

TOWN OF PAGOSA SPRINGS, COLORADO
REPORT OF EXAMINATION AND FINANCIAL STATEMENTS
YEAR ENDED DECEMBER 31, 2006

TOWN OF PAGOSA SPRINGS, COLORADO
YEAR ENDED DECEMBER 31, 2006
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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, 2006 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, 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 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.

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.

Management's Discussion and Analysis

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, 2006. Please read it in conjunction with the Town's financial statements, which follow this section.

FINANCIAL HIGHLIGHTS

2006 MANAGEMENT NARRATIVE

The Town of Pagosa Springs (Town) experienced another year of continued growth which is illustrated by increases in budget revenues and expenditures, addition of staff and several large capital improvement projects. Sales tax revenues represents the bulk of revenue received in 2006 and exceeded projections with a total of \$3,252,361 which represents a 12.35% increase when compared to 2005 collections. Additionally, a new Lodgers Tax with a total tax rate of 4.9% was implemented in 2006 (3.0% in January and an additional 1.9% in May) with revenues used for marketing and other tourism related capital projects. The Town mill levy remained unchanged at 1.557 mills and an assessed valuation totaling \$43,114,016 generated \$67,129 in property tax revenue. The assessed valuation was up \$9,362,212 when compared to 2005 evaluations and again confirms the increased growth within our community. Expenditures also increased when compared to 2005 expenses and totaled \$4,310,087 however expenditures did not exceed budgeted amounts for 2006 due to the continuation or deferment of projects till 2007.

The Town has two major planning efforts underway which are the Downtown Master Plan (complete with Design Guidelines) and a Transportation Plan, both of which will facilitate the processing of various developments and aide developers and staff with other development scenarios. Presently, over 900 new residential units are in the planning queue within various subdivisions or planned unit developments. Several large scale commercial, residential and mixed-use developments have also been presented and discussed with staff, but are yet to be submitted for processing. Issuance of building permits was slightly down in overall numbers but overall construction costs were up when compared to 2005 figures, respectively. Several large commercial developments have been approved and are under construction at years-end. The Town implemented a new impact fee structure in 2006 to aide with growth impacts. Impact fees are collected for use by the Town for roads, a recreation center, an open space and trails. Additional impact fees are collected for the San Juan Water Conservancy District in conjunction with a proposed reservoir site and for the Pagosa Springs Fire Protection District.

The Town has been awarded and received grant funding for several capital improvement and planning projects and includes funding from CDOT for CMAQ and Enhancement projects (Cemetery Road, Great West Avenue and Riverwalk Trail), GOCO (Sports Complex) and EIA funds (Lewis Street and Downtown Master Plan). The Town Capital Improvement Plan has provided funding for several projects, which are underway, and includes the projects mentioned above. The total capital budget for 2006 was \$2,970,701 and an estimated \$1,965,261 was

expended. The Geothermal Utility has been operating satisfactorily and has not required any subsidy by the Town for several consecutive years. Recent upgrades to metering equipment have resulted in accurate billing for usage by all customers. Geothermal rates remain at \$.60/therm and have not been adjusted for several years.

Increases in staff have been required in order to maintain current service levels. Two new positions have been filled within the Police Department and include a Police Officer and an Administrative Assistant. Two new positions have also been filled in the Planning and Building Department and include an Associate Planner and Building/Code Inspector. This represents four new Full Time Equivalents (FTE's) added to staff. Expenditures in employee healthcare continue to rise due to a 31% increase in our healthcare premium. Healthcare coverage for employee dependents, has been capped at 50% coverage by the Town and results in significant increases to employees paying for dependent healthcare coverage (\$136 for children only, \$154 for spouse only and \$289 for family, per month).

The Town reserve balance increased in 2006 due to increased sales tax revenues and also due to deferred or incomplete capital improvement projects. The reserve balance for year-ending 2006 is estimated to be \$2,421,363 and represents an increase of \$925,129, however all of the 2006 reserve increases are allocated for capital improvement expenditure in 2007. The estimated reserve balance for year-ending 2007 is \$1,725,163.

