TOWN OF PAGOSA SPRINGS GENERAL IMPROVEMENT DISTRICT

GENERAL PURPOSE FINANCIAL STATEMENTS

FOR THE PERIOD ENDED December 31, 2006

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

To the Board of Trustees
Pagosa Springs General Improvement District
Pagosa Springs, Colorado

I have audited the accompanying financial statements of the business type activities of the Pagosa Springs General Improvement District, Pagosa Springs, Colorado as of and for the year ended December 31, 2006 as listed in the table of contents. These financial statements are the responsibility of the Pagosa Springs General Improvement District's 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 referred to above present fairly, in all material respects, the financial position of the Pagosa Springs General Improvement District, Pagosa Springs, Colorado as of December 31, 2006 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 4 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 Pagosa Springs General Improvement District 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, 2005.

Management's Discussion and Analysis

TOWN OF PAGOSA SPRINGS GENERAL IMPROVEMENT DISTRICT

MANAGEMENT'S DISCUSSION AND ANALYSIS

This section of Town of Pagosa Springs General Improvement District annual financial report presents our discussion and analysis of the District's financial performance during the fiscal year, which ended December 31, 2006. Please read it in conjunction with the District's financial statements, which follows this section.

FINANCIAL HIGHLIGHTS

The Pagosa Springs Sanitation General Improvement District (District) experienced another year of continued growth which is illustrated by increases in budget revenues and expenditures. The District experienced increased revenues for collection (55.4%) and plant investment (123.4%) fees due to continued growth and increased rates. Overall, District revenues increased to approximately $670,000, which equates to a 61.4% increase when compared to 2006 revenues. The District mill levy remained unchanged at 2.545 mills and assessed valuations totaled $28,388,516 and generated $71,000 in property tax revenue. The assessed valuations were up $5,099,020, when compared to 2005 evaluations and again confirms the increased growth within our community. Expenditures also increased when compared to 2005 expenses and totaled $355,496, which is a 17.8% increase.

The District operations and maintenance continued similarly to years past and no major capital improvement projects were completed in 2006. However the District did experience some violations of newly imposed ammonia effluent levels during winter months. The current design characteristics and processing capabilities of the aerated lagoon system do not adequately process ammonias (nitrite and nitrate levels) and the District has been issued violation notices by the State. Also, the State issued the District a Non-Compliance Notice regarding exceeding the BOD influent threshold limit, which is 75% of the total BOD influent limit. The District submitted a proposal to the State for upgrading the aeration capacity of the lagoons, which would result in a higher BOD influent loading limit. The State approved the proposal and the District is in the process of completing the aeration upgrade.

The District is in the design phase of a new waste treatment facility that will incorporate sequence batch processing technology and increase hydraulic capacity. The new plant will process 0.98 Million gallon per day (Mgd) of influent using a sequence batch reactor and ultra-violet effluent treatment. A new location for new facility is still being negotiated and if negotiations are successful will be located approximately 2/3^{rds} of a mile south of the current location and on approximately eight (8) acres. If negotiations are not successful, the new facility will be located on District property and adjacent to the current aerated lagoon system. The District is in the process of securing the necessary financing for this $3.945 million project and will require the use of District reserves.

The District reserve balance increased in 2006 due to increases in collection and plant investment growth and rates. The District completed a rate structure survey in 2004 and upon adoption implemented phased increases for both collection and plant investment fees in 2005 and 2006. The estimated reserve balance for year-ending 2006 is $620,066 which is a 71.3% increase when compared to 2005.

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 District's:

> The first two statements are *government-wide financial statements* that provide both *long-term* and *short-term* information about the District's overall financial status.
>
> The remaining statements are *fund financial statements* that focus on *individual parts* of the government, reporting the District's operations in more detail than the government-wide statements.

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 District-wide statements report information about the District as a whole using accounting methods similar to those used by private companies. The statement of net assets includes all of the District'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 District-wide statements report the District's net assets and how they have changed. Net assets, the difference between the District's assets and liabilities, are one way to measure the District's financial health or *position.*

> Over time, increases or decreases in the District's net assets are an indicator of whether its financial health is improving or deteriorating, respectively.
>
> To assess the overall health of the District, one needs to consider additional non-financial factors such as changes in the District's tax base, and the condition of the District buildings along with major capital improvements.

