

TOWN OF LIMON, COLORADO
MANAGEMENT'S DISCUSSION AND ANALYSIS
DECEMBER 31, 2006

For the December 31, 2006 financial statements, the Town is in the third year of reporting a major new reporting format in compliance with the Governmental Accounting Standards Board Statement Number 34 also known as GASB34.

In compliance with this reporting requirement, we present this report titled Management's Discussion and Analysis, or MD&A. Please read the MD&A in conjunction with the financial statements and notes to the financial statements, which begin on page 16. The GASB34 statements are listed and described below with additional information in the accompanying text:

- Statements of Net Assets, the balance sheet that combines all funds on a Town-wide basis.
- Statement of Activities, the income statement that combines all funds on a Town-wide basis.
- Statements for Governmental funds, which combines Governmental funds such as the General, Conservation Trust, Cemetery Perpetual Care, Head Start and other funds.
- Statements for Business-type funds, the label for the Town's Proprietary funds such as Utility, Recreation Area, Ambulance and Airport Fuel.

As stated above, the purpose of the MD&A is to provide, in lay terms, an explanation of the effect on the Town's financial position of factors such as local economic and business factors, and to explain the reasons for changes in the financial position of the Town. It will closely resemble the MD&A produced for decades by private industry and publicly traded companies. This discussion starts with a summary of the economic factors affecting the Town during this past year, and then moves on to a more detailed discussion of fund statements and funds.

FINANCIAL HIGHLIGHTS

- The Town's total net assets increased by \$826,061 or 7.60% during the year. The governmental net assets increased by \$306,059 or 6.85%, and the business-type net assets increased by \$520,002, or 8.12%.
- The governmental activities revenue changed from 3,368,185 in 2005 to 3,041,516 in 2006 a decrease of \$326,669 or 9.70%.
- The governmental activities expenditures changed from \$2,707,078 in 2005 to \$2,735,457 in 2006 an increase of \$28,379 or 1.05%.
- The business-type activities revenue changed from \$1,718,051 in 2005 to \$1,911,679 in 2006 an increase of \$193,628 or 11.27%.
- The business-type activities expenditures changed from \$1,333,912 in 2005 1,391,677 in 2006 an increase of \$57,765 or 4.33%

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- The General Fund (the primary operating fund) reflected on a current financial resource basis, reports a decrease of \$179,582 or 21.19% in fund balance.

OVERVIEW OF THE FINANCIAL STATEMENTS

This annual report consists of four parts – management's discussion and analysis, the basic financial statements, required supplementary information, and a section that presents combining statements for nonmajor governmental funds.

Basic financial statements - include two kinds of statements that present different views of the Town.

- **Government-wide financial statements** provide both long-term and short-term information about the Town's overall financial status. The required financial statements include statement of net assets, and statement of activities. The measurement focus is on economic resources and accrual accounting is used. Assets and liabilities include both financial and capital and are reported as short and long term. Revenues and expenses are included regardless of when cash is received or paid.
- **Fund Financial Statements** focus on the individual parts of the Town reporting in more detail the Town's operations.
 1. **Governmental Funds** show how general government services like public safety, public works, recreation, and general government administration were financed in the short term and what remains for future spending. The required financial statements are a balance sheet and statement of revenues, expenditures and changes in fund balance. Only assets expected to be used and liabilities that come due during the year or soon thereafter are included. Capital assets are not included as assets. The measurement focus is on current financial resources and modified accrual accounting is used to report revenues and expenses that are received during the year or soon thereafter.
 2. **Proprietary Funds** include activities, such as the water, water treatment and sewer systems, the Municipal Recreation, Airport Fuel, and Ambulance Service, are operated similar to private business with an economic resource focus and accrual accounting. The required financial statements include Statement of Net Assets, Statement of Revenues, expenses, and changes in Net Assets, and Statement of cash flows. All assets and liabilities, both financial and capital, long and short-term are provided and all revenues and expenses are included regardless of when cash is received or paid.
 3. **Fiduciary Funds** include the Fireman's Pension Fund and the Employee's Pension Fund. The Town is responsible for the assets in these funds and for reporting. The

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above funds are reported in separate statements of Fiduciary Net Assets and Change in Fiduciary Net Assets. They have been excluded from the Town's government-wide financial statements because the Town cannot use these funds to service its operations.

Notes to the basic Financial Statements provide additional information that is essential to a full understanding of the data provided in the government-wide and fund financial statements.

Required Supplementary Information includes budgetary comparison schedules for the General Fund and major special revenue funds.

Other Supplementary Information includes combining statements for nonmajor governmental funds and budget comparison schedules for all nonmajor special revenue funds, capital project funds, and proprietary funds.

GOVERNMENT-WIDE FINANCIAL ANALYSIS

The government-wide statements report information about the Town as a whole using accounting methods similar to those used by private-sector companies. The statement of net assets includes all of the government'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 government-wide statements report the Town's net assets and how they have changed. Net assets-the difference between the Town's assets and liabilities- is 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, additional non-financial factors need to be considered, such as changes in the Town's property tax base and the condition of the Town's roads.

The government-wide financial statements of the Town are divided into two categories:

Governmental Activities – Most of the Town's basic services are included here, such as police, streets, parks and recreation departments, and general administration. Sales taxes, property taxes, franchise taxes, and charges for services finance most of these activities.

Business-type Activities – The Town charges fees to customers to recover most of the costs of certain activities. The Town's water system is included here.

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FUND FINANCIAL STATEMENTS

The fund financial statements provide more detailed information about the Town's most significant funds – not the Town as a whole. Funds are accounting devices that a Town uses to account for 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, such as the Conservation Trust Fund.

The Town has two kinds of funds:

- **Governmental Funds** – Most of the Town's basic services are included in the governmental funds, which focus on the flow of cash in and out and how balances remaining at the end of the year are available for spending. Consequently, the governmental funds statements provide a detailed short-term view that helps you determine the change in financial resources that can be spent in the near future to finance the Town's programs. Because this information does not encompass the additional long-term focus of the government-wide statements, additional information is provided on the subsequent page that explains the differences between them.
- **Proprietary Funds** – Services for which the Town charges customers a fee are generally reported in proprietary funds. Proprietary funds, like the government-wide statements, provide both long and short-term financial information. The Town's Utility, Recreation Area, Airport Fuel, and Ambulance Service Funds are proprietary funds, accounting for its water distribution and sewage collection, golfing, airplane fuel sales, and ambulance service activities, respectively.

FINANCIAL ANALYSIS OF THE TOWN'S FUNDS

The Town uses fund accounting to comply with finance-related legal requirements.

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

A summary of the Town's net assets for the year is as follows:

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	Governmental Activities		Business-Type Activities		Total	
	2005	2006	2005	2006	2005	2006
Current assets	\$ 792,628	\$ 859,699	\$ 582,155	\$ 529,975	\$ 1,374,783	\$ 1,389,674
Restricted Assets	571,802	359,413	893,289	933,532	1,465,091	1,292,945
Other Non-current Assets	463,915	416,944	403,460	385,034	867,375	801,978
Capital assets-net	4,014,032	4,391,115	9,315,881	9,683,295	13,329,913	14,074,410
Total assets	<u>5,842,377</u>	<u>6,027,171</u>	<u>11,194,785</u>	<u>11,531,836</u>	<u>17,037,162</u>	<u>17,559,007</u>
Current Liabilities	597,703	552,009	388,774	412,490	986,477	964,499
Non-current Liabilities	777,625	702,054	4,404,921	4,198,254	5,182,546	4,900,308
Total liabilities	<u>1,375,328</u>	<u>1,254,063</u>	<u>4,793,695</u>	<u>4,610,744</u>	<u>6,169,023</u>	<u>5,864,807</u>
Net assets	<u>\$ 4,467,049</u>	<u>\$ 4,773,108</u>	<u>\$ 6,401,090</u>	<u>\$ 6,921,092</u>	<u>\$ 10,868,139</u>	<u>\$ 11,694,200</u>
Net assets consist of:						
Invested in capital assets	3,180,407	3,624,423	4,784,506	5,490,970	7,964,913	9,115,393
Restricted net assets	403,518	92,719	114,874	344,284	518,392	437,003
Unrestricted net assets	883,124	1,055,966	1,501,710	1,085,838	2,384,834	2,141,804
Net assets	<u>\$ 4,467,049</u>	<u>\$ 4,773,108</u>	<u>\$ 6,401,090</u>	<u>\$ 6,921,092</u>	<u>\$ 10,868,139</u>	<u>\$ 11,694,200</u>

The net assets of the Town's governmental funds as of December 31, 2006 were \$4,773,108 of which \$1,055,966 was unrestricted and is available for spending at the government's discretion. The remainder is invested in capital assets, net of related debt \$3,624,423, reserved for Emergency Reserve \$87,719 and Bond Reserve \$5,000.

The General Fund is the main operating fund of the Town. As of December 31, 2006, the General Fund balance was \$667,927 of which \$185,867 was unreserved. Unreserved fund balance represents 8.47% of 2006 General Fund expenditures.

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A summary of the Town's change in net assets for the year is as follows:

	Governmental Activities		Business-Type Activities		Total	
	2005	2006	2005	2006	2005	2006
Program revenues:						
Operating Grants and Contributions	\$ 996,674	\$ 941,631	\$ 60,347	\$ 69,702	\$ 1,057,021	\$ 1,011,333
Capital Grants and Contributions	264,161	309,564	282,680	447,320	546,841	756,884
Charges for services	769,790	376,358	1,245,647	1,286,188	2,015,437	1,662,546
Total Program Revenue	2,030,625	1,627,553	1,588,674	1,803,210	3,619,299	3,430,763
General Revenues:						
Taxes	1,285,087	1,354,551			1,285,087	1,354,551
Investment earnings	21,041	26,203	51,944	41,334	72,985	67,537
Other	22,004	33,209			22,004	33,209
Total General Revenue	1,328,132	1,413,963	51,944	41,334	1,380,076	1,455,297
Total Revenue	\$ 3,358,757	\$ 3,041,516	\$ 1,640,618	\$ 1,844,544	\$ 4,999,375	\$ 4,886,060
Expenses						
General government	445,681	443,899			445,681	443,899
Airport	13,598	15,524			13,598	15,524
Public safety	394,448	394,451			394,448	394,451
Highways and streets	470,093	539,002			470,093	539,002
Public Works - Sanitation	154,276	175,612			154,276	175,612
Public Health - Cemetery	54,241	44,798			54,241	44,798
Culture and recreation	237,722	237,665			237,722	237,665
Head Start Program	619,056	608,099			619,056	608,099
Rural Development	170,177	139,290			170,177	139,290
Rural Health	42,000	30,888			42,000	30,888
Water			435,030	454,846	435,030	454,846
Water Treatment Plant			247,976	246,597	247,976	246,597
Sewer			250,363	252,440	250,363	252,440
Municipal Recreation Area			173,031	187,933	173,031	187,933
Airport Fuel Fund			28,020	34,616	28,020	34,616
Ambulance Service Fund			199,492	214,212	199,492	214,212
Interest and fiscal charges	28,353	39,094			28,353	39,094
Total expenses	2,629,645	2,668,322	1,333,912	1,390,644	3,963,557	4,058,966
Change in net assets before transfers and special items	729,112	373,194	306,706	453,900	1,035,818	827,094
Transfers	(77,433)	(67,135)	77,433	67,135		-
Gain(loss) on sale of assets	9,428			(1,033)	9,428	(1,033)
Change in net assets	661,107	306,059	384,139	520,002	1,045,246	826,061
Beginning net assets	3,805,942	4,467,049	6,016,951	6,401,090	9,822,893	10,868,139
Ending net assets	\$ 4,467,049	\$ 4,773,108	\$ 6,401,090	\$ 6,921,092	\$ 10,868,139	\$ 11,694,200

Governmental Activities revenues in the amount of \$3,041,516 were greater than expenses and transfers of \$2,735,457 by \$306,059 primarily due to grants received and used to purchase fixed

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assets. Business-type activities revenues and transfers in the amount of \$1,911,679 were greater than expenses and disposal of assets of \$1,391,677 by \$520,002 mostly due to grants received and used to purchase fixed assets.

BUDGETARY HIGHLIGHTS

The budget was amended on December 28, 2006 to include the following increases for expenditures not anticipated at the time of adoption of the original budget on December 6, 2005. The additional expenditures were funded by unanticipated revenue and/or the prior year's fund balance. Funds with appropriation increases:

Fund	Original Budget	New Budget	Increase
General Fund	\$ 1,841,474	\$ 2,366,474	\$ 525,000
Municipal Recreation Area	\$ 175,129	\$ 200,129	\$ 25,000
Head Start Fund	\$ 600,088	\$ 608,099	\$ 8,011
Limon Ambulance Service	\$ 205,615	\$ 260,615	\$ 55,000
Firemen's Pension Fund	\$ 19,300	\$ 25,000	\$ 5,700
Capital Projects Fund	\$ -	\$ 8,000	\$ 8,000
Employee's Pension Fund	\$ 27,000	\$ 57,000	\$ 30,000
Rural Health Fund	\$ 57,000	\$ 220,000	\$ 163,000

- Changes in the General Fund Budget are attributable to street improvements in Limon Special Improvement District No. 2-2005(a)(b)(c) and on other Town streets.
- Changes in the Recreation Area Fund Budget include increased usage costs and capital expenditures.
- Changes in the Limon Ambulance Service Fund were due to increased grants funds including equipment provided by the Department of Homeland Security.
- Changes in the Capital Projects Fund Budget are due to the airport runway construction project that extended into 2006 from 2004.
- Changes in the Rural Health Fund were associated with pass-through funding from an Energy and Mineral Impact Grant to purchase Electronic Medical Records Equipment to be used at Plains Medical Center.

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CAPITAL ASSETS AND DEBT ADMINISTRATION

Capital Assets

As of December 31, 2006, Limon investment in capital assets for its governmental and business type activities net of accumulated depreciation was \$14,074,410. This included infrastructure assets acquired since January 1, 2004. Capital assets including land, buildings, streets, utility systems and equipment are as follows:

	Governmental Activities		Business-Type Activities		Total	
	2005	2006	2005	2006	2005	2006
Land	\$ 1,277,569	\$ 1,278,989	\$ 243,476	\$ 243,476	\$ 1,521,045	\$ 1,522,465
Buildings and Water & Sewer Systems	2,270,681	2,287,724	10,287,418	10,706,680	12,558,099	12,994,404
Construction In Progress		1,067		199,203	-	200,270
Equipment	1,578,153	1,833,924	1,077,494	1,138,264	2,655,647	2,972,188
Other Capital Assets			1,048,995	1,048,995	1,048,995	1,048,995
Infrastructure	1,035,711	1,347,109			1,035,711	1,347,109
Total	<u>\$ 6,162,114</u>	<u>\$ 6,748,813</u>	<u>\$ 12,657,383</u>	<u>\$ 13,336,618</u>	<u>\$ 18,819,497</u>	<u>\$ 20,085,431</u>
Accumulated Depreciation	<u>(2,148,082)</u>	<u>(2,357,698)</u>	<u>(3,341,502)</u>	<u>(3,653,323)</u>	<u>(5,489,584)</u>	<u>(6,011,021)</u>
Capital Assets, Net	<u><u>\$ 4,014,032</u></u>	<u><u>\$ 4,391,115</u></u>	<u><u>\$ 9,315,881</u></u>	<u><u>\$ 9,683,295</u></u>	<u><u>\$ 13,329,913</u></u>	<u><u>\$ 14,074,410</u></u>

This year's major capital asset additions include:

- Improvements to the sewer collection line on 5th Street in the amount of \$412,264.
- Improvements to a sewer lift station in progress at December 31, 2006 in the amount of \$199,203.
- Improvements to various streets in the amount of \$303,399.

Long-term Debt

As of December 31, 2006 the Town had \$5,170,759 in outstanding debt.

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	Governmental Activities		Business-Type Activities		Total	
	2005	2006	2005	2006	2005	2006
Revenue Bonds	\$ 335,000	\$ 290,000			\$ 335,000	\$ 290,000
Special Assessment Bonds	410,000	395,000			410,000	395,000
Capital Leases	88,625	80,625			88,625	80,625
Bonds Payable:						
2004 Water Revenue			2,175,000	2,130,000	2,175,000	2,130,000
2001 Water G.O.			520,000	485,000	520,000	485,000
2000 Water Revenue			1,159,147	1,099,564	1,159,147	1,099,564
1974 Mun. Rec. Area			82,000	73,000	82,000	73,000
Loans Payable:						
Colorado Water						
Conservation Board			387,286	366,459	387,286	366,459
Capital Lease			221,375	201,375	221,375	201,375
Colorado Maintenance Fee			49,523	49,736	49,523	49,736
	<u>\$ 833,625</u>	<u>\$ 765,625</u>	<u>\$ 4,594,331</u>	<u>\$ 4,405,134</u>	<u>\$ 5,427,956</u>	<u>\$ 5,170,759</u>

ECONOMIC FACTORS AND NEXT YEAR'S BUDGETS AND RATES

- Sales tax revenues budgeted for 2007 is \$845,000 that is \$12,968 more than 2006 actual.
- The property tax revenue budgeted for 2007 is \$338,557 that is \$3,814 more than 2006 actual.
- Governmental funds revenues were budgeted at \$3,244,146, which is an increase of 5.33% from the 2006 actual revenues. Governmental revenue and expenditures included direct pass-through grants to other entities. The 2007 budgeted direct pass-through amounts are \$750,088, which is a decrease of \$202,090 from the 2006 actual amounts of \$952,178. The 2007 budgeted expenditures for governmental activities are projected to be \$3,288,158, which is a 3.77% increase above the 2006 actual.
- Proprietary funds revenues were budgeted at \$1,464,273, which is a decrease of 24.30% from the 2006 actual revenues. Budgeted expenditures of \$1,392,927 represent a decrease from 2006 actual expenditures of 28.26%

REQUESTS FOR INFORMATION

This financial report is designed to provide the citizens, taxpayers, customers and investors and creditors of the Town of Limon, Colorado a general overview of the Town's finances and to demonstrate the Town's accountability. If you have questions about this report or need additional financial information, contact the Town of Limon, Town Clerk, P. O. Box 9, Limon, Colorado 80828.