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 \$2,198,412. Cash decreased \$1,023,474. Other current assets increased by \$102,327.

The Town's total governmental revenues were \$4,975,098. Over 75% the Town's revenues came from sales taxes.

Governmental Activities

Property tax revenues will increase about 6% from the previous year due to increased assessed valuation.

General Fund Budgetary Highlights

Actual expenditures (including reserves) were \$1,112,138 below budget amounts. Actual revenues received exceeded budget amounts.

CAPITAL ASSETS AND DEBT ADMINISTRATION

Capital Assets

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

Town's Capital Assets

Land	\$ 1,016,376
Streets	5,076,130
Buildings	2,599,516
Equipment	541,329
Geothermal	1,182,419
Sanitation	<u>3,457,144</u>
Totals	13,872,914

Less Accumulated Depreciation (2,070,962)

Net Capital Assets \$ 11,801,952

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
 Statements of Net Assets
 December 31, 2006

	Primary Government		Total
	Governmental Activities	Business Type Activities	
ASSETS			
Current assets			
Cash	\$ 2,404,924	\$ 609,520	\$ 3,014,444
Cash held by County	1,102	652	1,754
Account receivables	39,994	28,107	68,101
Tax receivables	733,375	75,005	808,380
Due from other funds	3,257		3,257
Total Current Assets	<u>3,182,652</u>	<u>713,284</u>	<u>3,895,936</u>
Capital Assets			
Fixed assets net of depreciation	8,605,089	3,910,141	12,515,230
Total Assets	<u>11,787,741</u>	<u>4,623,425</u>	<u>16,411,166</u>
LIABILITIES			
Current liabilities			
Accounts Payable	94,929	1,356	96,285
Deferred revenue	373,423	75,005	448,428
Current portion of long term debt	164,319	50,651	214,970
Due other funds		3,257	3,257
Total Current Liabilities	<u>632,671</u>	<u>130,269</u>	<u>762,940</u>
Long term liabilities			
Bonds payable		536,159	536,159
Capital lease	1,384,990		1,384,990
Total Liabilities	<u>2,017,661</u>	<u>666,428</u>	<u>2,684,089</u>
Net Assets			
Capital assets net of related debt	7,055,780	2,610,047	9,665,827
Reserved for debt service	134,486		134,486
Unrestricted	<u>2,579,814</u>	<u>633,666</u>	<u>3,213,480</u>
Total Net Assets	<u>\$ 9,770,080</u>	<u>\$ 3,956,997</u>	<u>\$ 13,727,077</u>

See accompanying notes

Basic Financial Statements

TOWN OF PAGOSA SPRINGS
 Statements of Net Assets
 December 31, 2006

	Primary Government		Total
	Governmental Activities	Business Type Activities	
ASSETS			
Current assets			
Cash	\$ 2,404,924	\$ 609,520	\$ 3,014,444
Cash held by County	1,102	652	1,754
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Tax receivables	733,375	75,005	808,380
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Capital Assets			
Fixed assets net of depreciation	8,605,089	3,910,141	12,515,230
Total Assets	11,787,741	4,623,425	16,411,166
LIABILITIES			
Current liabilities			
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Net Assets			
Capital assets net of related debt	7,055,780	2,610,047	9,665,827
Reserved for debt service	134,486		134,486
Unrestricted	2,579,814	633,666	3,213,480
Total Net Assets	\$ 9,770,080	\$ 3,956,997	\$ 13,727,077

See accompanying notes

TOWN OF PAGOSA SPRINGS
Statement of Activities
For the Year Ended December 31, 2006