Fund Financial Statements

The fund financial statements provide more detailed information about the District's most significant *fund* — not the District 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 Directors establishes other funds to control and manage money for particular purposes or to show that it is properly using certain taxes and grants.

The District has the following funds:

> *Proprietary funds* – The District has a sewer fund and a sewer fund.

FINANCIAL ANALYSIS OF THE DISTRICT AS A WHOLE

Total net assets increased by $231'791. Cash decreased $272,095.

CAPITAL ASSETS AND DEBT ADMINISTRATION

Capital Assets

At the end of 2006, the District had invested in a broad range of capital assets, including land, equipment and buildings.

District's Capital Assets

Sewer	$ 3,457,144
Right of Way	16,376
Furniture	8,945
Equipment	78,481
Totals	3,560,946
Less Accumulated Depreciation	(966,783)
Net Capital Assets	$2,594,163

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.

Basic Financial Statements

TOWN OF PAGOSA SPRINGS GENERAL IMPROVEMENT DISTRICT
Statement of Net Assets
December 31, 2006

	Primary Government	
	Business Type Activities	
		Total
ASSETS		
Current Assets		
Cash	$ 549,486	$ 549,486
Accounts receivable (net)	17,542	17,542
Taxes receivable	75,005	75,005
Cash with County	652	652
Total Current Assets	642,685	642,685
Property, Plant and Equipment (Net)	2,594,162	2,594,162
TOTAL ASSETS	$ 3,236,847	$ 3,236,847
LIABILITIES		
Current Liabilities		
Accrued vacation	$ 1,356	$ 1,356
Deferred revenue	75,005	75,005
Bonds payable current	50,651	50,651
Total Current Liabilities	127,012	127,012
Long Term Liabilities	536,159	536,159
TOTAL LIABILITIES	663,171	663,171
Net Assets		
Capital Assets (net of debt)	2,007,352	2,007,352
Unrestricted	566,324	566,324
Total Net Assets	2,573,676	2,573,676

See accompanying notes

Town of Pagosa Springs General Improvement District
Statement of Activities
December 31, 2006

Functiions/Programs	Expenses	Program Revenues: Charges for Services and Sales	Total
Business Type Activities			
Sewer Utility	$ 408,422	$ 337,188	$ (71,234)
General Revenues			
Property Tax			82,375
Interest Expense			(26,376)
Plant Investment Fees			237,900
Other			9,126
Total General Revenues			303,025
Change in Net Assets			231,791
Net Assets Beginning of Year			2,341,885
Net Assets End of Year			$ 2,573,676

See accompanying notes

TOWN OF PAGOSA SPRINGS GENERAL IMPROVEMENT DISTRICT
Statement of Net Assets
December 31, 2006

	Business Type Activities Enterprise Funds	
	Sewer	Total
ASSETS		
Current Assets		
Cash	$ 549,486	$ 549,486
Accounts receivable (net)	17,542	17,542
Taxes receivable	75,005	75,005
Cash with County	652	652
Total Current Assets	642,685	642,685
Property, Plant and Equipment (Net)	2,594,162	2,594,162
TOTAL ASSETS	$ 3,236,847	$ 3,236,847
LIABILITIES		
Current Liabilities		
Accrued vacation	$ 1,356	$ 1,356
Deferred revenue	75,005	75,005
Bonds payable current	50,651	50,651
Total Current Liabilities	127,012	127,012
Long Term Liabilities	536,159	536,159
TOTAL LIABILITIES	$ 663,171	$ 663,171
Net Assets		
Capital Assets (net of debt)	$ 2,007,352	$ 2,007,352
Unrestricted	566,324	566,324
Total Net Assets	$ 2,573,676	$ 2,573,676

See accompanying notes

TOWN OF PAGOSA SPRINGS GENERAL IMPROVEMENT DISTRICT
State of Revenues, Expenses and
Changes in Net Assts
December 31, 2006

	Business-type Activities Enterprise Fund	
	Sewer	Total
Operating revenue		
Sales	$ 337,188	$ 337,188
Total Opeating Revenue	337,188	337,188
Opeating Expenses		
Audit and legal	11,882	11,882
Salaries	55,547	55,547
Utilities	22,134	22,134
Maintenance and supplies	104,517	104,517
Administration	39,893	39,893
Engineering	85,034	85,034
Depreciation	74,415	74,415
Other	15,000	15,000
Total Operating Expenses	408,422	408,422
Lost from Operations	(71,234)	(71,234)
Non-Operating Revenue (Expenses)		
Property tax	82,375	82,375
Interest expense	(26,376)	(26,376)
Interest income	9,126	9,126
Tap fees	237,900	237,900
Total Non-Operating Revenue	303,025	303,025
Change in Net Assets	231,791	231,791
Net Assets Beginning of Year	1,376,259	1,376,259
Net Assets End of Year	$ 1,608,050	$ 1,608,050

See accompanying notes

TOWN OF PAGOSA SPRINGS GENERAL IMPROVEMENT DISTRICT
Comparative Statement of Cash Flows
For the Period Ended December 31, 2006

	Business Type Activities Enterprise Fund Sewer
CASH FLOWS FROM OPERATING ACTIVITIES	
Cash received from customers	$ 342,659
Cash paid to suppliers	(57,017)
Cash paid to employees	(279,586)
Net Cash Provided By (Used In) Operating Activities	6,056
CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES	
Proceeds from tap fees paid	237,900
Principal payments on long-term debt	(38,919)
Interest payments on long-term debt	(26,376)
Interest received	1,126
Cash Provided By (Used In) Capital and Related Financing Activities	173,731
CASH FLOWS FROM NON-CAPITAL FINANCING ACTIVITIES	
Taxes received	83,182
Cash Provided By Non-Capital Financing Activities	83,182
CASH FLOWS FROM INVESTING ACTIVITIES	
Interest income	9,126
Net Increase (Decrease) In cash and Cash Equivalents	272,095
CASH AND CASH EQUIVALENTS, BEGINNING OF YEAR	277,391
CASH AND CASH EQUIVALENTS, END OF YEAR	$ 549,486

See accompanying notes

TOWN OF PAGOSA SPRINGS GENERAL IMPROVEMENT DISTRICT
Comparative Statement of Cash Flows
For the Year Ended December 31, 2006

RECONCILIATION OF OPERATING INCOME TO NET CASH PROVIDED BY OPERATING ACTIVITIES

	Business Type Activities Enterprise Fund Sewer
Operating Income (Loss)	$ (71,234)
ADJUSTMENTS TO RECONCILE OPERATING INCOME (LOSS) TO NET CASH PROVIDED BY OPERATING ACTIVITIES	
Depreciation	74,415
Increase in receivables	5,471
Decrease in payables	(2,596)
NET CASH PROVIDED BY (USED IN) OPERATING ACTIVITIES	$ 6,056

See accompanying notes

Notes to Financial Statements

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:

Principles Determining Scope of Reporting Entity

The District's combined financial statements include the accounts of all District operations. The criteria for including organizations as component units within the District'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; District holds the corporate powers of the organization; the District appoints a voting majority of the organization's board; the District is able to impose its will on the organization; the organization has the potential to impose a financial; benefit/burden on the District; there is fiscal dependency by the organization on the District.

Based on the aforementioned criteria, the Town of Pagosa Springs General Improvement District is a component unit of the Town of Pagosa Springs.

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

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

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.

Sewer Fund – accounts for all activities of the Sanitation department.

(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 earn, and expenses are recognized when they are incurred.

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 to be spent and the means by which spending activities are controlled.

The District reports the following major funds:

Sanitation Fund is the District's primary operating fund. It accounts for all financial resources of the District.

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.

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

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

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

subsequent private-sector guidance for their business-type activities and enterprise funds, subject to this same limitation. The District 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 use 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.

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.

(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.

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

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

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.

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

At December 31, 2006, the District had the following cash and investments:

Deposits	$ 549,486
Total	$ 549,486

Deposits

The Colorado Public Deposit Protection Act (PDPA) requires that all units of local government deposit cash in eligible public depositories. Eligibility is determined by state regulations. At December 31, 2006, the State regulatory commissioners had indicated that all financial institutions holding deposits for the District are eligible public depositories.

Amounts on deposit in excess of federal insurance levels must be collateralized by eligible collateral as determined by the PDPA. PDPA allows the financial institution to create a single collateral pool for all public funds held. 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 lease equal to 102% of the uninsured deposits. At December 31, 2006, the District had bank deposits of $553,133 collateralized with securities held by the financial institutions' agents but not in the District's name.

Cash and Investments

The District is required to comply with State statutes which specify investment instruments meeting defined rating, maturity, custodial and concentration risk criteria in which local governments may invest which include:

Obligations of the United States and certain U.S. Agency securities
Certain international agency securities

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

(E) Cash and Investments (continued)

General obligation and revenue bonds of U.S. local government entities
Bankers' acceptances of certain banks
Commercial paper
Written repurchase agreements collateralized by certain authorized securities
Certain money market funds
Guaranteed investment contracts
Local government investment pools

(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

The District's property, plant equipment and infrastructure with useful lives of more than one year are stated at historical cost and comprehensively reported in the government-wide financial statements. The District maintains infrastructure asset records consistent with all other capital assets. Proprietary and component unit capital assets are also reported in their respective fund and combining component unit's financial statements. Donated assets are stated at fair market value on the date donated. The District 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:

Sewer System	50
Equipment	10
Furniture and fixtures	10

NOTE (2) FIXED ASSETS (continued)

	Balance January 1, 2006	Additions	Deletions	Balance December 31, 2006
Sewer System	$ 3,457,144	$	$	$ 3,457,144
Right of Way	16,376			16,376
Furniture and Fixtures	8,945			8,945
Equipment	78,481			78,481
	$ 3,560,946	$	$	$ 3,560,946
Accumulated Depreciation	892,369		(74,414)	(966,783)
Net Assets	2,668,577		(74,414)	2,594,163

NOTE (3) BONDS PAYABLE

Bonds payable at December 31, 2006 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, 2006 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 $402,822. 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 2006 was $173,988. Note is payable in semi annual payments of $7,414 including interest at 4%.

NOTE (3) BONDS PAYABLE (continued)

Year	Payment	Principal	Interest	Balance
2007	$ 65,295	$ 40,651	$ 24,644	$ 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	
	$ 741,914	$ 576,810	$ 165,104	

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 $1,356 existed at December 31, 2006 for vacation and comp time. There is no pension plan.

NOTE (5) RECEIVABLES

Receivables at December 31, 2006 consist of the following:

Accounts receivable	$ 29,574
Property tax receivable	$ 75,005

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	12/31/05
Total assets	$ 50,606,535
Total liabilities	$ 32,242,203
Total equity	$ 18,364,332
Revenue	$ 20,646,828
Expenses	17,217,755
Excess of revenue over Expenses	$ 3,429,073

The December 31, 2006 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.

Supplemental Information

TOWN OF PAGOSA SPRINGS GENERAL IMPROVEMENT DISTRICT
Schedule of Revenue, Expenses and Changes in Net Assets
Budget and Actual (Non-GAAP)
For The Year Ended December 31, 2006

	Budget			Variance-Favorable
	Original	Final	Actual	(Unfavorable)
OPERATING REVENUE				
Sales	$ 250,000	$ 250,000	$ 337,188	$ 87,188
Total Operating Revenue	250,000	250,000	337,188	87,188
OPERATING EXPENSES				
Audit and legal	7,000	7,000	11,882	(4,882)
Salary	60,238	60,238	55,547	4,691
Utilities	30,000	30,000	22,134	7,866
Maintenance and supply	100,000	100,000	104,517	(4,517)
Administration	52,116	52,116	39,893	12,223
Engineering	40,000	40,000	85,034	(45,034)
Other	20,000	20,000	15,000	5,000
Total Operating Expenses	309,354	309,354	334,007	(24,653)
Income (Loss) from Operation	(59,354)	(59,354)	3,181	62,535
NON-OPERATING REVENUE (EXPENSES)				
Property tax	82,000	82,000	82,375	375
Debt service	(65,295)	(65,295)	(65,295)	0
Interest income and Miscellaneous	8,000	8,000	9,126	1,126
Plant investment fees	100,000	100,000	237,900	137,900
Total Non-Operating Revenue (Expenses)	124,705	124,705	264,106	139,401
Change in net assets	$ 65,351	$ 65,351	267,287	$ 201,936
ADJUSTMENTS TO GAAP				
Depreciation, Net			(74,415)	
Principal Payments			38,919	
Net Assets Beginning of Year			1,376,259	
Net Assets End of Year			$ 1,608,050	

See accompanying notes