,815	2,222,064
TOTAL LIABILITIES AND FUND EQUITY	\$ 2,325,296	\$ 48,815	\$ 2,374,111

See accompanying notes

TOWN OF PAGOSA SPRINGS
 RECONCILIATION OF THE GOVERNMENTAL FUNDS BALANCE SHEET
 TO THE STATEMENT OF NET ASSETS
 For the Year Ended December 31, 2005

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

Total fund balance - governmental funds	\$ 2,222,064
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Capital assets used in governmental activities are not financial resources and therefore are not reported as assets in governmental funds.

The cost of capital assets is	\$ 7,650,746	
Accumulated depreciation is	<u>(338,292)</u>	7,312,454

The Enterprise funds are used by the Town for business type activities. The assets and liabilities re included in governmental activities in the statement of net assets.	2,986,883
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Long-term liabilities, including bonds payable, are not due and payable in the current period and therefore are not reported as liabilities in the funds. Long-term liabilities at year end consists of:

Capital Lease	<u>(1,706,020)</u>
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Total net assets - governmental activities	\$ <u>10,815,381</u>
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See accompanying notes

TOWN OF PAGOSA SPRINGS, COLORADO
STATEMENT OF REVENUE, EXPENDITURES AND
CHANGES IN FUND BALANCES GOVERNMENTAL FUNDS
YEAR ENDED DECEMBER 31, 2005

	General	Conservation Trust	December 31, 2005
REVENUE			
Taxes	\$ 3,079,171	\$	\$ 3,079,171
Licenses & permits	96,689		96,689
Intergovernmental and grants	1,024,284	14,507	1,038,791
Charges for services	86,563		86,563
Fines and forfeits	28,108		28,108
Interest		269	269
Other	97,353		97,353
Total Revenue	4,412,168	14,776	4,426,944
General government	1,071,264		1,071,264
Public safety	486,979		486,979
Public works	706,477		706,477
Capital outlay	1,737,387		1,737,387
Total Expenditures	4,002,107		4,002,107
EXCESS (DEFICIENCY) OF REVENUE OVER EXPENDITURES	410,061	14,776	424,837
FUND BALANCE BEGINNING OF YEAR	1,763,188	34,038	1,797,226
FUND BALANCE END OF YEAR	\$ 2,173,249	\$ 48,814	\$ 2,222,063

See accompanying notes

TOWN OF PAGOSA SPRINGS
 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, 2005

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

Net change in fund balances – total government funds \$ 424,837

Governmental funds report capital outlays as expenditures. However, in the statement of activities the cost of those assets is allocated over their estimated useful lives and reported as depreciation expense. This is the amount by which capital outlays exceeded depreciation in the current period. 1,737,387

The net effect of various miscellaneous transactions involving capital assets (depreciation) is to increase net assets. (169,146)

The Enterprise fund used by the Town is for business type activities and are not included in governmental activities. 164,980

The issuance of long-term debt (e.g., bonds, leases) provides current financial resources to governmental funds, while the repayment of the principal of long-term debt consumes the current financial resources of governmental funds. Neither transaction, however, has any effect on net assets. Also, governmental funds report the effect of issuance costs, premiums, discounts and similar items when debt is first issued, whereas these amounts are deferred and amortized in the statement of activities. This amount is the net effect of these differences in the treatment of long-term debt and related items. 103,461

Change in net assets of governmental activities \$2,261,519

TOWN OF PAGOSA SPRINGS, COLORADO
 STATEMENT OF REVENUE, EXPENDITURES AND CHANGES IN
 FUND BALANCE BUDGET AND ACTUAL
 GENERAL FUND
 YEAR ENDED DECEMBER 31, 2005

	General Fund			
	Budgeted Amounts		Actual	Variance Favorable (Unfavorable)
	Original	Final		
REVENUE				
Taxes	\$ 2,772,101	\$ 2,772,101	\$ 3,079,171	\$ 307,070
Licenses & permits	65,500	65,500	96,689	31,189
Intergovernmental	1,703,798	1,703,798	1,024,284	(679,514)
Charges for services	100,500	100,500	86,563	(13,937)
Fines and forfeits	50,000	50,000	28,108	(21,892)
Other	65,000	65,000	97,353	32,353
Total Revenue	<u>4,756,899</u>	<u>4,756,899</u>	<u>4,412,168</u>	<u>(344,731)</u>
EXPENDITURES				
General government	1,543,521	1,543,521	1,071,264	472,257
Public safety	443,800	443,800	486,979	(43,179)
Public works	1,461,816	1,461,816	706,477	755,339
Capital Outlay	<u>1,312,724</u>	<u>1,312,724</u>	<u>1,737,387</u>	<u>(424,663)</u>
Total Expenditures	<u>4,761,861</u>	<u>4,761,861</u>	<u>4,002,107</u>	<u>759,754</u>
EXCESS (DEFICIENCY) OF REVENUE OVER EXPENDITURES	<u>(4,962)</u>	<u>(4,962)</u>	<u>410,061</u>	<u>415,023</u>
FUND BALANCE BEGINNING OF YEAR	<u>1,763,188</u>	<u>1,763,188</u>	<u>1,763,188</u>	
FUND BALANCE END OF YEAR OF YEAR	<u>\$ 1,758,226</u>	<u>\$ 1,758,226</u>	<u>\$ 2,173,249</u>	<u>\$ 415,023</u>