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	\$ 1,164,324	\$	\$	\$ (1,164,324)	\$	\$ (1,164,324)
Public safety	695,285	29,290		(665,995)		(665,995)
Public works	1,173,902	285,085	702,088	(186,729)		(186,729)
Total	<u>3,033,511</u>	<u>314,375</u>	<u>702,088</u>	<u>(2,017,048)</u>		<u>(2,017,048)</u>
Business-type Activities:						
Enterprise funds	443,657	397,461			(46,196)	(46,196)
Total	<u>443,657</u>	<u>397,461</u>			<u>(46,196)</u>	<u>(46,196)</u>
Governmental and Business-Type Activities Totals	\$ <u>3,477,168</u>	\$ <u>711,836</u>	\$ <u>702,088</u>	\$ <u>(2,017,048)</u>	\$ <u>(46,196)</u>	\$ <u>(2,063,244)</u>
General revenues:						
Other						
Taxes				3,857,457	82,375	3,939,832
Other				55,313		55,313
Interest				45,865	9,126	54,991
Plant investment					237,900	237,900
Interest expense					(26,376)	(26,376)
Total General Revenues				<u>3,958,635</u>	<u>303,025</u>	<u>4,261,660</u>
Changes in net assets				1,941,587	256,829	2,198,416
Net assets, January 1, 2006				<u>7,828,493</u>	<u>3,700,168</u>	<u>11,528,661</u>
Net assets, December 31, 2006				<u>\$ 9,770,080</u>	<u>\$ 3,956,997</u>	<u>\$ 13,727,077</u>

See accompanying notes

TOWN OF PAGOSA SPRINGS, COLORADO
 Balance Sheet
 Governmental Funds
 December 31, 2006

	Governmental Fund Types		Total Governmental Funds
	General	Conservation Trust	
ASSETS			
Cash	\$ 2,337,239	\$ 67,685	\$ 2,404,924
Cash held by County	1,102		1,102
Account receivables	39,994		39,994
Taxes receivable	733,375		733,375
Due from other funds	3,257		3,257
	<u>3,114,967</u>	<u>67,685</u>	<u>3,182,652</u>
Total Assets	\$ 3,114,967	\$ 67,685	\$ 3,182,652
LIABILITIES			
Account payables	\$ 94,929		\$ 94,929
Deferred revenue	373,423		373,423
	<u>468,352</u>		<u>468,352</u>
Total Liabilities	468,352		468,352
FUND EQUITY			
Fund Balances:			
Reserved for emergencies	134,486		134,486
Undesignated	2,512,129	67,685	2,579,814
	<u>2,646,615</u>	<u>67,685</u>	<u>2,714,300</u>
Total Fund Equity	2,646,615	67,685	2,714,300
TOTAL LIABILITIES AND FUND EQUITY	\$ 3,114,967	\$ 67,685	\$ 3,182,652

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, 2006

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

Total fund balance - governmental funds	\$ 2,714,300
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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	\$ 9,127,290	
Accumulated depreciation is	<u>(522,201)</u>	
		8,605,089

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>(1,549,309)</u>
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Total net assets - governmental activities	\$ <u>9,770,080</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, 2006

	<u>General</u>	<u>Conservation Trust</u>	<u>Total Governmental Funds</u>
REVENUE			
Taxes	\$ 3,857,457	\$	\$ 3,857,457
Licenses & permits	174,670		174,670
Intergovernmental and grants	684,468	17,620	702,088
Charges for services	110,415		110,415
Fines and forfeits	29,290		29,290
Interest	44,615	1,250	45,865
Other	55,313		55,313
	<hr/>	<hr/>	<hr/>
Total Revenue	4,956,228	18,870	4,975,098
General government	1,084,341		1,084,341
Public safety	695,285		695,285
Public works	511,447		511,447
Parks and recreation	423,820		423,820
Public support	54,731		54,731
Capital outlay and debt service	1,713,238		1,713,238
	<hr/>	<hr/>	<hr/>
Total Expenditures	4,482,862		4,482,862
EXCESS (DEFICIENCY) OF REVENUE OVER EXPENDITURES	473,366	18,870	492,236
FUND BALANCE BEGINNING OF YEAR	<u>2,173,249</u>	<u>48,815</u>	<u>2,222,064</u>
FUND BALANCE END OF YEAR	\$ <u>2,646,615</u>	\$ <u>67,685</u>	\$ <u>2,714,300</u>

