

Town of Limon, Colorado
Management's Discussion and Analysis
December 31, 2016

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 Position, 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 position decreased by \$330,253 or 2.1% during the year. The governmental net position decreased by \$254,760 or 3.5%, and the business-type net position decreased by \$75,493, or 0.9%.
- The governmental activities revenue changed from \$3,501,679 in 2015 to \$3,314,976 in 2016 for a decrease of \$186,703 or 5.6%. This decrease is due primarily to decreases in grants and tax income.
- The governmental activities expenditures changed from \$3,916,474 in 2015 to \$3,569,736 in 2016, a decrease of \$346,738 or 10.0%. The decrease is due primarily to an decrease in general and public safety expenditures.
- The business-type activities revenue changed from \$1,875,315 in 2015 to \$1,833,705 in 2016, a decrease of \$41,610 or 2.2%. This decrease is due primarily to decreased charges for services.
- The business-type activities expenditures changed from \$1,728,495 in 2015 to \$1,994,327 in 2016, an increase of \$265,832 or 13.3%. This increase is due primarily to increased water and ambulance expenditures.

- The General Fund (the primary operating fund) reflected on a current financial resource basis, reports a decrease of \$165,250 or 16.8% in fund balance. This increase is due primarily to capital outlays and operating transfers.

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 position, 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 Recreation Area, 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 Position, Statement of Revenues, expenses, and changes in Net Position, 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 Position and Change in Fiduciary Net Position. 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 position 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 position and how they have changed. Net position—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 position 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 position for the year is as follows:

	Governmental Activities		Business-Type Activities		Total	
	2016	2015	2016	2015	2016	2015
ASSETS						
Current assets	\$ 992,085	\$ 1,242,670	\$ 1,107,892	\$ 1,258,586	\$ 2,099,977	\$ 2,501,256
Restricted assets	395,340	464,093	837,544	986,815	1,232,884	1,450,908
Other non-current assets	169,615	184,406	264,834	302,193	434,449	486,599
Capital assets, net	6,989,800	7,106,384	9,544,511	9,549,079	16,534,311	16,655,463
Total assets	8,546,840	8,997,553	11,754,781	12,096,673	20,301,621	21,094,226
DEFERRED OUTFLOW OF RESOURCES						
Deferred outflows - pension	117,905	157,770	-	-	117,905	157,770
Total deferred outflow of resources	117,905	157,770	-	-	117,905	157,770
LIABILITIES						
Current liabilities	232,820	395,729	390,678	409,534	623,498	805,263
Non-current liabilities	871,074	988,982	2,836,949	3,084,492	3,708,023	4,073,474
Total liabilities	1,103,894	1,384,711	3,227,627	3,494,026	4,331,521	4,878,737
DEFERRED INFLOW OF RESOURCES						
Deferred grant revenue	7,216	-	-	-	7,216	-
Deferred inflows - pension	31,085	-	-	-	31,085	-
Deferred property taxes	329,364	322,666	-	-	329,364	322,666
Total deferred inflow of resources	367,665	322,666	-	-	367,665	322,666
NET POSITION	\$ 7,193,186	\$ 7,447,946	\$ 8,527,154	\$ 8,602,647	\$ 15,720,340	\$ 16,050,593
Net Position consist of:						
Invested in capital assets	\$ 6,456,018	\$ 6,510,067	\$ 6,793,918	\$ 6,546,885	\$ 13,249,936	\$ 13,056,952
Restricted net position	395,340	464,093	377,041	376,734	772,381	840,827
Unrestricted net position	341,828	473,786	1,356,195	1,679,028	1,698,023	2,152,814
Total net position	\$ 7,193,186	\$ 7,447,946	\$ 8,527,154	\$ 8,602,647	\$ 15,720,340	\$ 16,050,593

The net position of the Town's governmental activities as of December 31, 2016 were \$7,193,186 of which \$358,328 was unrestricted and is available for spending at the government's discretion. The remainder is net investment in capital assets of \$6,456,018, reserved for Emergency Reserve of \$84,424 and Capital Replacement Reserve of \$294,416.

The General Fund is the main operating fund of the Town. As of December 31, 2016, the General Fund balance was \$818,067, of which \$173,908 was unassigned. Unassigned fund balance represents 6.7% of 2016 General Fund expenditures.

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

	<u>Governmental Activities</u>		<u>Business-Type Activities</u>		<u>Total</u>	
	<u>2016</u>	<u>2015</u>	<u>2016</u>	<u>2015</u>	<u>2016</u>	<u>2015</u>
Program revenues:						
Operating grants and contributions	\$ 926,309	\$ 905,784	\$ 315,667	\$ 200,997	\$ 1,241,976	\$ 1,106,781
Capital grants and contributions	159,657	321,518	36,353	11,292	196,010	332,810
Charges for services	602,012	589,117	1,463,979	1,650,861	2,065,991	2,239,978
Total program revenue	<u>1,687,978</u>	<u>1,816,419</u>	<u>1,815,999</u>	<u>1,863,150</u>	<u>3,503,977</u>	<u>3,679,569</u>
General revenues:						
Taxes	1,556,984	1,642,650	-	-	1,556,984	1,642,650
Investment earnings	5,050	5,271	11,214	12,165	16,264	17,436
Insurance proceeds	16,818	10,719	6,492	-	23,310	10,719
Other	48,146	26,620	-	-	48,146	26,620
Total general revenue	<u>1,626,998</u>	<u>1,685,260</u>	<u>17,706</u>	<u>12,165</u>	<u>1,644,704</u>	<u>1,697,425</u>
Total Revenue	<u>\$ 3,314,976</u>	<u>\$ 3,501,679</u>	<u>\$ 1,833,705</u>	<u>\$ 1,875,315</u>	<u>\$ 5,148,681</u>	<u>\$ 5,376,994</u>
Expenses						
General government	\$ 835,748	\$ 1,020,984	\$ -	\$ -	\$ 835,748	\$ 1,020,984
Airport	199,762	191,516	-	-	199,762	191,516
Public safety	443,427	686,254	-	-	443,427	686,254
Highways and streets	645,876	635,000	-	-	645,876	635,000
Public works - sanitation	201,138	221,140	-	-	201,138	221,140
Public health - cemetery	98,433	65,420	-	-	98,433	65,420
Culture and recreation	377,405	393,455	-	-	377,405	393,455
Head Start Program	660,458	648,961	-	-	660,458	648,961
Water	-	-	508,020	461,450	508,020	461,450
Water treatment plant	-	-	217,962	241,442	217,962	241,442
Sewer	-	-	552,841	338,458	552,841	338,458
Municipal recreation area	-	-	206,356	229,612	206,356	229,612
Airport fuel fund	-	-	33,536	35,748	33,536	35,748
Ambulance service fund	-	-	475,612	421,537	475,612	421,537
Interest and fiscal charges	22,360	24,407	-	-	22,360	24,407
Total expenses	<u>3,484,607</u>	<u>3,887,137</u>	<u>1,994,327</u>	<u>1,728,495</u>	<u>5,478,934</u>	<u>5,615,632</u>
Changes in net position before transfers and special items	(169,631)	(385,458)	(160,622)	146,820	(330,253)	(238,638)
Transfers	(85,129)	(29,337)	85,129	29,337	-	-
Change in net position	<u>(254,760)</u>	<u>(414,795)</u>	<u>(75,493)</u>	<u>176,157</u>	<u>(330,253)</u>	<u>(238,638)</u>
Beginning net position (restated)	<u>7,447,946</u>	<u>7,862,741</u>	<u>8,602,647</u>	<u>8,426,490</u>	<u>16,050,593</u>	<u>16,289,231</u>
Ending net position	<u>7,193,186</u>	<u>7,447,946</u>	<u>8,527,154</u>	<u>8,602,647</u>	<u>15,720,340</u>	<u>16,050,593</u>

Governmental Activities revenues in the amount of \$3,314,976 were less than expenses and transfers of \$3,569,736 by \$254,760. Business-type activities revenues and transfers in the amount of \$1,918,834 were less than expenses of \$1,994,327 by \$75,493.

BUDGETARY HIGHLIGHTS

The budget was amended on December 27, 2016 to include the following increases for expenditures not anticipated at the time of adoption of the original budget on December 3, 2015. The additional expenditures were funded by unanticipated revenue and/or the prior year's fund balance. Funds with appropriation increases:

	Original <u>Budget</u>	Final <u>Budget</u>	<u>Increase</u>
Recreation Area Fund	\$ 203,328	\$ 209,028	\$ 5,700
Head Start Fund	648,961	660,458	11,497
Airport Fuel Fund	27,121	37,121	10,000
Ambulance Fund	583,176	758,176	<u>175,000</u>
			<u>\$ 202,197</u>

- Changes in the Recreation Area Fund Budget included capital expenditures and other expenses. This increase was funded primarily through proceeds from prior-period fund balance.
- Changes in the Head Start Fund Budget were due to increased salaries and personnel expenses. The increase was funded by unexpected revenue.
- Changes in the Airport Fuel Fund were due to increased fuel expense. The increase was funded by unexpected revenue.
- Changes in the Ambulance Fund were due primarily to capital expenditures and salaries. The increase was funded by prior year net position.

CAPITAL ASSETS AND DEBT ADMINISTRATION

Capital Assets – As of December 31, 2016, Limon's investment in capital assets for its governmental and business type activities, net of accumulated depreciation, was \$16,534,311. 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	
	2016	2015	2016	2015	2016	2015
Land	\$ 1,223,226	\$ 1,223,226	\$ 241,797	\$ 241,797	\$ 1,465,023	\$ 1,465,023
Buildings and water and sewer systems	2,851,542	2,833,881	13,944,260	13,641,288	16,795,802	16,475,169
Equipment	2,880,303	2,647,072	1,662,479	1,516,125	4,542,782	4,163,197
Other capital assets	-	-	1,048,995	1,048,995	1,048,995	1,048,995
Construction in progress	-	-	-	-	-	-
Infrastructure	4,972,380	4,935,344	-	-	4,972,380	4,935,344
Total	<u>\$ 11,927,451</u>	<u>\$ 11,639,523</u>	<u>\$ 16,897,531</u>	<u>\$ 16,448,205</u>	<u>\$ 28,824,982</u>	<u>\$ 28,087,728</u>
Accumulated depreciation	(4,937,651)	(4,533,139)	(7,353,020)	(6,899,126)	(12,290,671)	(11,432,265)
Capital assets, net	<u>\$ 6,989,800</u>	<u>\$ 7,106,384</u>	<u>\$ 9,544,511</u>	<u>\$ 9,549,079</u>	<u>\$ 16,534,311</u>	<u>\$ 16,655,463</u>

This year's major capital asset additions include:

- Vehicle purchases - \$166,356
- Street repair and improvements - \$37,036

Long-term Debt – As of December 31, 2016 the Town had \$3,618,383 in outstanding debt as follows.

	<u>Governmental Activities</u>		<u>Business-Type Activities</u>		<u>Total</u>	
	<u>2016</u>	<u>2015</u>	<u>2016</u>	<u>2015</u>	<u>2016</u>	<u>2015</u>
Special assessment bonds	\$ 121,000	\$ 163,000	\$ -	\$ -	\$ 121,000	\$ 163,000
Bonds payable:						
2000 Water Revenue	-	-	373,744	454,992	373,744	454,992
2012 Water Revenue	-	-	2,340,000	2,490,000	2,340,000	2,490,000
2012 Bond Premium	-	-	47,135	52,421	47,135	52,421
Loans payable:						
Lease-Purchase	412,782	433,317	304,617	319,770	717,399	753,087
Colorado maintenance fee	-	-	19,105	18,997	19,105	18,997
Total	<u>\$ 533,782</u>	<u>\$ 596,317</u>	<u>\$ 3,084,601</u>	<u>\$ 3,336,180</u>	<u>\$ 3,618,383</u>	<u>\$ 3,932,497</u>

ECONOMIC FACTORS AND NEXT YEAR'S BUDGETS AND RATES

- Sales tax revenues budgeted for 2017 is \$1,054,261, which is \$7,133 less than 2016 actual.
- The property tax revenue budgeted for 2017 is \$329,364, which is \$3,176 less than 2016 actual.
- Governmental funds revenues were budgeted at \$2,485,263 in 2017, which is a decrease of 6.9% from the 2016 actual revenues. Governmental revenue and expenditures included direct pass-through grants to other entities. The 2017 budgeted direct pass-through amounts are \$660,458, which is the same as the 2016 actual amount. The 2017 budgeted expenditures for governmental activities are projected to be \$2,627,220, which is a 4.6% decrease from the 2016 actual.
- Proprietary funds revenues were budgeted at \$2,247,641 for 2016, which is an increase of 6.0% from the 2016 actual revenues. 2016 budgeted expenditures of \$1,958,995 represent an increase from 2016 actual expenditures of 30.0%.

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.