

**Town of Limon, Colorado**  
**Management's Discussion and Analysis**  
**December 31, 2010**

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 14. 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 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 \$627,886 or 4.0% during the year. The governmental net assets increased by \$507,963 or 6.5%, and the business-type net assets increased by \$119,923, or 1.6%.
- The governmental activities revenue changed from \$2,848,209 in 2009 to \$3,784,423 in 2010 for an increase of \$948,523 or 33.3%. This increase is due primarily to large increases in insurance proceeds, federal grants and gravel sales.
- The governmental activities expenditures changed from \$2,777,195 in 2009 to \$3,276,460 in 2010, an increase of \$499,265 or 18.0%. The increase is due primarily to an increase in administrative and Head Start program expenditures in 2010.
- The business-type activities revenue changed from \$1,296,752 in 2009 to \$1,649,302 in 2010, an increase of \$352,550 or 27.2%. This increase is due primarily to a large increase in water sales in 2010.
- The business-type activities expenditures changed from \$1,512,938 in 2009 to \$1,529,379 in 2010, an increase of \$16,441 or 1.1%
- The General Fund (the primary operating fund) reflected on a current financial resource basis, reports an increase of \$313,135 or 48.1% in fund balance. This increase is due primarily to a large increases in insurance proceeds, federal grants and gravel sales.

## 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 Employee’s Pension Fund. The Town is responsible for the assets in this fund and for reporting. The above fund is reported in separate statements of Fiduciary Net Assets and Change in Fiduciary Net Assets. It has been excluded from the Town’s government-wide financial statements because the Town cannot use this fund 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.

## **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:

	Governmental Activities		Business-Type Activities		Total	
	2010	2009	2010	2009	2010	2009
<b>ASSETS</b>						
Current assets	\$ 1,032,184	\$ 1,028,168	\$ 814,256	\$ 744,915	\$ 1,846,440	\$ 1,773,083
Restricted assets	539,804	246,120	897,128	708,501	1,436,932	954,621
Other non-current assets	338,363	356,444	305,032	325,928	643,395	682,372
Capital assets, net	7,405,499	7,255,042	9,491,807	9,822,372	16,897,306	17,077,414
Total assets	9,315,850	8,885,774	11,508,223	11,601,716	20,824,073	20,487,490
<b>LIABILITIES</b>						
Current liabilities	649,373	646,975	379,575	378,509	1,028,948	1,025,484
Non-current liabilities	382,770	463,055	3,277,383	3,491,865	3,660,153	3,954,920
Total liabilities	1,032,143	1,110,030	3,656,958	3,870,374	4,689,101	4,980,404
<b>NET ASSETS</b>	\$ 8,283,707	\$ 7,775,744	\$ 7,851,265	\$ 7,731,342	\$ 16,134,972	\$ 15,507,086
Net assets consist of:						
Invested in capital assets	\$ 6,942,444	\$ 6,717,273	\$ 6,204,585	\$ 6,316,217	\$ 13,147,029	\$ 13,033,490
Restricted net assets	109,269	115,037	279,129	277,403	388,398	392,440
Unrestricted net assets	1,231,994	943,434	1,367,551	1,137,722	2,599,545	2,081,156
Total net assets	\$ 8,283,707	\$ 7,775,744	\$ 7,851,265	\$ 7,731,342	\$ 16,134,972	\$ 15,507,086

The net assets of the Town’s governmental funds as of December 31, 2010 were \$8,283,707 of which \$1,231,994 was unrestricted and is available for spending at the government’s discretion. The remainder is invested in capital assets, net of related debt of \$6,942,444, reserved for Emergency Reserve of \$104,269 and Bond Reserve of \$5,000.

The General Fund is the main operating fund of the Town. As of December 31, 2010, the General Fund balance was \$963,796, of which \$256,107 was unreserved. Unreserved fund balance represents 11.0% of 2010 General Fund expenditures.

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

	<b>Governmental Activities</b>		<b>Business-Type Activities</b>		<b>Total</b>	
	<b>2010</b>	<b>2009</b>	<b>2010</b>	<b>2009</b>	<b>2010</b>	<b>2009</b>
<b>Program revenues:</b>						
Operating grants and contributions	\$ 1,012,371	\$ 833,351	\$ 42,030	\$ 73,107	\$ 1,054,401	\$ 906,458
Capital grants and contributions	290,665	68,495	-	-	290,665	68,495
Charges for services	852,419	541,604	1,372,713	1,085,683	2,225,132	1,627,287
Total program revenue	<u>2,155,455</u>	<u>1,443,450</u>	<u>1,414,743</u>	<u>1,158,790</u>	<u>3,570,198</u>	<u>2,602,240</u>
<b>General revenues:</b>						
Taxes	1,359,174	1,329,898	-	-	1,359,174	1,329,898
Investment earnings	13,533	22,343	22,158	28,052	35,691	50,395
Insurance proceeds	194,869	-	104,050	1,059	298,919	1,059
Other	61,392	40,209	4,304	15,568	65,696	55,777
Total general revenue	<u>1,628,968</u>	<u>1,392,450</u>	<u>130,512</u>	<u>44,679</u>	<u>1,759,480</u>	<u>1,437,129</u>
<b>Total Revenue</b>	<u>\$ 3,784,423</u>	<u>\$ 2,835,900</u>	<u>\$ 1,545,255</u>	<u>\$ 1,203,469</u>	<u>\$ 5,329,678</u>	<u>\$ 4,039,369</u>
<b>Expenses</b>						
General government	\$ 818,861	\$ 645,224	\$ -	\$ -	\$ 818,861	\$ 645,224
Airport	12,892	16,264	-	-	12,892	16,264
Public safety	374,261	359,199	-	-	374,261	359,199
Highways and streets	530,201	481,500	-	-	530,201	481,500
Public works - sanitation	198,079	187,651	-	-	198,079	187,651
Public health - cemetery	66,897	52,219	-	-	66,897	52,219
Culture and recreation	282,082	276,846	-	-	282,082	276,846
Head Start Program	781,158	644,259	-	-	781,158	644,259
Rural health	-	78,508	-	-	-	78,508
Water	-	-	492,259	502,498	492,259	502,498
Water treatment plant	-	-	232,558	238,604	232,558	238,604
Sewer	-	-	305,097	305,574	305,097	305,574
Municipal recreation area	-	-	200,346	185,898	200,346	185,898
Airport fuel fund	-	-	29,936	26,735	29,936	26,735
Ambulance service fund	-	-	269,183	253,629	269,183	253,629
Interest and fiscal charges	35,413	35,525	-	-	35,413	35,525
Total expenses	<u>\$ 3,099,844</u>	<u>\$ 2,777,195</u>	<u>\$ 1,529,379</u>	<u>\$ 1,512,938</u>	<u>\$ 4,629,223</u>	<u>\$ 4,290,133</u>
Changes in net assets before transfers and special items	684,579	58,705	15,876	(309,469)	700,455	(250,764)
Transfers	(78,857)	(93,283)	78,857	93,283	-	-
Gain (loss) on sale of assets	(97,759)	(2,541)	25,190	-	(72,569)	(2,541)
Change in net assets	507,963	(37,119)	119,923	(216,186)	627,886	(253,305)
Beginning net assets	7,775,744	7,812,863	7,731,342	7,947,528	15,507,086	15,638,322
Ending net assets	<u>\$ 8,283,707</u>	<u>\$ 7,775,744</u>	<u>\$ 7,851,265</u>	<u>\$ 7,731,342</u>	<u>\$16,134,972</u>	<u>\$15,507,086</u>

Governmental Activities revenues in the amount of \$3,784,423 were greater than expenses and transfers of \$3,276,460 by \$507,963. Business-type activities revenues and transfers in the amount of \$1,545,255 were more than expenses of \$1,529,379 by \$119,923.

## BUDGETARY HIGHLIGHTS

The budget was amended on December 29, 2010 to include the following increases for expenditures not anticipated at the time of adoption of the original budget on December 4, 2009. The additional expenditures were funded by unanticipated revenue and/or the prior year's fund balance. Funds with appropriation increases:

	Original <u>Budget</u>	New <u>Budget</u>	<u>Increase</u>
GENERAL FUND	\$2,222,211	\$2,422,211	\$200,000
RECREATION AREA FUND	\$ 171,729	\$ 221,729	\$ 50,000
HEAD START FUND	\$ 752,429	\$ 781,158	\$ 28,729
LIMON AMBULANCE SERVICE FUND	\$ 237,980	\$ 282,980	<u>\$ 45,000</u>
			<u>\$323,729</u>

- Changes in the General Fund Budget are attributable to hail damage repairs, pension costs and street projects. This increase in expenditure was offset by increased gravel sales, insurance claim revenue, and permits.
- Changes in the Recreation Area Fund Budget included capital asset improvements and hail damage repairs. This increase was funded through increases in insurance claims and interfund transfers.
- Changes in the Head Start Fund Budget were due to increased program expenditures, which were funded by increased federal grant funds.
- Changes in the Limon Ambulance Service Fund were due to increased equipment purchases and hail damage repair. The increases were offset by increased grant funds, ambulance income, and insurance claims.

## CAPITAL ASSETS AND DEBT ADMINISTRATION

### Capital Assets

As of December 31, 2010, Limon investment in capital assets for its governmental and business type activities net of accumulated depreciation was \$16,897,306. 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	
	2010	2009	2010	2009	2010	2009
Land	\$ 1,278,989	\$ 1,278,989	\$ 243,476	\$ 243,476	\$ 1,522,465	\$ 1,522,465
Buildings and water and sewer systems	2,631,607	2,574,742	11,976,881	11,949,066	14,608,488	14,523,808
Equipment	2,323,615	2,260,580	1,304,340	1,329,080	3,627,955	3,589,660
Other capital assets	-	-	1,048,995	1,048,995	1,048,995	1,048,995
Infrastructure	<u>4,675,571</u>	<u>4,292,821</u>	<u>-</u>	<u>-</u>	<u>4,675,571</u>	<u>4,292,821</u>
Total	\$ 10,909,782	\$ 10,407,132	\$ 14,573,692	\$ 14,570,617	\$ 25,483,474	\$ 24,977,749
Accumulated depreciation	<u>(3,504,283)</u>	<u>(3,152,090)</u>	<u>(5,081,885)</u>	<u>(4,748,245)</u>	<u>(8,586,168)</u>	<u>(7,900,335)</u>
Capital assets, net	<u>\$ 7,405,499</u>	<u>\$ 7,255,042</u>	<u>\$ 9,491,807</u>	<u>\$ 9,822,372</u>	<u>\$ 16,897,306</u>	<u>\$ 17,077,414</u>

This year's major capital asset additions include:

- Tractor, Loader and Rotary Broom - \$51,917.
- Trash Truck - \$89,167.
- Sealant at Airport - \$154,623.

### Long-term Debt

As of December 31, 2010 the Town had \$3,960,715 in outstanding debt as follows.

	Governmental Activities		Business-Type Activities		Total	
	2010	2009	2010	2009	2010	2009
Revenue bonds	\$ 110,000	\$ 160,000	\$ -	\$ -	\$ 110,000	\$ 160,000
Special assessment bonds	309,000	324,000	-	-	309,000	324,000
Capital leases	44,055	53,769	-	-	44,055	53,769
Bonds payable:						
2004 Water Revenue	-	-	1,920,000	1,975,000	1,920,000	1,975,000
2001 Water G.O.	-	-	315,000	360,000	315,000	360,000
2000 Water Revenue	-	-	834,153	904,568	834,153	904,568
Loans payable:						
Colorado Water Conservation Board	-	-	276,710	300,151	276,710	300,151
Capital lease	-	-	109,944	134,230	109,944	134,230
Colorado maintenance fee	-	-	41,853	36,059	41,853	36,059
Total	<u>\$ 463,055</u>	<u>\$ 537,769</u>	<u>\$ 3,497,660</u>	<u>\$ 3,710,008</u>	<u>\$ 3,960,715</u>	<u>\$ 4,247,777</u>

### ECONOMIC FACTORS AND NEXT YEAR'S BUDGETS AND RATES

- Sales tax revenues budgeted for 2011 is \$814,416, which is \$15,902 less than 2010 actual.
- The property tax revenue budgeted for 2011 is \$333,759, which is \$3,465 more than 2010 actual.
- Governmental funds revenues were budgeted at \$3,118,001, which is a decrease of 17.9% from the 2010 actual revenues. Governmental revenue and expenditures included direct pass-through grants to other entities. The 2011 budgeted direct pass-through amounts are \$636,257, which is a decrease of \$144,901 from the 2010 actual amounts of \$781,158. The 2011 budgeted expenditures for governmental activities are projected to be \$3,340,590, which is a 2.3% decrease from the 2010 actual.
- Proprietary funds revenues were budgeted at \$1,749,000, which is an increase of 11.4% from the 2010 actual revenues. Budgeted expenditures of \$2,045,181 represent an increase from 2010 actual expenditures of 33.7%.

## **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.