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, 2006

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

Net change in fund balances – total government funds \$ 492,236

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. 1,476,549

The net effect of various miscellaneous transactions involving capital assets (depreciation) is to increase net assets. (183,909)

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. 156,711

Change in net assets of governmental activities \$ 1,941,587

TOWN OF PAGOSA SPRINGS, COLORADO
Proprietary Funds
Statement of Net Assets
December 31, 2006

	Business-type Activities Enterprise Funds		
	Sanitation Fund	Geothermal Fund	Totals
ASSETS			
Current Assets			
Cash	\$ 549,486	\$ 60,034	\$ 609,520
Account receivables	17,542	10,565	28,107
Taxes receivable	75,005		75,005
Cash with County	652		652
Total Current Assets	642,685	70,599	713,284
Capital Assets			
Fixed assets, net	2,594,162	602,695	3,196,857
Total Assets	3,236,847	673,294	3,910,141
LIABILITIES			
Current liabilities			
Accrued vacation	1,356		1,356
Deferred revenue	75,005		75,005
Bonds payable, current	50,651		50,651
Due to other funds		3,257	3,257
Total Current Liabilities	127,012	3,257	130,269
Long term liabilities	536,159		536,159
Total Liabilities	663,171	3,257	666,428
Net Assets			
Capital assets net of debt	2,007,352	602,695	2,610,047
Unrestricted	566,324	67,342	633,666
Total Net Assets - Fund Level	\$ 2,573,676	\$ 670,037	\$ 3,243,713

See accompanying notes

TOWN OF PAGOSA SPRINGS, COLORADO
Proprietary Funds
Statement of Revenues, Expenses and
Changes in Fund Net Assets
December 31, 2006

	Business-type Activities Enterprise Funds		
	Sanitation Fund	Geothermal Fund	Totals
Operating Revenue:			
Service fees	\$ 337,188	\$ 60,273	\$ 397,461
Total Revenue	<u>337,188</u>	<u>60,273</u>	<u>397,461</u>
Operating Expenses:			
Personnel	55,547	4,824	60,371
Commodities	181,544	6,763	188,307
Contractual	96,916		96,916
Depreciation	74,415	23,648	98,063
Total Expenses	<u>408,422</u>	<u>35,235</u>	<u>443,657</u>
Income (Loss) From Operations	<u>(71,234)</u>	<u>25,038</u>	<u>(46,196)</u>
Non-Operating Revenue (Expense)			
Property tax	82,375		82,375
Interest expense	(26,376)		(26,376)
Interest income	9,126		9,126
Plant investments	237,900		237,900
Total Non-Operating Revenue	303,025		303,025
Changes in Net Assets	231,791	25,038	256,829
Net Assets Beginning of Year	<u>2,341,885</u>	<u>644,999</u>	<u>2,986,884</u>
Net Assets End of Year	<u>\$ 2,573,676</u>	<u>\$ 670,037</u>	<u>\$ 3,243,713</u>

See accompanying notes

TOWN OF PAGOSA SPRINGS, COLORADO
Proprietary Funds
Statement of Cash Flows
For the Year Ended December 31, 2006

	Business-type Activities Enterprise Funds		
	Sanitation	Geothermal	Totals
CASH FLOWS FROM OPERATING ACTIVITIES:			
Cash Received from Customers	\$ 342,659	\$ 80,985	\$ 423,644
Cash Paid for Expenses	<u>(335,477)</u>	<u>(11,586)</u>	<u>(347,063)</u>
 NET CASH PROVIDED (USED) BY OPERATING ACTIVITIES	 7,182	 69,399	 76,581
 CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES:			
Payment of Interest on Bonds	(26,376)		(26,376)
Net Change in Loans	(38,919)		(38,919)
Tap Fees	237,900		237,900
Interest	<u>9,126</u>		<u>9,126</u>
 CASH FLOWS FROM (USED) IN CAPITAL AND RELATED FINANCING ACTIVITIES	 181,731		 181,731
 CASH FLOWS FROM NON CAPITAL ACTIVITIES:			
Taxes	<u>83,182</u>		<u>83,182</u>
 CASH FLOWS FROM NON CAPITAL ACTIVITIES	 83,182		 83,182
 NET INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS	 272,095	 69,399	 341,494
 CASH AND CASH EQUIVALENTS:			
Beginning of Year	<u>277,391</u>	<u>(9,365)</u>	<u>268,026</u>
 End of Year	 <u>\$ 549,486</u>	 <u>\$ 60,034</u>	 <u>\$ 609,520</u>

See accompanying notes

TOWN OF PAGOSA SPRINGS, COLORADO
Proprietary Funds
Combining Statement of Cash Flows
For The Year Ended December 31, 2006

(continued)

RECONCILIATION OF OPERATING INCOME TO NET CASH
PROVIDED BY OPERATING ACTIVITIES

	Sanitation	Geothermal	Totals
Operating Income (Loss)	\$ (71,234)	\$ 25,038	\$ (46,196)
Adjustments to Reconcile Operating Income to Net Cash Provided by Operating Activities:			
Depreciation	74,415	23,648	98,063
Decrease in Accounts Payable	(1,470)		(1,470)
(Increase) Decrease in Accounts Receivable	5,471	20,713	26,184
NET CASH PROVIDED (USED) BY OPERATING ACTIVITIES	\$ 7,182	\$ 69,399	\$ 76,581

See accompanying notes

Notes to Financial Statement

TOWN OF PAGOSA SPRINGS, COLORADO

Notes to Financial Statements

Year Ended December 31, 2006

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; the 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 Pagosa Springs 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.

They 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, 2006

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 collected in the following year.

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 sales 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, 2006

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 Town'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 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 Pagosa Springs.
- (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. The budgets for Sanitation Fund and Geothermal fund are prepared essentially on the modified accrual basis of accounting.
- (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, 2006

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, 2006, 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 are 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, 2006

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 market 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

	Balance January 1, 2006	Additions	Deletions	Balance December 31, 2006
Non-depreciable Assets:				
Land	\$ 1,000,000	\$	\$	\$ 1,000,000
Total non-depreciable Assets	<u>1,000,000</u>			<u>1,000,000</u>
Depreciable Assets:				
Buildings	2,541,358	58,158		2,599,516
Equipment and vehicles	451,644			451,644
Infrastructure	3,657,744	1,418,386		5,076,130
Total Depreciable Assets	<u>6,650,746</u>	<u>1,476,544</u>		<u>8,127,290</u>
Less Accumulated Depreciation	<u>(338,292)</u>		<u>(183,909)</u>	<u>(522,201)</u>
Total Net Assets	<u>\$ 7,312,454</u>	<u>\$ 1,476,544</u>	<u>\$ (183,909)</u>	<u>\$ 8,605,089</u>

Business-Type Activities

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

	Balance January 1, 2006	Additions	Deletions	Balance December 31, 2006
Sewer Fund:				
Land	\$ 16,376	\$	\$	\$ 16,376
Sewer system	3,457,144			3,457,144
Equipment and vehicles	87,426			87,426
Accumulated Depreciation	<u>(892,369)</u>		<u>(74,414)</u>	<u>(966,783)</u>
Total Sewer Fund, net	<u>\$ 2,668,577</u>	<u>\$</u>	<u>\$ (74,414)</u>	<u>\$ 2,594,163</u>

TOWN OF PAGOSA SPRINGS, COLORADO
 NOTES TO FINANCIAL STATEMENTS
 DECEMBER 31, 2006

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

	<u>Balance Jan 1, 2006</u>	<u>Additions</u>	<u>Deletions</u>	<u>Balance Dec 31, 2006</u>
Geothermal Fund:				
Geothermal System	\$1,182,419	\$	\$	\$ 1,182,419
Equipment & vehicles	2,254			2,254
Accumulated Depreciation	<u>(558,330)</u>	<u> </u>	<u>(23,648)</u>	<u>(581,978)</u>
Total Geothermal Fund, net	\$ <u>626,343</u>	\$ <u>()</u>	\$ <u>(23,648)</u>	\$ <u>602,695</u>

NOTE (4) CASH AND DEPOSITS

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

Deposits	\$ <u>3,014,444</u>
Total	\$ 3,014,444

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 least equal to 102% of the uninsured deposits. At December 31, 2006, the District had bank deposits of \$2,714,444 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
- 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

TOWN OF PAGOSA SPRINGS, COLORADO

Notes to Financial Statements

Year Ended December 31, 2006

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.

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, 2006 all police are eligible and participating in the plan.

The Town's total pension contributions for 2006 were \$48,281 for a payroll of \$ 372,161.

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 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, 2006 consist of the following:

	<u>General Fund</u>	<u>Enterprise Fund</u>
Accounts Receivable	\$	\$ 28,107
Property tax	72,631	75,005
Sales tax	660,744	
Cigarette tax	2,567	
Kinder Morgan	2,316	
Cable TV	2,701	
HUFT	5,026	
Telephone	<u>27,384</u>	
	<u>\$ 773,369</u>	<u>\$ 103,112</u>

TOWN OF PAGOSA SPRINGS, COLORADO
Notes to Financial Statements
Year Ended December 31, 2006

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.

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.

TOWN OF PAGOSA SPRINGS, COLORADO
 NOTES TO FINANCIAL STATEMENTS
 YEAR ENDED DECEMBER 31, 2006

NOTE (8) RISK MANAGEMENT (continued)

Summary of financial information:	
Balance sheet date	12/31/05
Total assets	\$ 50,606,535
Total liabilities	<u>\$ 32,242,203</u>
Total equity	<u>\$ 18,364,332</u>
Revenue	\$ 20,646,808
Expenses	<u>17,217,755</u>
Excess of revenue over expenses	<u>\$ 3,429,073</u>

The December 31, 2006 financial statement was not available when this report was issued.

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, can 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 \$57,946.57 for a payroll of \$132,138.14.

TOWN OF PAGOSA SPRINGS, COLORADO

Notes to Financial Statements

Year Ended December 31, 2006

NOTE (9) CCOERA RETIREMENT PLAN (continued)

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 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, Contra Fund, 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, 2006
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>

TOWN OF PAGOSA SPRINGS, COLORADO
Notes to Financial Statements
Year Ended December 31, 2006

NOTE (10) BUDGET APPROPRIATION

There was not a supplemental budget in 2006.

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.

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.

TOWN OF PAGOSA SPRINGS, COLORADO
Notes to Financial Statements
Year Ended December 31, 2006

NOTE (13) LEASES AND COMMITMENTS (continued)

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%.

<u>Long Term Debt</u>	<u>Of Year</u>	<u>Additions</u>	<u>Deletions</u>	<u>Year</u>
Capital Lease	\$ 1,704,279	\$	\$ 154,970	\$ 1,549,309
	<u>Year</u>	<u>Principal</u>	<u>Interest</u>	<u>Remaining Balance</u>
	2007	\$ 164,319	\$ 72,377	\$ 1,384,990
	2008	172,296	64,400	1,212,694
	2009	180,661	56,035	1,032,033
	2010	189,432	47,264	842,601
	2011	197,414	39,279	645,187
	2012-2014	\$ 645,187	\$ 57,120	
		1,549,309	336,475	

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

TOWN OF PAGOSA SPRINGS, COLORADO
Notes to Financial Statements
Year Ended December 31, 2006

NOTE (15) BONDS PAYABLE (continued)

<u>Long Term Debt</u>	<u>Beginning Of Year</u>	<u>Additions</u>	<u>Deletions</u>	<u>End of Year</u>
Bonds Payable	\$ 625,729	\$	\$ 38,919	\$ 586,810

<u>Year</u>	<u>Payment</u>	<u>Principal</u>	<u>Interest</u>	<u>Balance</u>
2007	\$ 75,295	\$ 50,651	\$ 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	
	\$ 751,914	\$ 586,810	\$ 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 (16) BUDGET LAW

The Sewer fund over spent their budget in 2006. This may be a violation of State budget law.

Supplementary Information

GEOHERMAL				TOTALS			
Budgeted Amounts		Actual	Variance-Favorable (Unfavorable)	Budgeted Amounts		Actual	Variance-Favorable (Unfavorable)
Original	Final			Original	Final		
\$ 38,000	38,000	\$ 60,273	\$ 22,273	\$ 288,000	\$ 288,000	\$ 397,461	\$ 109,461
38,000	38,000	60,273	22,273	288,000	288,000	397,461	109,461
4,844	4,844	4,824	20	65,082	65,082	60,371	4,711
17,425	17,425	6,763	10,662	219,541	219,541	188,307	31,234
				47,000	47,000	96,916	(49,916)
22,269	22,269	11,587	10,682	331,623	331,623	345,594	(13,971)
15,731	15,731	48,686	32,955	(43,623)	(43,623)	51,867	95,490
				82,000	82,000	82,375	375
				(65,295)	(65,295)	(65,295)	0
				100,000	100,000	237,900	1,126
				8,000	8,000	9,126	137,900
				124,705	124,705	264,106	139,401
15,731	15,731	48,686	32,955	81,082	81,082	315,973	234,891
		(23,648)				(98,063)	38,919
		42,304				376,837	
		\$ 67,342				\$ 633,666	

TOWN OF PAGOSA SPRINGS, COLORADO
Statement of Revenue, Expenditures and Changes in
Fund Balance Budget and Actual
Conservation Trust
For Year Ended December 31, 2006

	Budgeted Amounts		Actual	Variance Favorable (Unfavorable)
	Original	Final		
REVENUE				
Taxes	\$	\$	\$	\$
Intergovernmental			17,620	17,620
Interest			1,250	
Total Revenue	0	0	18,870	17,620
EXPENDITURES				
Public works		0		0
Total Expenditures	0	0	0	0
EXCESS (DEFICIENCY) OF REVENUE OVER EXPENDITURES	0	0	18,870	17,620
FUND BALANCE BEGINNING OF YEAR			48,815	48,815
FUND BALANCE END OF YEAR OF YEAR	\$ 0	\$ 0	\$ 67,685	\$ 66,435

See accompanying notes

TOWN OF PAGOSA SPRINGS, COLORADO
Statement of Revenue, Expenditures and Changes in
Fund Balance Budget and Actual
General Fund
Year Ended December 31, 2006

	General Fund			
	Budgeted Amounts		Actual	Variance Favorable (Unfavorable)
	Original	Final		
REVENUE				
Taxes	\$ 3,463,129	\$ 3,463,129	\$ 3,857,457	\$ 394,328
Licenses & permits	179,000	179,000	174,670	(4,330)
Intergovernmental	1,660,269	1,660,269	684,468	(975,801)
Charges for services	129,000	129,000	110,415	(18,585)
Fines and forfeits	50,000	50,000	29,290	(20,710)
Other	110,000	110,000	99,928	(10,072)
Total Revenue	5,591,398	5,591,398	4,956,228	(635,170)
EXPENDITURES				
General government	1,245,682	1,245,682	1,084,341	161,341
Public safety	664,768	664,768	695,285	(30,517)
Public works	275,868	275,868	288,455	(12,587)
Parks and recreation	437,970	437,970	423,820	14,150
Public support	57,140	57,140	54,731	2,409
Capital outlay and debt service	2,913,572	2,913,572	1,936,230	977,342
Total Expenditures	5,595,000	5,595,000	4,482,862	1,112,138
EXCESS (DEFICIENCY) OF REVENUE OVER EXPENDITURES	(3,602)	(3,602)	473,366	476,968
FUND BALANCE BEGINNING OF YEAR	2,173,249	2,173,249	2,173,249	-
FUND BALANCE END OF YEAR OF YEAR	\$ 2,169,647	\$ 2,169,647	\$ 2,646,615	\$ 476,968

See accompanying notes

Other Information

Michael C. Branch
Certified Public Accountant
P.O. Box 1333
482 Lewis Street
Pagosa Springs, CO 81447

(970) 264-2135

INDEPENDENT AUDITOR'S REPORT
ON SUPPLEMENTARY INFORMATION
SCHEDULE OF RECEIPTS AND EXPENDITURES FOR ROADS AND STREETS

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 for the Town of Pagosa Springs, Colorado, as of and for the year ended December 31, 2006. These financial statements are the responsibility of the Town's management. My responsibility is to express an opinion on these 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 financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. I believe that my audit provides a reasonable basis for my opinion.

My audit was made for the purpose of forming an opinion on the accompanying financial statements of the governmental activities and the business type activities taken as a whole. The accompanying statement of "Counties, Cities, and Towns Annual Statement of Receipts and Expenditures for Roads, Bridges and Streets", is not a required part of the general-purpose financial statements. The information has been subjected to the auditing procedures applied in the audit of the general purpose financial statements, and is presented on a basis of accounting and format required by the Colorado Department of Highways and is not intended to comply with generally accepted accounting principles.

In my opinion, such information is fairly stated in all material respects in relation to the general purpose financial statements taken as a whole, on a basis of accounting that is not intended to comply with generally accepted accounting principles.



Michael C. Branch
Certified Public Accountant
March 9, 2006

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

LOCAL HIGHWAY FINANCE REPORT

City or county:
Pagosa Springs, Colorado

YEAR ENDING:
December 2006

This information from the records of (example - City of_ or County)
City of Pagosa Springs

Prepared By:
Phone:

Deanna Jararmilla
970-264-4151

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)	626,696	
a. Motor Fuel (from Item I.A.5.)		2. Maintenance:	288,455	
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	595,832	b. Snow and ice removal		
3. Other local imposts (from page 2)		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)	915,151	
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)	595,832	b. Redemption		
B. Private Contributions		c. Total (a. + b.)		
C. Receipts from State government (from page 2)	319,319	2. Notes:		
D. Receipts from Federal Government (from page 2)		a. Interest		
E. Total receipts (A.7 + B + C + D)	915,151	b. Redemption		
		c. Total (a. + b.)		
		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)	915,151	
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
	0	915151	915151	0
E. Reconciliation				
Notes and Comments:				

LOCAL HIGHWAY FINANCE REPORT

State:
Colorado
YEAR ENDING (mm/yy):
December 2006

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	595,832	c. Transfers	
2. Traffic Fines		d. Capital Credits	
3. Specific Ownership Tax		e. Sales of Assets	
		f. Fees/Licenses/Permits	
5. From Cities/Counties		g. Service Performed	
6. Total (1. through 5.)	595,832	h. Refunds of Expenditures	
c. Total (a. + b.)	595,832	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	63,023	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		e. Pay Lieu of Tax	
e. (Specify) CMAQ	256,296	f. Other Federal	
f. Total (a. through e.)	256,296	g. Total (a. through f.)	
4. Total (1. + 2. + 3.f)	319,319	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		626,696	626,696
(3). Safety And Other			
(4). Total Construction (1)+(2)+(3)		626,696	626,696
d. Total Capital Outlay (Lines 1.a. + 1.b. + 1.c.4)		626,696	626,696
			(Carry forward to page 1)

Notes and Comments: