

**Town of Limon, Colorado**  
**Management's Discussion and Analysis**  
**December 31, 2011**

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 GASB 34 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 decreased by \$67,090 or 0.4% during the year. The governmental net assets decreased by \$151,854 or 1.8%, and the business-type net assets increased by \$84,764, or 1.1%.
- The governmental activities revenue changed from \$3,784,423 in 2010 to \$2,672,793 in 2011 for a decrease of \$1,111,630 or 29.4%. This decrease is due primarily to large decreases in insurance proceeds and gravel sales.
- The governmental activities expenditures changed from \$3,276,460 in 2010 to \$3,011,707 in 2011, a decrease of \$264,753 or 8.1%. The decrease is due primarily to an decrease in Head Start program expenditures in 2011.
- The business-type activities revenue changed from \$1,649,302 in 2010 to \$1,668,724 in 2011, an increase of \$19,422 or 1.2%.
- The business-type activities expenditures changed from \$1,529,379 in 2010 to \$1,583,960 in 2011, an increase of \$54,581 or 3.6%
- The General Fund (the primary operating fund) reflected on a current financial resource basis, reports a decrease of \$124,291 or 12.9% in fund balance. This decrease is due primarily to large decreases 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 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	
	2011	2010	2011	2010	2011	2010
<b>ASSETS</b>						
Current assets	\$ 1,104,698	\$ 1,032,184	\$ 837,228	\$ 814,256	\$ 1,941,926	\$ 1,846,440
Restricted assets	256,823	539,804	937,074	897,128	1,229,897	1,436,932
Other non-current assets	308,531	338,363	282,977	305,032	591,508	643,395
Capital assets, net	<u>7,248,866</u>	<u>7,405,499</u>	<u>9,277,770</u>	<u>9,491,807</u>	<u>16,526,636</u>	<u>16,897,306</u>
Total assets	<u>8,918,918</u>	<u>9,315,850</u>	<u>11,371,049</u>	<u>11,508,223</u>	<u>20,289,967</u>	<u>20,824,073</u>
<b>LIABILITIES</b>						
Current liabilities	522,065	649,373	397,681	379,575	919,746	1,028,948
Non-current liabilities	<u>265,000</u>	<u>382,770</u>	<u>3,037,337</u>	<u>3,277,383</u>	<u>3,302,337</u>	<u>3,660,153</u>
Total liabilities	<u>787,065</u>	<u>1,032,143</u>	<u>3,435,018</u>	<u>3,656,958</u>	<u>4,222,083</u>	<u>4,689,101</u>
<b>NET ASSETS</b>	<u>\$ 8,131,853</u>	<u>\$ 8,283,707</u>	<u>\$ 7,936,031</u>	<u>\$ 7,851,265</u>	<u>\$ 16,067,884</u>	<u>\$ 16,134,972</u>
Net assets consist of:						
Invested in capital assets	\$ 6,967,866	\$ 6,942,444	\$ 6,211,325	\$ 6,204,585	\$ 13,179,191	\$ 13,147,029
Restricted net assets	256,823	109,269	283,152	279,129	539,975	388,398
Unrestricted net assets	<u>907,164</u>	<u>1,231,994</u>	<u>1,441,554</u>	<u>1,367,551</u>	<u>2,348,718</u>	<u>2,599,545</u>
Total net assets	<u>\$ 8,131,853</u>	<u>\$ 8,283,707</u>	<u>\$ 7,936,031</u>	<u>\$ 7,851,265</u>	<u>\$ 16,067,884</u>	<u>\$ 16,134,972</u>

The net assets of the Town’s governmental funds as of December 31, 2011 were \$8,131,853 of which \$907,164 was unrestricted and is available for spending at the government’s discretion. The remainder is invested in capital assets, net of related debt of \$6,967,866, reserved for Emergency Reserve of \$105,726 and Capital Replacement Reserve of \$151,097.

The General Fund is the main operating fund of the Town. As of December 31, 2011, the General Fund balance was \$839,505, of which \$316,938 was unassigned. Unassigned fund balance represents 13.8% of 2011 General Fund expenditures.

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

	Governmental Activities		Business-Type Activities		Total	
	2011	2010	2011	2010	2011	2010
<b>Program revenues:</b>						
Operating grants and contributions	\$ 849,374	\$ 1,012,371	\$ 148,134	\$ 42,030	\$ 997,508	\$ 1,054,401
Capital grants and contributions	52,678	290,665	-	-	52,678	290,665
Charges for services	<u>509,898</u>	<u>852,419</u>	<u>1,411,482</u>	<u>1,372,713</u>	<u>1,921,380</u>	<u>2,225,132</u>
Total program revenue	<u>1,411,950</u>	<u>2,155,455</u>	<u>1,559,616</u>	<u>1,414,743</u>	<u>2,826,693</u>	<u>3,570,198</u>
<b>General revenues:</b>						
Taxes	1,396,549	1,359,174	-	-	1,396,549	1,359,174
Investment earnings	12,377	13,533	20,903	22,158	33,280	35,691
Insurance proceeds	4,954	194,869	5,167	104,050	10,121	298,919
Other	<u>34,023</u>	<u>61,392</u>	<u>-</u>	<u>4,304</u>	<u>34,023</u>	<u>65,696</u>
Total general revenue	<u>1,447,903</u>	<u>1,628,968</u>	<u>26,070</u>	<u>130,512</u>	<u>1,473,973</u>	<u>1,759,480</u>
<b>Total Revenue</b>	<u>\$ 2,859,853</u>	<u>\$ 3,784,423</u>	<u>\$ 1,585,686</u>	<u>\$ 1,545,255</u>	<u>\$ 4,300,666</u>	<u>\$ 5,329,678</u>
<b>Expenses</b>						
General government	\$ 775,732	\$ 818,861	\$ -	\$ -	\$ 775,732	\$ 818,861
Airport	8,187	12,892	-	-	8,187	12,892
Public safety	369,949	374,261	-	-	369,949	374,261
Highways and streets	537,216	530,201	-	-	537,216	530,201
Public works - sanitation	204,551	198,079	-	-	204,551	198,079
Public health - cemetery	63,517	66,897	-	-	63,517	66,897
Culture and recreation	291,307	282,082	-	-	291,307	282,082
Head Start Program	636,257	781,158	-	-	636,257	781,158
Water	-	-	462,926	492,259	462,926	492,259
Water treatment plant	-	-	232,567	232,558	232,567	232,558
Sewer	-	-	308,266	305,097	308,266	305,097
Municipal recreation area	-	-	213,034	200,346	213,034	200,346
Airport fuel fund	-	-	40,729	29,936	40,729	29,936
Ambulance service fund	-	-	326,438	269,183	326,438	269,183
Interest and fiscal charges	<u>31,461</u>	<u>35,413</u>	<u>-</u>	<u>-</u>	<u>31,461</u>	<u>35,413</u>
Total expenses	<u>\$ 2,918,177</u>	<u>\$ 3,099,844</u>	<u>\$ 1,583,960</u>	<u>\$ 1,529,379</u>	<u>\$ 4,502,137</u>	<u>\$ 4,629,223</u>
Changes in net assets before transfers and special items	(58,324)	684,579	1,726	15,876	(56,598)	700,455
Transfers	(83,038)	(78,857)	83,038	78,857	-	-
Gain (loss) on sale of assets	<u>(10,492)</u>	<u>(97,759)</u>	<u>-</u>	<u>25,190</u>	<u>(10,492)</u>	<u>(72,569)</u>
Change in net assets	(151,854)	507,963	84,764	119,923	(67,090)	627,886
Beginning 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>
Ending net assets	<u>\$ 8,131,853</u>	<u>\$ 8,283,707</u>	<u>\$ 7,936,029</u>	<u>\$ 7,851,265</u>	<u>\$16,067,882</u>	<u>\$16,134,972</u>

Governmental Activities revenues in the amount of \$2,859,853 were less than expenses and transfers of \$2,824,647 by \$151,854. Business-type activities revenues and transfers in the amount of \$1,668,724 were more than expenses of \$1,583,960 by \$84,764.

## BUDGETARY HIGHLIGHTS

The budget was amended on December 29, 2011 to include the following increases for expenditures not anticipated at the time of adoption of the original budget on December 9, 2010. The additional expenditures were funded by unanticipated revenue and/or the prior year's fund balance. Funds with appropriation increases:

	<u>Original Budget</u>	<u>New Budget</u>	<u>Increase</u>
General Fund	\$2,322,819	\$2,397,819	\$ 75,000
Recreation Area Fund	176,839	256,839	80,000
Ambulance Fund	293,308	443,308	150,000
Conservation Trust Fund	37,400	42,400	5,000
Airport Fuel Fund	34,300	42,600	8,300
			<u>\$ 318,300</u>

- Changes in the General Fund Budget are attributable to capital outlays. This increase in expenditure was offset by increased taxes collected.
- Changes in the Recreation Area Fund Budget included capital expenditures and maintenance. This increase was funded through increases in donations and interfund transfers.
- Changes in the Ambulance Fund Budget included increases in capital expenditures and salaries. This increase was funded through increases in intergovernmental grants.
- Changes in the Conservation Trust Fund Budget were due to increased operating transfers, which were funded by increased grant funds and prior year fund balance.
- Changes in the Airport Fuel Fund were due to increased operating expenses. The increases were offset by increased sales and prior year fund balance.

## CAPITAL ASSETS AND DEBT ADMINISTRATION

### Capital Assets

As of December 31, 2011, Limon investment in capital assets for its governmental and business type activities net of accumulated depreciation was \$16,526,636. This included infrastructure assets acquired since January 1, 2004. Capital assets including land, buildings, streets, utility systems and equipment are as follows:

	<u>Governmental Activities</u>		<u>Business-Type Activities</u>		<u>Total</u>	
	<u>2011</u>	<u>2010</u>	<u>2011</u>	<u>2010</u>	<u>2011</u>	<u>2010</u>
Land	\$ 1,278,989	\$ 1,278,989	\$ 243,476	\$ 243,476	\$ 1,522,465	\$ 1,522,465
Buildings and water and sewer systems	2,653,875	2,631,607	12,046,080	11,976,881	14,699,955	14,608,488
Equipment	2,415,478	2,323,615	1,420,471	1,304,340	3,835,949	3,627,955
Other capital assets	-	-	1,048,995	1,048,995	1,048,995	1,048,995
Infrastructure	<u>4,716,370</u>	<u>4,675,571</u>	<u>-</u>	<u>-</u>	<u>4,716,370</u>	<u>4,675,571</u>
Total	\$ 11,064,712	\$ 10,909,782	\$ 14,759,022	\$ 14,573,692	\$ 25,823,734	\$ 25,483,474
Accumulated depreciation	<u>(3,815,846)</u>	<u>(3,504,283)</u>	<u>(5,481,252)</u>	<u>(5,081,885)</u>	<u>(9,297,098)</u>	<u>(8,586,168)</u>
Capital assets, net	<u>\$ 7,248,866</u>	<u>\$ 7,405,499</u>	<u>\$ 9,277,770</u>	<u>\$ 9,491,807</u>	<u>\$ 16,526,636</u>	<u>\$ 16,897,306</u>

This year's major capital asset additions include:

- Airport fuel system - \$29,242.
- C Avenue construction - \$40,799.
- Truck - \$28,470.
- Ambulance lifepacks - \$54,896

### Long-term Debt

As of December 31, 2011 the Town had \$3,561,181 in outstanding debt as follows.

	Governmental Activities		Business-Type Activities		Total	
	2011	2010	2011	2010	2011	2010
Revenue bonds	\$ -	\$ 110,000	\$ -	\$ -	\$ -	\$ 110,000
Special assessment bonds	281,000	309,000	-	-	281,000	309,000
Capital leases	-	44,055	-	-	-	44,055
Bonds payable:						
2004 Water Revenue	-	-	1,865,000	1,920,000	1,865,000	1,920,000
2001 Water G.O.	-	-	270,000	315,000	270,000	315,000
2000 Water Revenue	-	-	763,737	834,153	763,737	834,153
Loans payable:						
Colorado Water Conservation Board	-	-	252,565	276,710	252,565	276,710
Capital lease	-	-	84,229	109,944	84,229	109,944
Colorado maintenance fee	-	-	44,650	41,853	44,650	41,853
Total	<u>\$ 281,000</u>	<u>\$ 463,055</u>	<u>\$ 3,280,181</u>	<u>\$ 3,497,660</u>	<u>\$ 3,561,181</u>	<u>\$ 3,960,715</u>

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

- Sales tax revenues budgeted for 2012 is \$830,318, which is \$63,781 less than 2011 actual.
- The property tax revenue budgeted for 2012 is \$316,087, which is \$25,882 less than 2011 actual.
- Governmental funds revenues were budgeted at \$3,426,613 in 2012, which is an increase of 18.9% from the 2011 actual revenues. Governmental revenue and expenditures included direct pass-through grants to other entities. The 2012 budgeted direct pass-through amounts are \$636,257, which is the same as the 2011 actual amount. The 2012 budgeted expenditures for governmental activities are projected to be \$3,645,555, which is a 20.4% increase from the 2011 actual.
- Proprietary funds revenues were budgeted at \$2,102,454, which is an increase of 9.1% from the 2011 actual revenues. Budgeted expenditures of \$2,363,464 represent an increase from 2011 actual expenditures of 49.2%.

## **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.