See accompanying notes

TOWN OF PAGOSA SPRINGS, COLORADO
STATEMENT OF REVENUE, EXPENDITURES AND CHANGES IN
FUND BALANCE BUDGET AND ACTUAL
CONSERVATION TRUST
YEAR ENDED DECEMBER 31, 2005

	Budgeted Amounts		Actual	Variance Favorable (Unfavorable)
	Original	Final		
REVENUE				
Taxes	\$	\$ 0	\$	\$ 0
Intergovernmental	15,000	15,000	14,507	(493)
Interest	269	269	269	
 Total Revenue	 15,269	 15,269	 14,776	 (493)
EXPENDITURES				
Public works		0		0
Total Expenditures	0	0	0	0
 EXCESS (DEFICIENCY) OF REVENUE OVER EXPENDITURES	 15,269	 15,269	 14,776	 (493)
 FUND BALANCE BEGINNING OF YEAR	 34,038	 34,038		
 FUND BALANCE END OF YEAR OF YEAR	 \$ 49,307	 \$ 49,307	 \$ 14,776	 \$ (493)

See accompanying notes

TOWN OF PAGOSA SPRINGS, COLORADO
 PROPRIETARY FUNDS
 BALANCE SHEET
 DECEMBER 31, 2005

	Sanitation Fund	Geothermal Fund	Totals
ASSETS			
Cash	\$ 277,391	\$ (9,365)	\$ 268,026
Account receivables	23,013	31,277	54,290
Taxes receivable	72,249		72,249
Cash with County	1,459		1,459
Fixed assets, net	2,668,577	626,343	3,294,920
Total Assets	\$ 3,042,689	\$ 648,255	\$ 3,690,944
LIABILITIES			
Accrued vacation	\$ 2,826	\$	\$ 2,826
Deferred revenue	72,249		72,249
Bonds payable, current	48,919		48,919
Due to other funds		3,257	3,257
Total Current Liabilities	123,994	3,257	127,251
Long term liabilities	576,810		576,810
Total Liabilities	700,804	3,257	704,061
FUND EQUITY			
Contributed capital	965,626	690,420	1,656,046
Retained earnings (deficit)	1,376,259	(45,422)	1,330,837
Total Fund Equity	2,341,885	644,998	2,986,883
TOTAL LIABILITIES AND FUND EQUITY	\$ 3,042,689	\$ 648,255	\$ 3,690,944

See accompanying notes

TOWN OF PAGOSA SPRINGS, COLORADO
 PROPRIETARY
 STATEMENT OF REVENUES, EXPENSES
 AND CHANGES IN RETAINED EARNINGS
 DECEMBER 31, 2005

	Sanitation Fund	Geothermal Fund	Totals
OPERATING REVENUE:			
Service fees	\$ 221,978	\$ 32,762	\$ 254,740
Total Revenue	<u>221,978</u>	<u>32,762</u>	<u>254,740</u>
OPERATING EXPENSES:			
Personnel	56,301	4,832	61,133
Commodities	167,799	26,274	194,073
Contractual	40,538	412	40,950
Depreciation	69,982	29,617	99,599
Total Expenses	<u>334,620</u>	<u>61,135</u>	<u>395,755</u>
INCOME (LOSS) FROM OPERATIONS	<u>(112,642)</u>	<u>(28,373)</u>	<u>(141,015)</u>
NON-OPERATING REVENUE (EXPENSE)			
Property tax	80,434		80,434
Interest expense	(28,034)		(28,034)
Interest income	5,948		5,948
Plant investments	106,632		106,632
Total Non-Operating Revenue	164,980		164,980
Net Income	52,338	(28,373)	23,965
RETAINED EARNINGS (DEFICIT) BEGINNING OF YEAR	<u>1,323,921</u>	<u>(17,049)</u>	<u>1,306,872</u>
RETAINED EARNINGS (DEFICIT) END OF YEAR	<u>\$ 1,376,259</u>	<u>\$ (45,422)</u>	<u>\$ 1,330,837</u>

See accompanying notes

TOWN OF PAGOSA SPRINGS, COLORADO
 PROPRIETARY FUNDS
 STATEMENT OF CASH FLOWS
 FOR THE YEAR ENDED DECEMBER 31, 2005

	<u>Sanitation</u>	<u>Geothermal</u>	<u>Totals</u>
CASH FLOWS FROM OPERATING ACTIVITIES:			
Cash Received from Customers	\$ 215,378	\$ 44,871	\$ 260,249
Cash Paid for Expenses	<u>(265,965)</u>	<u>(31,519)</u>	<u>(297,484)</u>
NET CASH PROVIDED (USED) BY OPERATING ACTIVITIES	(50,587)	13,352	(37,235)
CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES:			
Payment of Interest on Bonds	(28,034)		(28,034)
Net Change in Loans	(37,260)		(37,260)
Tap Fees	106,632		106,632
Interest	<u>5,948</u>		<u>5,948</u>
CASH FLOWS FROM (USED) IN CAPITAL AND RELATED FINANCING ACTIVITIES	47,286		47,286
CASH FLOWS FROM NON CAPITAL ACTIVITIES:			
Taxes	<u>79,842</u>		<u>79,842</u>
CASH FLOWS FROM NON CAPITAL ACTIVITIES	79,842		79,842
NET INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS	76,541	13,352	89,893
CASH AND CASH EQUIVALENTS:			
Beginning of Year	<u>200,850</u>	<u>(22,717)</u>	<u>178,133</u>
End of Year	\$ <u>277,391</u>	\$ <u>(9,365)</u>	\$ <u>268,026</u>

See accompanying notes

TOWN OF PAGOSA SPRINGS, COLORADO
 PROPRIETARY FUNDS
 COMBINING STATEMENT OF CASH FLOWS
 FOR THE YEAR ENDED DECEMBER 31, 2005

RECONCILIATION OF OPERATING INCOME TO NET CASH
 PROVIDED BY OPERATING ACTIVITIES

(continued)

	Water	Geothermal	Totals
Operating Income (Loss)	\$ (112,642)	\$ (28,373)	\$ (141,015)
Adjustments to Reconcile Operating Income to Net Cash Provided by Operating Activities:			
Depreciation and Amortization	69,982	29,617	99,599
Increase in Accounts Payable	(1,327)		(1,327)
(Increase) Decrease in Accounts Receivable	(6,600)	12,108	5,508
NET CASH PROVIDED (USED) BY OPERATING ACTIVITIES	\$ (50,587)	\$ 13,352	\$ (37,235)

See accompanying notes



TOWN OF PAGOSA SPRINGS, COLORADO
STATEMENT OF REVENUE, EXPENSES AND
CHANGES IN RETAINED EARNINGS BUDGET AND ACTUAL (NON-GAAP)
PROPRIETARY FUND
Year Ended December 31, 2005

	SANITATION			
	Budgeted Amounts		Actual	Variance- Favorable (Unfavorable)
	Original	Final		
REVENUE				
Service fees	\$ 221,000	\$ 221,000	\$ 221,978	\$ 978
Total Revenue	221,000	221,000	221,978	978
EXPENSES				
Personnel	66,804	66,804	56,301	10,503
Commodities	172,000	172,000	167,799	4,201
Contractual	51,200	51,200	40,538	10,662
Total Expenses	290,004	290,004	264,638	25,366
EXCESS (DEFICIENCY) OF OPERATING REVENUE OVER EXPENSES	(69,004)	(69,004)	(42,660)	26,344
NON-OPERATING REVENUES (EXPENSES)				
Property tax	80,708	80,708	80,434	(274)
Debt service	(65,295)	(65,295)	(65,294)	1
Plant investment fees	75,000	75,000	106,632	31,632
Other income	8,000	8,000	5,948	(2,052)
Total Non-Operating Revenue	98,413	98,413	127,720	29,307
Net Income	29,409	29,409	85,060	55,651
ADJUSTMENTS				
Adjust to GAAP				
Depreciation adjustment			(69,982)	
Principal payments			37,260	
RETAINED EARNINGS BEGINNING OF YEAR			1,323,921	
RETAINED EARNINGS END OF YEAR			\$ 1,376,259	

See accompanying notes

GEOHERMAL				TOTALS			
Budgeted Amounts		Actual	Variance-Favorable (Unfavorable)	Budgeted Amounts		Actual	Variance-Favorable (Unfavorable)
Original	Final			Original	Final		
\$ 36,849	36,849	\$ 32,762	\$ (4,087)	\$ 257,849	\$ 257,849	\$ 254,740	\$ (3,109)
36,849	36,849	32,762	(4,087)	257,849	257,849	254,740	(3,109)
5,140	5,140	4,832	308	71,944	71,944	61,133	10,811
24,680	24,680	26,274	(1,594)	196,680	196,680	194,073	2,607
2,000	2,000	412	1,588	53,200	53,200	40,950	12,250
31,820	31,820	31,518	302	321,824	321,824	296,156	25,668
5,029	5,029	1,244	(3,785)	(63,975)	(63,975)	(41,416)	22,559
				80,808	80,808	80,434	(274)
				(65,295)	(65,295)	(65,294)	1
				75,000	75,000	106,632	31,632
				8,000	8,000	5,948	(2,052)
				98,513	98,513	127,720	29,307
5,029	5,029	1,244	(3,785)	34,438	34,438	86,304	51,866
		(29,617)				(99,599)	
						37,260	
		(17,049)				1,306,872	
		\$ (45,422)				\$ 1,330,837	

TOWN OF PAGOSA SPRINGS, COLORADO
NOTES TO FINANCIAL STATEMENTS
YEAR ENDED DECEMBER 31, 2005

NOTE (1) SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The Town of Pagosa Springs, Colorado operates under the statutes governing municipalities of the State of Colorado. The Town operates under a Board form of government and provides the following services as authorized by State statutes: highway and streets, culture-recreation, public improvements, public safety (police), planning and zoning and general administrative services.

The accounting policies of the Town of Pagosa Springs, Colorado conform to generally accepted accounting principles. The following is a summary of such significant policies:

Principles Determining Scope of Reporting Entity

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

the organization is legally separate; Town holds the corporate powers of the organization; the Town appoints a voting majority of the organization's board; the Town is able to impose its will on the organization; the organization has the potential to impose a financial benefit/burden on the Town; there is fiscal dependency by the organization on the Town. Based on the aforementioned criteria, the Town of Bayfield has no component units.

Fund Accounting

The accounts of the Town 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 to be spent and the means by which spending activities are controlled.

The report the following major funds:

General Fund is the Town's primary operating fund. It accounts for all financial resources of the Town except these required legally or by sound financial management to be accounted for in another fund.

Conservation Trust Fund is used to account for lottery revenue received from State.

Measurement Focus, Basis of Accounting, and Financial Statements Presentations

The accounting and financial reporting treatment applied to a fund is determined by its measurement focus. The government-wide financial statements are presented using the economic resources measurements focus and the accrual basis of accounting, as are the proprietary fund statements.

Revenues are recorded when earned and expenses are recorded when a liability is incurred, regardless of the timing of related cash flows. Property taxes are recognized as revenues in the year for which they are levied. Grants and similar items are recognized as revenue as soon as all eligibility requirements imposed by the provider have been met.

TOWN OF PAGOSA SPRINGS, COLORADO
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2005

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

Measurement Focus, Basis of Accounting, and Financial Statement Presentations
(continued)

As a general rule the effect of Interfund activity has been eliminated from the government-wide financial statements. Exceptions to this general rule are charges between the Town's governmental and business-type activities. Elimination of these charges would distort the direct costs and program revenues reported for the various functions concerned.

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 Town has elected not to follow subsequent private-sector guidance.

Governmental fund financial statements are reported using the current financial resources measurement focus and the modified accrual basis of accounting. With this measurement focus, operating statements present increases and decreases in net current assets and unreserved fund balance as a measure of available spendable resources. This means that only current liabilities are generally included on their balance sheets.

All governmental fund types used the modified accrual basis of accounting. Revenues are recognized as soon as they are both measurable and available. "Measurable" means the amount of the transaction can be determined and "available" means collectible within the current period, or soon enough thereafter, to pay liabilities of the current period. Revenues are considered to be available if collected within 60 days after year-end.

Property and specific ownership taxes are reported as receivables and deferred revenue when levied and as revenues when due for collection in the following year and determined to be available.

Grants and entitlement revenues are recognized when compliance with matching requirements are met. A receivable is established when the related expenditures exceed revenue receipts.

Expenditures are recorded when the related fund liability is incurred with the exception of general obligation and capital lease debt service which is recognized when due and certain sick and retirement pay which are accounted for as expenditures when expected to be liquidated with expendable financial resources.

The proprietary fund types are accounted for on the accrual basis of accounting. Revenues are recognized when earned and expenses are recognized when incurred. The measurement focus in these funds is on the flow of economic resources and emphasizes the determination of net income. All assets and all liabilities associated with their activity are included on their balance sheets. Proprietary fund type operating statements present increases (revenues) and decreases (expenses) in net total assets.

Proprietary funds distinguish operating revenues and expenses from nonoperating items. Operating revenues and expenses generally result from providing goods and services in connection with a proprietary fund's ongoing operations. The principal operating revenues of the District's proprietary funds are charges to customers for sale and services. Operating expenses for enterprise funds include the cost of sales and services, administrative expenses, and depreciation on capital assets. All revenue and expenses not meeting this definition are reported as non-operating revenue and expenses.

TOWN OF PAGOSA SPRINGS, COLORADO
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2005

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

Measurement Focus, Basis of Accounting, and Financial Statement Presentations
(continued)

When both restricted and unrestricted resources are available for use, it is the district's policy to use restricted resources first, then unrestricted resources, as they are needed.

Budgets and Budgetary Accounting

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

- (1) In accordance with the State statutes, prior to September 1, 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 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 department head function level.
- (2) Public hearings are conducted to obtain taxpayer comment.
- (3) Prior to December 31, the budget is legally adopted through passage of a resolution.
- (4) The Town Clerk is required to present a monthly report to the Town Board explaining any variance from the approved budget.
- (5) Formal budgetary integration is employed as a management control device during the year for all funds of the Town of Bayfield.
- (6) Budgets for the General, Debt Service, Capital Projects, Special Revenue Funds and Fiduciary Funds are adopted on a basis consistent with generally accepted accounting principles (GAPP).
- (7) Colorado state statutes require the adoption of a budget for proprietary funds. (See Note 8 for disclosure of budget to actual results for proprietary funds). The budgets for Water Enterprise Fund and Garbage Enterprise Fund are prepared essentially on the modified accrual basis of accounting. This basis of accounting is at variance with generally accepted accounting principles for proprietary fund types.
- (8) Appropriations lapse at the end of each calendar year.
- (9) The Town Board may authorize supplemental appropriations during the year.

Joint Ventures

The Town of Pagosa Springs participates in special purpose joint ventures, which are not part of the Town's reporting entity. Additional information regarding the Town's participation in joint ventures is provided in Note One. The following is the joint venture in which the town participates:

TOWN OF PAGOSA SPRINGS, COLORADO
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2005

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

Colorado Intergovernmental Risk-Sharing Agency

The Town of Pagosa Springs is one of 98 local governments, which are members of the Colorado Intergovernmental Risk Sharing Agency (CIRSA). CIRSA is an organization created in 1982 by an intergovernmental agreement solely to provide property and casualty coverage to its members. Coverage is provided through polling of self-insured losses and the purchase of stop-loss insurance coverage. In 1987, CIRSA/WC was formed as a separate pool by intergovernmental agreement to provide coverage to its members under the Colorado Workmen's Compensation Act. Both CIRSA and CIRSA/WC are governed by a seven-member board elected by and from its members. The governing board is autonomous as to budgeting and fiscal matters.

Reserves

The Town records reserves to indicate that a portion of the fund balance is legally segregated for a specific future use.

Following is a list of all reserve accounts used by the Town and a description of each:

Reserved for Emergencies – In compliance with the Tabor Amendment to the Constitution of the State of Colorado, General Fund equity is reserved for future emergencies.

Revenue Recognition - Property Taxes

Property taxes attach as an enforceable lien on property as of January 1. Taxes are levied on January 1 and are due and payable February 28 and July 31. All unpaid taxes levied January become delinquent on August 1. Property tax revenues are recognized when they become available. Available includes those property tax receivables expected to be collected within sixty days after year-end. Property taxes levied on December 31 are shown as receivable with an offsetting deferred revenue at December 31. Delinquent taxes are considered fully collectible and therefore no allowance for uncollectible taxes is provided.

Cash Deposits and Cash Equivalents

Cash deposits at December 31, 2005, consisted of certificates of deposit with banks and savings and loans and cash in demand deposit accounts. For purposes of the statements of cash flows, the Water and Garbage Funds consider all such highly liquid deposits with an original maturity of less than three months to be cash equivalents.

NOTE (2) RECONCILIATION OF GOVERNMENT-WIDE AND FUND FINANCIAL STATEMENTS

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

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

TOWN OF PAGOSA SPRINGS, COLORADO
 NOTES TO FINANCIAL STATEMENTS
 DECEMBER 31, 2005

NOTE (3) CAPITAL ASSETS, DEPRECIATION AND AMORTIZATION

The Town's property and equipment with useful lives of more than one year are stated at historical cost and comprehensively reported in the government-wide financial statements. Proprietary and component unit capital assets are also reported in their respective fund and combining component units financial statements. Donated assets are stated at fair value on the date donated. The Town generally capitalized assets with cost of \$1,000 or more as purchase and construction outlays occur. The costs of normal maintenance and repairs that do not add to the asset value or materially extend useful lives are not capitalized. Capital assets including those of component units, are depreciated using the straight-line method. When capital assets are disposed, the cost and applicable accumulated depreciation are removed from the respective accounts, and the resulting gain or loss is recorded in operations.

Estimated useful lives in years, for depreciable assets are as follows:

Buildings 50
 Furniture, machinery, and equipment 5 - 10

	<u>Balance Jan 1, 2004</u>	<u>Additions</u>	<u>Deletions</u>	<u>Balance Dec 31, 2005</u>
Non-depreciable assets:				
Land	\$ 1,000,000	\$ _____	\$ _____	\$ 1,000,000
Total non-depreciable Assets	1,000,000			1,000,000
Depreciable Assets:				
Buildings	6,199,102	_____	_____	6,199,102
Equipment & vehicles	<u>451,644</u>	_____	_____	<u>451,644</u>
Total depreciable Assets	<u>6,650,746</u>	_____	_____	<u>6,650,746</u>
Less accumulated depreciation for:				
Buildings	(123,982)	(123,982)	_____	(247,964)
Equipment and vehicles	(45,164)	(45,164)	_____	(90,328)
Total accumulated Depreciation	<u>(169,146)</u>	<u>(169,146)</u>	_____	<u>(338,292)</u>
Total capital assets net assets, net	<u>\$ 7,481,600</u>	<u>\$ (169,146)</u>	<u>\$ _____</u>	<u>\$ 7,312,454</u>

Business-type activities

A summary of changes in enterprise funds capital assets is as follows:

	<u>Balance Jan 1, 2005</u>	<u>Additions</u>	<u>Deletions</u>	<u>Balance Dec 31, 2005</u>
Sewer Fund:				
Land	\$ 16,376	\$ _____	\$ _____	\$ 16,376
Sewer system	3,457,144			3,457,144
Equipment & vehicles	87,426			87,426
Accumulated Depreciation	<u>(822,387)</u>	<u>(69,982)</u>	_____	<u>(892,369)</u>
Total Sewer Fund, net	<u>\$ 2,738,559</u>	<u>\$ (69,982)</u>	<u>\$ _____</u>	<u>\$ 2,668,577</u>

TOWN OF PAGOSA SPRINGS, COLORADO
 NOTES TO FINANCIAL STATEMENTS
 DECEMBER 31, 2005

NOTE (3) CAPITAL ASSETS, DEPRECIATION AND AMORTIZATION (continued)

	Balance Jan 1, <u>2005</u>	<u>Additions</u>	<u>Deletions</u>	Balance Dec 31, <u>2005</u>
Geothermal Fund:				
Geothermal System	\$ 1,182,419	\$	\$	\$ 1,182,419
Equipment & vehicles	2,254			2,254
Accumulated Depreciation	<u>(528,713)</u>	<u>(29,617)</u>	<u> </u>	<u>(558,330)</u>
Total Geothermal Fund, net	\$ <u>655,960</u>	\$ <u>(29,617)</u>	\$ <u> </u>	<u>626,343</u>

NOTE (4) CASH AND DEPOSITS

Colorado State statutes govern the Town's deposits of cash. The statutes specify 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 Commission for banks and savings and loan associations is required by statute to monitor the naming of eligible depositories and the reporting of the uninsured deposits and assets maintained in the collateral pool.

At December 31, 2005, the Town had a bank balance of \$2,176,584 and a carrying balance of \$1,990,970. Of this amount \$300,000 was protected by FDIC and \$1,876,584 protected under PDPA.

NOTE (5) PENSION PLANS

Policemen's Pension

The New Hire fund is administered by the Fire and Police Pension Association (of Colorado), which is a multi-employer comprehensive plan. An actuarial study is performed annually. Currently there is no one eligible to draw against this fund.

All new hire employees are covered by the plan and contribute 8% of their base salary. The Town is required to at least match the employee contributions. As of December 31, 2005 all police are eligible and participating in the plan.

The Town's total pension contributions for 2005 were \$23,300 for a payroll of \$291,247.

The normal retirement date shall be the date on which a member has completed at least twenty-five years of active service and has attained the age of sixty. There are provisions for early retirement. The normal retirement benefit shall be two percent of the average of the member's highest three years base salary multiplied by the member's years of service prior to age sixty-five, not to exceed twenty-five years. A Deferred Vested Benefit allows a member who terminates with at least ten years of active service to leave their contributions in the fund and when they attain age sixty-five, to

TOWN OF PAGOSA SPRINGS, COLORADO
 NOTES TO FINANCIAL STATEMENTS
 YEAR ENDED DECEMBER 31, 2005

NOTE (5) PENSION PLANS (continued)

be eligible to receive an annual benefit equal to two percent of the average of their highest three years salary multiplied by their years of active service not to exceed twenty-five years. A member may upon termination elect to have their accumulated contributions refunded to them in a lump sum. In addition to receiving their accumulated contributions, the member shall receive five percent of their total accumulated contributions as interest. Members of this fund and their employees are currently each contributing at the rate of eight percent of base salary.

FPPA issues a publicly available report that includes financial statements and required supplementary information. That report maybe obtained by writing to Fire and Police Pension Association, Two DTC, 5290 DTC Parkway, #100, Englewood, Colorado 80111.

NOTE (6) RECEIVABLES

Receivables at December 31, 2005 consist of the following:

	<u>General Fund</u>	<u>Enterprise Fund</u>
Accounts	\$	\$ 54,290
Property tax	67,129	
Sales tax	514,489	
Cigarette tax	2,182	
Kinder Morgan	2,316	
Cable TV	9,861	
HUFT	4,827	
Telephone	<u>27,384</u>	
	<u>\$ 628,188</u>	<u>\$ 54,290</u>

NOTE (7) PROPERTY TAX

Property taxes attach as an enforceable lien on property as of January 1. Taxes are levied on January 1st and are payable in two installments (on or before the last day of February and June 15th) or in total by April 30th. The County bills and collects the property taxes and remits the funds to the Town. Property tax revenue is recognized when levied to the extent that it results in a current receivable with an offset to deferred revenue.

NOTE (8) RISK MANAGEMENT

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

TOWN OF PAGOSA SPRINGS, COLORADO
NOTES TO FINANCIAL STATEMENTS
YEAR ENDED DECEMBER 31, 2005

NOTE (8) RISK MANAGEMENT (continued)

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 Town of Pagosa Springs, Colorado 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	12/31/05
Total assets	\$ 42,536,167
Total liabilities	<u>\$ 25,475,677</u>
Total equity	\$ 17,060,490
Revenue	\$ 14,280,279
Expenses	<u>16,655,841</u>
Excess of revenue over expenses	<u>\$ (2,375,562)</u>

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

TOWN OF PAGOSA SPRINGS, COLORADO
NOTES TO FINANCIAL STATEMENTS
YEAR ENDED DECEMBER 31, 2005

NOTE (9) CCOERA RETIREMENT PLAN

The Colorado County Officials and Employees Retirement Association (Association) was established to serve as trustee and provide continuing administration of a trust fund for retirement benefits of eligible county and municipal officers and county, municipal, and special district employees. The Association established a defined contribution plan called the Colorado County Officials and Employees Retirement Plan (Plan) through which contributions of the employers are combined with contributions of the employees and invested in income earning instruments for the benefit of Plan participants. Any county, municipality, or special district of the State of Colorado may, with the consent of the Association, become a member of the Association and participate in the Plan by adopting it for its officers and employees.

Employees and officers of Association members are required to participate in the Plan after the completion of one year of service, but participation is optional for all elected board officers. The Plan is controlled by a five-member governing board selected in accordance with Colorado State statutes.

Employer contributions to the Plan is 5% of compensation. Employee contributions must match employer contributions and are funded on a current basis. Employees may make additional voluntary contributions not to exceed 10% of compensation.

Participants vest in employer contributions and in the earnings, losses, and changes in the fair market value of the Plan at 20% per year, as adopted by the Town. Participants are immediately vested 100% in their own contributions and earnings. In the event that an Association member withdraws from the Plan, the participant balances for that member shall become immediately vested 100%. Contributions by the Town to the plan were \$ 53,077 for a payroll of \$ 1,077,069.

Net earnings or losses are allocated quarterly to Plan participants. The allocation is based on each participant's balance as of the beginning of that quarter. Participants receiving benefit payments upon retirement or termination are allocated earnings through the date of the distribution.

Benefit payments are made as of the effective date of each participant's retirement or termination. At retirement, each participant has the option of receiving their vested balance in cash or having the Association place the funds in a bank account maintained under the joint control of the Association and the retiring individual. Any employer contribution forfeited by a participant due to termination of employment before becoming fully vested is returned to the member county, municipality, or special district.

The Association may at any time elect to terminate the Plan. In the event of such termination, each participant shall become 100% vested.

In addition to participating in the Plan, each participant may elect to contribute to a deferred compensation plan. Through the deferred compensation plan, a member employer defers payment of a portion of an employee's current salary and deposits the deferred payment with the Association

TOWN OF PAGOSA SPRINGS, COLORADO
 NOTES TO FINANCIAL STATEMENTS
 YEAR ENDED DECEMBER 31, 2005

NOTE (9) CCOERA RETIREMENT PLAN (continued)

Upon a participant's retirement or termination of employment, the Association may begin payment of this deferred amount, and until then, all rights and interest in the deferred compensation plan remain vested with the employer.

Both the retirement plan and the deferred compensation plan were amended July 1, 1991 to allow Participants to self-direct the investment of their funds. Participants may self-direct employee and deferred contributions and earnings, and employer contributions and earnings, in which they are 100% vested. The governing board selected six Fidelity Investment funds (Magellan Fund, Contrafund, Growth and Income Portfolio, Global Bond Fund, Intermediate Bond Fund and the Retirement Money Market Portfolio) for the investment of self-directed funds. The board continues to manage all other investments of the Plan. If no written directions are received from a participant, the participant's funds are automatically invested in the board managed assets.

Summary of financial information:	Balance sheet date	December 31, 2005
Total assets		\$ 463,361,201
Total liabilities		<u>1,706,543</u>
Total availability for benefits		461,654,658
Revenues and contributions		\$ 30,628,770
Expenses and benefits		<u>23,538,958</u>
Excess of revenue over expenses		<u>\$ 7,089,812</u>

NOTE (10) BUDGET APPROPRIATION

There was not a supplemental budget in 2005.

NOTE (11) DEFICIT RETAINED EARNINGS

The Geothermal Fund has a negative retained earnings resulting from depreciation of the system. This will not change for many years.

NOTE (12) TAX, SPENDING, AND DEBT LIMITATIONS

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

TOWN OF PAGOSA SPRINGS, COLORADO
NOTED TO FINANCIAL STATEMENTS
YEAR ENDED DECEMBER 31, 2005

NOTE (13) LEASES AND COMMITMENTS

The Town of Pagosa Springs, the Pagosa Springs Community Facilities Coalition, Archuleta County and Wells Fargo Bank have entered into a series of leases to facilitate the financing, of a multi-use community center building. They include the following:

Ground Lease Agreement

This agreement, dated May 1, 2001, is between the Town of Pagosa Springs and the Coalition. The Town has legal title to the 2.5 acre community center site. In this agreement, the Town leased to the Coalition, for a period of fifty years, this site for ten dollars a year.

This agreement, dated May 1, 2001 is between the Town of Pagosa Springs and Wells Fargo Brokerage Services, LLC. In this agreement, the Town entered into a lease purchase financing transaction through Wells Fargo Brokerage Services, LLC for consideration of \$1,717,000. This agreement is on a year-to-year basis and shall be renewable for successive periods not to exceed ten years. The Town secured this lease purchase with the 51% portion of the Community Center, for which the Town has legal title. The balance of the space was conveyed to the Coalition and the County. The Town shall pay a lease payment of \$223,682 per year.

Lease Between Coalition and Archuleta County

This agreement, dated July 17, 2001 is between the Coalition and Archuleta County. By this agreement, the County leased from the Coalition, 2,591 square feet of space in the new Community Center, including 930 feet of kitchen space.

Agreement for Construction and Use of a Community Center (as amended).

This agreement, dated May 1, 2001, and amended first on June 5, 2001 and a second time on June 20, 2001, is between the Town and the Coalition. It was entered into for the purpose of providing for the construction, operation, maintenance and use of a Community Center. It states that the Town shall pay approximately \$1,700,000 of the construction costs, a CDBG Grant will amount to \$500,000, the County will pay \$124,000 and the Coalition will pay the balance. The term of the lease is fifty years.

NOTE (14) CAPITAL LEASE

The Town entered into a full pay out capital lease purchase agreement with Wells Fargo on the Town's 51% ownership in the Community Center. The amount financed was \$2,145,184 and is payable at \$118,348 semi annually including interest at 4.75%.

TOWN OF PAGOSA SPRINGS, COLORADO
 NOTED TO FINANCIAL STATEMENTS
 YEAR ENDED DECEMBER 31, 2005

NOTE (14) CAPITAL LEASE (continued)

<u>Year</u>	<u>Interest</u>	<u>Principal</u>	<u>Remaining Balance</u>
2006	79,985	\$ 156,711	\$ 1,549,309
2007	72,377	164,319	1,384,990
2008	64,400	172,296	1,212,694
2009	56,035	180,661	1,032,033
2010	47,264	189,432	842,601
2011-2013	<u>92,518</u>	<u>842,601</u>	<u>-</u>
	\$ 412,579	\$ 1,706,020	\$ -

NOTE (15) 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 \$520,010. Note is payable in semi-annual payments of \$25,234 including interest at 4.5%.

<u>Year</u>	<u>Payment</u>	<u>Principal</u>	<u>Interest</u>	<u>Balance</u>
2006	\$ 75,295	\$ 48,919	\$ 26,376	\$ 576,810
2007	65,295	40,651	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	<u>29,655</u>	<u>28,229</u>	<u>1,426</u>	
	\$ 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 (16) BUDGET LAW

There were no violations of State budget law.

Supplementary Information

SUPPORTING SCHEDULE OF COUNTIES, CITIES AND TOWNS ANNUAL
STATEMENT OF RECEIPTS AND EXPENDITURES FOR ROADS,
BRIDGES AND STREETS

Michael C. Branch
Certified Public Accountant
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482 Lewis Street
Pagosa Springs, CO 8147

(970) 264-2135

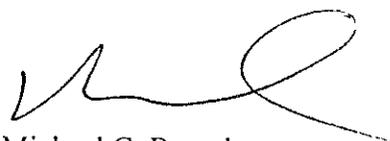
REPORT OF INDEPENDENT CERTIFIED PUBLIC ACCOUNTANT ON
SUPPLEMENTARY INFORMATION

May 19, 2006

To the Board of Trustees
Pagosa Springs, Colorado

I have audited the basic financial statements of the Town of Pagosa Springs, Colorado for the year ended December 31, 2005, and have issued my report thereon dated May 19, 2006. My audit of such financial statements was made in accordance with U.S. generally accepted auditing standards and *Government Auditing Standards*, issued by the Comptroller General of the United States, and accordingly, included such tests of the accounting records and such other auditing procedures as I considered necessary in the circumstances..

My audit was made for the purpose of forming an opinion on the financial statements taken as a whole. The accompanying Supplemental Local Highway Finance Report is presented for purposes of additional analysis and is not a required part of the financial statements. The information in the schedule has been subjected to the auditing procedures applied in the audit of the financial statements and, in my opinion, is fairly stated in all material respects in relation to the financial statements taken as a whole.



Michael C. Branch
Certified Public Accountant
May 19, 2006

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

LOCAL HIGHWAY FINANCE REPORT

This Information From The records of (example - City of _ or County) Prepared By:
City of Pagosa Springs Phone:

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)	550,532
a. Motor Fuel (from Item I.A.5.)		2. Maintenance:	272,815
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	397,420	b. Snow and ice removal	
3. Other local imposts (from page 2)	315,000	c. Other	
4. Miscellaneous local receipts (from page 2)		d. Total (a. through c.)	
5. Transfers from toll facilities		4. General administration & miscellaneous	
6. Proceeds of sale of bonds and notes:		5. High law enforcement and safety	
a. Bonds - Original Issues		6. Total (1 through 5)	823,347
b. Bonds - Refunding Issues		B. Debt service on local obligations:	
c. Notes		1. Bonds:	
d. Total (a. + b. + c.)		a. Interest	
7. Total (1 through 6)	712,420	b. Redemption	
B. Private Contributions		c. Total (a. + b.)	
C. Receipts from State government		2. Notes:	
(from page 2)	110,927	a. Interest	
D. Receipts from Federal Government		b. Redemption	
(from page 2)		c. Total (a. + b.)	
E. Total receipts (A.7 + B + C + D)	823,347	3. Total (1.c + 2.c)	
		C. Payments to State for highways	
		D. Payments to toll facilities	
		E. Total disbursements (A.6 + B.3 + C + D)	823,347

IV. LOCAL HIGHWAY DEBT STATUS

(Show all entries at par)

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

V. LOCAL ROAD AND STREET FUND BALANCE

	A. Beginning Balance	B. Total Receipts	C. Total Disbursements	D. Ending Balance	E. Reconciliation

Notes and Comments:

LOCAL HIGHWAY FINANCE REPORT

State:
Colorado
YEAR ENDING (mm/yy):
December 2005

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. Other Eagle Drive	
1. Sales Taxes		c. Transfers	
2. Traffic Fines		d. Capital Credits	
3. Specific Ownership Tax		e. Sales of Assets	
		f. Fees/Licenses/Permits	
5. From Cities/Counties	315,000	g. Service Performed	
6. Total (1. through 5.)	315,000	h. Refunds of Expenditures	
c. Total (a. + b.)	315,000	i. Total (a. through h.)	
			(Carry forward to page 1)

ITEM	AMOUNT	ITEM	AMOUNT
C. Receipts from State Government		D. Receipts from Federal Government	
1. Highway-user taxes	54,620	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 Registration		d. Mineral Leasing	
d. (Specify) Enhancement	50,000	e. Pay Lieu of Tax	
e. (Specify) CMAQ	6,307	f. Other Federal	
f. Total (a. through e.)		g. Total (a. through f.)	
4. Total (1. + 2. + 3.f)	110,927	3. Total (1. + 2.g)	
			(Carry forward to page 1)

III. DISBURSEMENTS FOR ROAD AND STREETS PURPOSES - DETAIL

	ON NATIONAL HIGHWAY SYSTEM (a)	OFF NATIONAL HIGHWAY SYSTEM (b)	TOTAL (c)
A.1. Capital outlay:			
a. Right-Of-Way Cost			
b. Engineering Costs			
c. Construction:			
(1). Capacity Improvements			
(2). System Preservation		550,532	550,532
(3). Safety And Other			
(4). Total Construction (1)+(2)+(3)		550,532	550,532
d. Total Capital Outlay (Lines 1.a. + 1.b. + 1.c.4)		550,532	550,532
			(Carry forward to page 1)

Notes and Comments: