

Town of Limon, Colorado

Notes to Financial Statements

December 31, 2011

1. Summary of Significant Accounting Policies

The Town of Limon operates under a council-mayor form of government and maintains accounting policies to conform to generally accepted accounting principles as applicable to governments. Proprietary funds and similar component units apply Financial Accounting Standards Board (FASB) pronouncements and Accounting Principles Board (APB) opinions issued on or before November 30, 1989, unless those pronouncements conflict with or contradict GASB pronouncements, in which case, GASB prevails. The following is a summary of the more significant policies.

Reporting Entity

The Town has no component units using the criteria as set forth in generally accepted accounting principles. The determination to include separate governmental entities is based on the criteria of Governmental Accounting Standards Board (GASB) Statement 14. GASB Statement 14 defines the reporting entity as the primary government and those component units for which the primary government is financially accountable. To be financially accountable, a voting majority of the component unit's board must be appointed by the primary government, and either A) the primary government must be able to impose its will, or B) the primary government may potentially benefit financially or be financially responsible for the component unit.

Related Organizations

The Town's Board of Trustees is responsible for appointing the members of the board of the Limon Housing Authority, but the Town's financial responsibility for this organization does not extend beyond making the appointments. Therefore, it is not included in these financial statements.

The financial statements of the Authority may be obtained from: Director, Limon Housing Authority, 1880 Circle Lane, Limon, CO 80828.

Fund Accounting

The accounts of the Town are organized on the basis of funds and account groups, 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, revenues, 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. The Town reports the following major governmental funds:

Town of Limon, Colorado
Notes to Financial Statements (continued)
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1. Summary of Significant Accounting Policies (continued)

General Fund - The general fund is the general operating fund of the Town. It is used to account for all financial resources except those required to be accounted for in another fund.

Head Start Fund – This fund accounts for a Federal Head Start grant, which is passed through to the local child-care center.

Proprietary Funds – Proprietary funds are used to account for operations that are financed and operated in a manner similar to private business enterprises, where the intent of the governing body is that the costs (including depreciation) of providing goods or service to the general public on a continuing basis be financed or recovered primarily through user charges. Proprietary funds are considered major funds because of community interests in the activities and sources of funding supporting these operations.

The Town of Limon operates the Water and Sewer Utilities, the Municipal Recreation Area Fund (primarily golfing activities), the Airport Fuel Fund (for the sale of fuel to airplane operators) and the Ambulance Service Fund on this basis.

Fiduciary Fund – Employees’ Pension Plan, as more fully described in Note 6.

Government-wide and Fund Financial Statements

The government-wide financial statements (the statement of net assets and the statement of activities) report information on all of the nonfiduciary activities of the primary government. For the most part, the effect of interfund activity has been removed from these statements. Governmental activities, which normally are supported by taxes and intergovernmental revenue, are reported separately from business-type activities, which rely to a significant extent on fees and charges for support.

The statement of activities demonstrates the degree to which the direct expenses of a given function or activity are offset by program revenues. Direct expenses are those that are clearly identifiable with a specific function or segment. Program revenues include 1) charges to customers or applicants who purchase, use, or directly benefit from goods, services, or privileges provided by a given function or segment and 2) grants and contributions that are restricted to meeting the operational or capital requirements of a particular function or segment. Taxes and other items not properly included among program revenues are reported as general revenues.

Town of Limon, Colorado
Notes to Financial Statements (continued)
December 31, 2011

1. Summary of Significant Accounting Policies (continued)

Separate financial statements are provided for governmental funds, proprietary funds, and fiduciary funds, even though the latter are excluded from the government-wide financial statements. Major individual government funds and major individual enterprise funds are reported as separate columns in the fund financial statements.

Measurement focus, basis of accounting, and financial statement presentation

The government-wide financial statements are reported using the economic resources measurement focus and the accrual basis of accounting, as are the proprietary fund and fiduciary fund financial 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.

Governmental fund financial statements are reported using the current financial resources measurement focus and the modified accrual basis of accounting. Revenues are recognized as soon as they are both measurable and available. Revenues are considered to be available when they are collectible within the current period or soon enough thereafter, to pay liabilities of the current period. For this purpose, the government considers revenues to be recognizable when received. Expenditures generally are recorded when a liability is incurred, as under accrual accounting. However, debt service expenditures, as well as expenditures related to compensated absences and claims and judgments, are recorded only when payment is due.

Property taxes, franchise fees, licenses, and interest associated with the current fiscal period are all considered to be susceptible to accrual and so have been recognized as revenues of the current fiscal period. Only the portion of special assessments receivable due within the current period is considered to be susceptible to accrual as revenue of the current period. Sales tax collected and held by vendors at year end on behalf of the Town is also recognized as revenue if collected within 60 days after year end. Expenditure-driven grants are recognized as revenue when qualifying expenditures have been incurred and all other grant requirements have been met. Entitlements and shared revenues are recorded at the time of receipt or earlier if the susceptible to accrual criteria are met. All other revenue items are considered to be measurable and available only when cash is received by the government.

Town of Limon, Colorado
Notes to Financial Statements (continued)
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1. Summary of Significant Accounting Policies (continued)

Amounts reported as program revenue include 1) charges to customers or applicants for goods, services, or privileges provided, 2) operating grants and contributions, and 3) capital grants and contributions. Internally dedicated resources are reported as general revenues rather than as program revenues.

Proprietary funds distinguish operating revenues and expenses from nonoperating items. Operating revenues and expenses generally result from providing services and producing and delivering goods in connection with a proprietary fund's ongoing operations. The principal operating revenues of the Proprietary funds are charges to customers for sales and services. Operating expenses for proprietary 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 nonoperating revenues and expenses. 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.

Fund Equity

Fund balance for governmental funds should be reported in classifications that comprise a hierarchy based on the extent to which the government is bound to honor constraints on the specific purposes for which spending can occur. Governmental funds report up to five classifications of fund balance: nonspendable, restricted, committed, assigned, and unassigned. Because circumstances differ among governments, not every government or every governmental fund will present all of these components. The following classifications describe the relative strength of the spending constraints:

- *Nonspendable fund balance* - The portion of fund balance that cannot be spent because it is either not in spendable form (such as prepaid amounts or inventory) or legally or contractually required to be maintained intact.
- *Restricted fund balance* - The portion of fund balance that is constrained to being used for a specific purpose by external parties (such as bondholders), constitutional provisions, or enabling legislation.
- *Committed fund balance* - The portion of fund balance that can only be used for specific purposes pursuant to constraints imposed by formal action of the government's highest level of decision-making authority, the Board of Trustees. The constraint may be removed or changed only through formal action of the Board of Trustees.

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Notes to Financial Statements (continued)
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1. Summary of Significant Accounting Policies (continued)

- *Assigned fund balance* - The portion of fund balance that is constrained by the government's intent to be used for specific purposes, but is neither restricted nor committed. Intent is expressed by the Board of Trustees to be used for a specific purpose. Constraints imposed on the use of assigned amounts are more easily removed or modified than those imposed on amounts that are classified as committed.
- *Unassigned fund balance* - The residual portion of fund balance that does not meet any of the criteria described above. If more than one classification of fund balance is available for use when an expenditure is incurred, it is the District's policy to use the most restrictive classification first.

Capital Assets

Capital assets, which include property, plant, equipment, and infrastructure assets (e.g. streets, bridges, sidewalks, and similar items), are reported in the applicable governmental or business-type activities columns in the government-wide financial statements. Capital assets are defined by the government as assets with an initial, individual cost of more than \$5,000 and an estimated useful life in excess of one year. Property, plant and equipment purchased or acquired is carried at historical cost or estimated historical cost. Donated or contributed fixed assets are recorded at their estimated fair value on the date received.

As a Phase 3 government, as defined in GASB 34, the Town has elected to not report major general infrastructure retroactively; therefore, the government-wide financial statements do not reflect infrastructure assets completed prior to January 1, 2004.

The costs of normal maintenance and repairs are charged to operations as incurred. Improvements are capitalized and depreciated over the remaining useful lives of the related fixed assets, as applicable.

Depreciation of buildings, plants, and machinery and equipment is computed using the straight-line method over the following estimated useful lives:

Streets, sidewalk, curb, & gutter	25 to 30 years
Buildings and Improvements	20 to 40 years
Water and Sewer Systems	50 years
Water and Sewer Plants	20 to 50 years
Recreation Area Improvements	20 to 25 years
Equipment	5 to 15 years
Water Wells	20 years

Town of Limon, Colorado
Notes to Financial Statements (continued)
December 31, 2011

1. Summary of Significant Accounting Policies (continued)

Long-term Obligations

In the government-wide financial statements, and proprietary fund types in the fund financial statements, long-term debt and other long-term obligations are reported as liabilities in the applicable government activities, business-type activities, or proprietary fund type statement of net assets.

Budget and Budgetary Accounting

The Town follows these procedures in establishing the budgetary data reflected in the financial statements.

On or prior to October 15, the Town Manager submits to the Board of Trustees a proposed operating budget for the fiscal year commencing the following January 1. The operating budget includes proposed expenditures and the means of financing them.

Public hearings are conducted to obtain taxpayer comments.

Prior to January 1, the budget is legally enacted through the passage of an ordinance. Amendments can be made until year end. On December 29, 2011, the Board approved a resolution appropriating additional sums of money for the year 2011. The original and amended appropriation amounts are presented in the budgetary data in the financial statements.

Budgets for governmental and pension funds are adopted on a basis consistent with generally accepted accounting principles. Budgets for the Proprietary funds are adopted to fulfill statutory requirements and are prepared on an appropriation basis. Principally, the appropriation basis of budgeting provides for a full accrual basis of accounting, loans and reimbursements received, note receivable principal, capital expenditures and bond principal payments, but does not provide for depreciation and amortization. For 2011 the Board of Trustees budgeted all funds and appropriated spending limits by fund. Therefore, the comparisons of actual and budget amounts relating to legal requirements shown in the financial statements is based on “total expenditures” plus “operating transfers to other funds” in the various fund types. All appropriations lapse at year end.

Encumbrances

The Town does not employ the method of encumbrance accounting that reserves specific appropriations for purchase orders and other commitments. Encumbrances outstanding at year end, when material, are reported as a reservation of fund balance since they do not constitute expenditures or liabilities.

Town of Limon, Colorado
Notes to Financial Statements (continued)
December 31, 2011

1. Summary of Significant Accounting Policies (continued)

Cash and Investments

Cash includes interest-bearing demand deposits (checking and money-market accounts), as well as short-term investments with a maturity date within three months of the date acquired.

Investments are stated at cost, except for marketable debt and equity security investments of the pension trust, which are valued at market. State statutes authorize the allowable type of investments, which are detailed in Note 2.

Property Taxes

Annual property taxes are levied and assessed on January 1 and are certified to the County by December 15 of the current year. On January 1 of the following year, the County Treasurer bills the property owners, thus establishing an enforceable lien on the property. The County Treasurer also collects the property taxes and remits the collections on a monthly basis to the Town.

The Town recognizes a receivable for property tax levies upon certification by the County Treasurer. A deferred revenue liability is recorded in the same amount since the taxes are not available at year end to fund expenditures of the current year. They are recognized as revenue when collected in the following year.

Property taxes are computed using mills, where one mill is equal to \$1 on \$1,000 of assessed value. The mill levy for 2011 was 17.686.

Inventory and Supplies

Inventories of items in the following funds were valued at cost:

General Fund - Dumpsters and polycarts held for resale and street supplies	\$ 38,329
Utility - Treatment supplies, meters and parts	36,420
Municipal Recreation Area - Merchandise & Concessions	1,927
Airport Fuel Fund - Airplane fuel	<u>10,626</u>
Total Inventories	<u>\$ 87,302</u>

Compensated Absences

By ordinance, the Town's policy regarding vacation time is to not let it accumulate beyond one year, although some exceptions are made upon approval of management. Any unused vacation time is paid upon termination. Also by ordinance, any employee accumulating sick leave beyond 60 days shall continue to accrue sick leave at the rate of one-half day per month and shall have the additional leave added to vacation leave for the following year. The liability for vacation pay included in these financial statements includes such sick leave accrued to December 31, 2011.

Town of Limon, Colorado
Notes to Financial Statements (continued)
December 31, 2011

1. Summary of Significant Accounting Policies (continued)

Compliance with Colorado Contraband Forfeiture Act

Contraband funds collected and related disbursements are included in the financial statements.

Bond Discounts and Issuance Costs

Utility Fund bond discount and issuance costs of \$103,699 for the 2000 to 2004 issues are being amortized over the term of the bonds (15 to 20 years) on the straight-line method. Ambulance Fund loan costs of \$15,500 are being amortized over the 10 year term of the loan on the straight-line method. Costs of Proprietary Funds' issues prior to 1989 were either expensed or added to the cost of the related assets. Bond issue and loan costs of \$61,299 on debt not related to Proprietary Funds are being amortized over their term (10 to 20 years) on the straight-line method in the government-wide financial statements, but expensed currently in the governmental funds financial statements.

2. Cash and Investments

For the purpose of the statement of cash flows, the Town considers all highly liquid investments (excluding restricted assets) with a maturity of three months or less when purchased to be cash equivalents.

Cash 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 regulators. Amounts on deposit in excess of federal insurance levels must be collateralized. The eligible collateral is specified by the PDPA. PDPA allows the institution to create a single collateral pool for all public funds. The pool is to be maintained by another institution or held in trust for all uninsured public deposits as a group. The market value of the collateral must be at least equal to 102% of the uninsured deposits. The State Regulatory Commissions for banks and savings and loan associations are required by Statute to monitor the naming of eligible depositories and reporting of the uninsured deposits and assets maintained in the collateral pools. Custodial credit risk is the risk that in the event of a bank failure, the Town's deposits may not be returned to it. The Town has a policy of limiting custodial credit risks by assuring that deposits are only made in eligible public depositories. As of December 31, 2011, none of the Town's deposits are deemed to be exposed to custodial credit risk.

The Town's deposits as of December 31, 2011 are shown below.

Town of Limon, Colorado
Notes to Financial Statements (continued)
December 31, 2011

2. Cash and Investments (continued)

The Town's cash deposits at December 31, 2011 was \$2,214,691 which include cash, investments, and restricted assets in the primary government Statement of Net Assets and cash in the Employee's Pension Plan in the Statement of Fiduciary Net Assets. Cash on hand was \$26 and the remaining \$2,214,665 is explained below:

Cash balances and certificates of deposit:

	Bank Balance	Carrying Balance
Insured (FDIC)	\$ 669,086	\$ 669,086
Collateralized by securities held by the pledging financial institution's trust department or agent in the Town's name	<u>1,587,613</u>	<u>1,545,579</u>
Total cash and certificates of deposit	<u>\$ 2,256,699</u>	<u>\$ 2,214,665</u>

The difference between the bank balance and carrying balance is \$42,034, which were outstanding items that had not cleared the banks as of December 31, 2011.

Investments - Colorado statutes specify in which instruments the local government may invest, which include:

1. Repurchase agreements in obligations of the United States;
2. Obligations of the United States or obligations unconditionally guaranteed by the United States;
3. General obligation or revenue bonds of any state, District of Columbia, US territory or any of their subdivisions, with certain limitations;
4. Bankers acceptance issued by a state or national bank, with certain limitations;
5. Commercial paper, with certain limitations;
6. Any obligation, certificate of participation or lease/purchase of the investing public entity;
7. Money market funds, with certain limitations, which invest in the types of securities listed above;
8. Guaranteed investment contracts, with other certain limitations;
9. Participation with other local governments in pooled investment funds (trusts). These trusts are supervised by participating governments, and must comply with the same restrictions on cash deposits and investments. These trusts are "Colotruster", "Jefftruster" and "CSAFE".

Town of Limon, Colorado
Notes to Financial Statements (continued)
December 31, 2011

2. Cash and Investments (continued)

Other than in the Employees' Pension Plan the Town's only investments are in bank savings, money market accounts and certificates of deposit, which are included in cash and cash equivalents.

Colorado statutes also specify in which instruments a municipal retirement board may participate in the following types of retirement plans:

1. A plan administered by a qualified insurance company;
2. Establish a trust with a bank or trust company;
3. Belong to Colorado's Public Employees Retirement Association (PERA);
4. Invest in the same manner as PERA is authorized. It is authorized to make a broad range of investments, with these limitations on common or preferred stock:
 1. The aggregate amount of moneys invested in corporate stocks or corporate bonds, notes, or debentures which are convertible into corporate stock or in investment trust shares shall not exceed 65% of the then book value of the fund.
 2. No investment of the fund in common or preferred stock, or both, of any single corporation shall be of an amount which exceeds 5% of the then book value of the fund, nor shall the fund acquire more than 12% of the outstanding stock or bonds of any single corporation.

The Employees' Pension Plan investments at December 31, 2011 are reported at fair market value. The Employees' Pension Plan investments are shown below:

	Fair Market Value	Maturity	Credit Rating	Rating Agency
Stocks, bonds and mutual funds:				
Domestic Stocks	\$ 674,306	n/a	Not Rated	n/a
International Stocks	27,645	n/a	Not Rated	n/a
Mutual Funds	382,941	n/a	3-4 Stars	Morningstar
Money Market and Other	<u>38,677</u>	n/a	Not Rated	n/a
Total Investments	<u>\$ 1,123,569</u>			

Town of Limon, Colorado
Notes to Financial Statements (continued)
December 31, 2011

2. Cash and Investments (continued)

Interest Rate Risk – The Town and the Employees’ Pension Plan does not have a formal investment policy that limits investment maturities as a means of managing its exposure to fair value loss resulting from increasing interest rates.

Credit Risk – The Town does not have a formal investment policy that would further limit its investment choices beyond those listed above which are approved by Colorado Statutes.

A reconciliation of the Town’s deposits and investments to the financial statements is as follows:

Cash and Cash Equivalents	\$ 1,068,590
Pooled Cash Overdraft	(119,539)
Restricted Cash	1,229,897
Fiduciary Funds – Cash	35,743
Fiduciary Funds – Investments	<u>1,123,569</u>
Total	<u>\$ 3,338,260</u>

3. Restricted Assets

Restricted assets are for the following purposes:

General Fund – Emergency reserve under Article X, Section 20 of the Colorado Constitution. Accumulation at December 31, 2011 of \$105,726 is 3% of the Town’s annual expenditures in the governmental fund types. Reserve is held in bank certificates of deposit.

General Fund – equipment replacement reserves. Accumulation at December 31, 2011 is \$151,097. Reserves are held in bank savings accounts and certificates of deposit.

Utility Fund – reserve for operations and maintenance of the water treatment plant. Total required accumulation at December 31, 2011 is \$213,152. Reserve is held in a bank savings account.

Utility Fund – funds held for future water projects construction from proceeds of 2004 water bond. Amount held in a bank savings account totals \$169,086 at December 31, 2011.

Utility Fund – reserve for Emergency Reserve and repayment of 2000 and 2004 revenue bonds. There is no required accumulation for the 2000 bond reserve. The required accumulation for the 2004 bond reserve is the amount of the subsequent year’s debt service obligation at a minimum. Reserves in the amount of \$123,244, as of December 31, 2011 are held in a bank savings account and certificates of deposit.

Town of Limon, Colorado
Notes to Financial Statements (continued)
December 31, 2011

3. Restricted Assets (continued)

Utility Fund – accumulation of monthly fee from State of Colorado for maintenance of the sewer system serving the Limon Correctional Facility. This fee will be discontinued as of 2031. The amount accumulated of \$44,659, as of December 31, 2011, is in a bank savings account.

Utility Fund – equipment maintenance and replacement reserve. Accumulation at December 31, 2011 is \$212,541. Reserve is held in a bank savings account.

Municipal Recreation Area Fund – accumulation of special green fees, which is spent on golf course improvements and equipment. The amount accumulated of \$41,322, as of December 31, 2011, is in a bank savings account and certificate of deposit.

4. Note Receivable and Special Assessment Receivable

The note receivable from Frazier Farms resulted from the sale of the Dickens ranch land in 2004, with the Town retaining the water rights. Payments including principal and interest, at a rate of 5.369%, are due each year in the amount of \$27,455, until the year 2023.

The special assessment receivable resulted from 2004 and 2005 street and sidewalk improvements. Payments on the 2004 assessment including principal and interest, at a rate of 6.65% are due from affected residents from 2009 to 2024 in the amount of \$9,078 each year. Residents are permitted to pay their accounts in full at any time, which would also decrease total future annual payment requirements.

Payments on the 2005 assessment including principal and interest, at a rate of 7% are due from 2009 to 2025 in the amount of \$27,319 each year. Residents are permitted to pay their accounts in full any time, which would also decrease total future annual payment requirements.

Town of Limon, Colorado
Notes to Financial Statements (continued)
December 31, 2011

5. Capital Assets

Capital asset activity for the year was as follows:

	Balance December 31, 2010	Additions	Conveyances or Retirements	Balance December 31, 2011
Governmental activities:				
Non-depreciable assets:				
Land	\$ 1,278,989	\$ -	\$ -	\$ 1,278,989
Depreciable assets:				
Buildings	2,631,607	22,268	-	2,653,875
Equipment	2,323,615	165,440	(73,577)	2,415,478
Infrastructure	4,675,571	40,799	-	4,716,370
Total depreciable assets	<u>9,630,793</u>	<u>228,507</u>	<u>(73,577)</u>	<u>9,785,723</u>
Total capital assets	<u>10,909,782</u>	<u>228,507</u>	<u>(73,577)</u>	<u>11,064,712</u>
Less accumulated depreciation for:				
Buildings	(1,349,973)	(70,522)	-	(1,420,495)
Equipment	(1,572,811)	(133,645)	63,085	(1,643,371)
Infrastructure	(581,499)	(170,481)	-	(751,980)
Total accumulated depreciation	<u>(3,504,283)</u>	<u>(374,648)</u>	<u>63,085</u>	<u>(3,815,846)</u>
Depreciable assets, net	<u>6,126,510</u>	<u>(146,141)</u>	<u>(10,492)</u>	<u>5,969,877</u>
Governmental activities assets, net	<u>\$ 7,405,499</u>	<u>\$ (146,141)</u>	<u>\$ (10,492)</u>	<u>\$ 7,248,866</u>

Depreciation expense was charged to functions of the Town as follows:

General government	\$ 30,704
Airport	5,964
Public safety - police	26,788
Highways and streets	195,291
Public works - sanitation	8,261
Public health - cemetery	1,423
Culture and recreation	43,593
Rural health	<u>62,624</u>
Total governmental activities depreciation expense	<u>\$ 374,648</u>

Town of Limon, Colorado
Notes to Financial Statements (continued)
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5. Capital Assets (continued)

	Balance December 31, 2010	Additions	Conveyances or Retirements	Balance December 31, 2011
Business-type activities:				
Non-depreciable assets:				
Water rights	\$ 1,048,995	\$ -	\$ -	\$ 1,048,995
Land	243,476	-	-	243,476
Total non-depreciable assets	<u>1,292,471</u>	<u>-</u>	<u>-</u>	<u>1,292,471</u>
Depreciable assets:				
Water system, plant & equipment	8,293,758	28,656	-	8,322,414
Sewer system, plant & equipment	3,787,158	-	-	3,787,158
Rec area facilities & equipment	381,527	51,426	(1,620)	431,333
Ambulance building & equipment	818,778	106,868	-	925,646
	<u>13,281,221</u>	<u>186,950</u>	<u>(1,620)</u>	<u>13,466,551</u>
Total capital assets	<u>14,573,692</u>	<u>186,950</u>	<u>(1,620)</u>	<u>14,759,022</u>
Less Accumulated depreciation for:				
Water system, plant & equipment	(2,949,341)	(233,715)	-	(3,183,056)
Sewer system, plant & equipment	(1,469,384)	(97,890)	-	(1,567,274)
Rec area facilities & equipment	(247,147)	(20,408)	1,620	(265,935)
Ambulance building & equipment	(416,013)	(48,974)	-	(464,987)
Total accumulated depreciation	<u>(5,081,885)</u>	<u>(400,987)</u>	<u>1,620</u>	<u>(5,481,252)</u>
Depreciable assets, net	<u>8,199,336</u>	<u>(214,037)</u>	<u>-</u>	<u>7,985,299</u>
Business-type activities assets, net	<u>\$ 9,491,807</u>	<u>\$ (214,037)</u>	<u>\$ -</u>	<u>\$ 9,277,770</u>

Depreciation expense was charged to functions of the Town as follows:

Water	\$ 149,600
Water treatment	84,115
Sewer	97,890
Municipal recreation	20,408
Ambulance	<u>48,974</u>
Total business-type activities depreciation expense	<u>\$ 400,987</u>

Town of Limon, Colorado
Notes to Financial Statements (continued)
December 31, 2011

6. Retirement Plan

The Town maintains a single-employer defined benefit pension plan which covers all eligible Town employees, including police officers.

Employees' Pension Plan:

Plan Description. The Town of Limon Employees' Pension Plan is a single-employer defined benefit pension plan administered by the Town of Limon. The Plan provides retirement, disability, and death benefits to plan members and beneficiaries. The Town Board of Trustees has the authority to establish and amend benefit provisions. The Plan does not issue a publicly available financial report.

There is no provision for cost-of-living increases after benefits begin.

The plan covers full-time and special part-time Town employees.

Membership in the Plan consisted of the following at January 1, 2011, the date of the latest actuarial valuation:

Retirees and beneficiaries currently receiving benefits	0
Terminated plan members entitled to, but not yet receiving benefits	1
Active Plan Members	<u>25</u>
Total	26

Funding Policy. Plan members are required to contribute 4% of compensation up to \$550 per month and 6% of compensation in excess of \$550. The Town is required to contribute at an actuarially determined rate.

Direct administrative fees are paid from plan income. Indirect expenses (portions of Town administrative salaries) are not allocated to the Plan.

Annual Pension Cost and Net Pension Obligation. The Town's annual pension cost and net pension obligation to the Plan for the current year were as follows:

Annual required contribution	\$ 25,241
Contributions made	\$ (25,241)
Net pension obligation beginning of year	<u>\$ -0-</u>
Net pension obligation end of year	<u><u>\$ -0-</u></u>

Town of Limon, Colorado
Notes to Financial Statements (continued)
December 31, 2011

6. Retirement Plan (continued)

The annual required contribution for the current year was determined as part of the January 1, 2011 actuarial valuation using the aggregate actuarial cost method. The actuarial assumptions included (a) 7.0% investment rate of return (net of administrative expenses) and (b) projected salary increases of 2.0% per year. Both (a) and (b) included an inflation component of 2.0%. The assumptions did not include postretirement benefit increases. The actuarial value of assets was determined using the market value method.

Schedule of Funding Progress (Based on Entry Age Normal Method).

<u>Actuarial Valuation Date</u>	<u>Actuarial Value of Assets (a)</u>	<u>Actuarial Accrued Liability (b)</u>	<u>Unfunded Actuarial Liability or (Funding Excess) (b)-(a)</u>	<u>Funded Ratio (a)/(b)</u>
1/1/2007	\$ 1,073,261	\$ 1,108,776	\$ 35,515	97%
1/1/2008	\$ 1,117,242	\$ 1,128,134	\$ 10,892	99%
1/1/2009	\$ 733,590	\$ 1,072,120	\$ 338,530	68%
1/1/2010	\$ 939,547	\$ 1,171,182	\$ 231,635	80%
1/1/2011	\$ 1,113,019	\$ 1,326,529	\$ 213,510	84%

Five-year Trend information:

<u>For Each Year Ended</u>	<u>Employer Annual Required Contribution and Pension Cost</u>	<u>Employer Contribution</u>	<u>Percentage Contributed</u>	<u>Net Pension Obligation</u>
12/31/2007	\$ 6,095	\$ 6,095	100.0%	\$ -
12/31/2008	\$ 5,668	\$ 5,668	100.0%	\$ -
12/31/2009	\$ 40,337	\$ 40,337	100.0%	\$ -
12/31/2010	\$ 32,000	\$ 32,000	100.0%	\$ -
12/31/2011	\$ 25,241	\$ 25,241	100.0%	\$ -

Town of Limon, Colorado
Notes to Financial Statements (continued)
December 31, 2011

7. Contingency—Constitutional Amendment

In November 1992, the Colorado voters passed a constitutional amendment (Tabor Amendment) to the State Constitution (Article X, Section 20) which requires voter approval for any increases in mill levies, revenue limits, spending limits and creation of multi-year debt. In addition, the amendment requires that a reserve be established for emergencies of 3% in 1995 and thereafter.

The Town has reserved \$105,726 within the General Fund and \$70,000 within the Utility Fund for the emergency reserve under the Tabor amendment.

On April 7, 1998, the voters of the Town approved a referendum allowing the Town to collect, retain and expend the full proceeds of the Town's sales and property tax, state grants, fees and other revenues received from December 31, 1997 and thereafter.

The Town believes that it is in compliance with the provisions of the Tabor amendment. However, many provisions of the Tabor Amendment are complex and subject to further interpretation and will require judicial interpretation.

8. Long-Term Debt

General Obligation Bonds – The Town issues general obligation bonds to provide funds for the acquisition and construction of major capital facilities, as well as to refund prior issues. General obligation bonds have been issued for proprietary activities only. They are direct obligations and pledge the full faith and credit of the Town and are ultimately secured by general ad valorem taxes.

The Town has one general obligation bond issue outstanding at December 31, 2011, with interest from 4.8% to 5.6%, which is expected to be paid from Utility Fund Water revenues.

During 2011 a principal payment of \$45,000 was made. Additionally, interest payments of \$16,900 were made, which are included as a direct expense under Water in the Statement of Activities.

Town of Limon, Colorado
Notes to Financial Statements (continued)
December 31, 2011

8. Long-Term Debt (continued)

Annual debt service requirements to maturity are as follows:

	Principal	Interest	Total
2012	\$ 50,000	\$ 14,605	\$ 64,605
2013	50,000	12,005	62,005
2014	55,000	9,356	64,356
2015	55,000	6,385	61,385
2016	60,000	3,360	63,360
	\$ 270,000	\$ 45,711	\$ 315,711

Revenue Bonds – The Town issues bonds where the government pledges income derived from the acquired or constructed assets or from a specific revenue source to pay debt service. Revenue bonds at December 31, 2011 are as follows:

The Revenue Bonds are payable from Governmental Activities revenue together with interest of 5.625%. During 2011 a principal payment of \$110,000 was made to pay off the remaining principal balance. Additionally, an interest payment of \$3,094 was made, which is included under governmental activities in the Statement of Activities.

2004 Water Revenue Bonds – These bonds are payable from Utility Fund Water revenues, together with interest from 5.30% to 5.50%.

During 2011 a principal payment of \$55,000 was made. Additionally, interest payments of \$101,875 were made, which are included as a direct expense under Water in the Statement of Activities.

Annual debt service requirements are as follows:

	Principal	Interest	Total
2012	\$ 60,000	\$ 99,483	\$ 159,483
2013	65,000	96,783	161,783
2014	65,000	93,760	158,760
2015	70,000	90,640	160,640
2016	75,000	87,175	162,175
2017-2021	780,000	347,338	1,127,338
2022-2023	750,000	68,475	818,475
	\$ 1,865,000	\$ 883,654	\$ 2,748,654

Town of Limon, Colorado
Notes to Financial Statements (continued)
December 31, 2011

8. Long-Term Debt (continued)

2000 Water Revenue Bonds – These bonds are payable from Utility Fund Water revenues, together with interest from 5.83% to 8.91%. This bond has a federal interest subsidy, which is shown as a revenue item in the financial statements. After the subsidy, the interest rate on the bonds is from 4.19% to 7.26%.

During 2011 principal payments of \$70,415 and interest payments of \$38,813 were made in addition to the federal subsidy interest amount of \$13,710 for a total of \$52,523 which is included as a direct expense under Water Treatment Plant in the Statement of Activities.

Annual debt service requirements are as follows:

	Principal	Interest Before Federal Subsidy	Total	Federal Interest Subsidy	Total After Federal Subsidy
2012	\$ 75,832	\$ 47,835	\$ 123,667	\$ 12,552	\$ 111,115
2013	75,832	44,765	120,597	11,306	109,291
2014	75,832	41,240	117,072	10,060	107,012
2015	81,249	37,710	118,959	8,814	110,145
2016	81,249	33,923	115,172	7,478	107,694
2017-2020	<u>373,743</u>	<u>60,245</u>	<u>433,988</u>	<u>15,757</u>	<u>418,231</u>
	<u>\$ 763,737</u>	<u>\$ 265,718</u>	<u>\$ 1,029,455</u>	<u>\$ 65,967</u>	<u>\$ 963,488</u>

Colorado Water Conservation Board Note – The Town received a loan from the State of Colorado for improvements to the water utility system, which is expected to be paid from Utility Fund Water revenues together with interest at 3.0%.

During 2011 a principal payment of \$24,145 was made. Additionally, an interest payment of \$8,300 was made, which is included as a direct expense under Water in the Statement of Activities.

Town of Limon, Colorado
Notes to Financial Statements (continued)
December 31, 2011

8. Long-Term Debt (continued)

Annual debt service requirements to maturity are as follows:

	Principal	Interest	Total
2012	\$ 24,869	\$ 7,576	\$ 32,445
2013	25,615	6,830	32,445
2014	26,383	6,062	32,445
2015	27,175	5,270	32,445
2016	27,990	4,455	32,445
2017-2020	120,533	9,169	129,702
	\$ 252,565	\$ 39,362	\$ 291,927

Special Assessment Bond – During 2004 the Town formed Special Assessment District Number 2004-1, in order to issue special assessment bonds for certain street and sidewalk improvements. Bonds are to be repaid from monies collected annually from levies against the affected property owners together with interest at 5.9%. Monies are collected and bonds paid from the General Fund.

During 2011 a principal payment of \$6,000 was made. Additionally, an interest payment of \$4,956 was made which is included under governmental activities in the Statement of Activities.

Scheduled annual debt service requirements to maturity are as follows. However, the actual principal payments will be higher if additional principal is collected from the property owners, which would also affect future principal and interest requirements.

Annual debt service requirements on the bonds are as follows:

	Principal	Interest	Total
2012	\$ 4,000	\$ 4,661	\$ 8,661
2013	4,000	4,425	8,425
2014	5,000	4,189	9,189
2015	5,000	3,894	8,894
2016	5,000	3,599	8,599
2017-2021	30,000	14,691	44,691
2022-2024	25,000	2,832	27,832
	\$ 78,000	\$ 38,291	\$ 116,291

Town of Limon, Colorado
Notes to Financial Statements (continued)
December 31, 2011

8. Long-Term Debt (continued)

Special Assessment Bond – During 2005 the Town formed Special Assessment District Number 2005-2, in order to issue special assessment bonds for certain street and sidewalk improvements. Bonds are to be repaid from monies collected annually from levies against the affected property owners together with interest at 6.2%. Monies will be collected and bonds paid from the General Fund.

During 2011, a principal payment of \$24,000 was made. Additionally, interest payments of \$14,539 were made, which are included under governmental activities in the Statement of Activities.

Scheduled annual debt service requirements to maturity are as follows. However, the actual principal payments will be higher if additional principal is collected from the property owners, which would also affect future principal and interest requirements.

	Principal	Interest	Total
2012	\$ 12,000	\$ 13,268	\$ 25,268
2013	13,000	12,524	25,524
2014	14,000	11,718	25,718
2015	15,000	13,640	28,640
2016	15,000	12,710	27,710
2017-2021	86,000	53,630	139,630
2022-2024	48,000	10,788	58,788
	\$ 203,000	\$ 128,278	\$ 331,278

Colorado Maintenance Fee – This amount represents the accumulation of a monthly fee from the State of Colorado for maintenance of the sewer system serving the Limon Correctional Facility and is payable from Utility Fund Restricted Cash. This fee will be discontinued as of 2031.

Town of Limon, Colorado
Notes to Financial Statements (continued)
December 31, 2011

8. Long-Term Debt (continued)

Total changes in Long-Term Liabilities during 2011 are as follows:

	Balance December 31, 2010	Additions	Payments	Balance December 31, 2011	Due Within One Year
Governmental activities:					
Revenue bonds	\$ 110,000	\$ -	\$ (110,000)	\$ -	\$ -
Special assessment bonds	311,000	-	(30,000)	281,000	16,000
Capital lease	<u>44,055</u>	<u>-</u>	<u>(44,055)</u>	<u>-</u>	<u>-</u>
	<u>465,055</u>	<u>-</u>	<u>(184,055)</u>	<u>281,000</u>	<u>16,000</u>
Business-type activities:					
Bonds payable:					
2004 Water Revenue	\$ 1,920,000	\$ -	\$ (55,000)	\$ 1,865,000	\$ 60,000
2001 G.O.	315,000	-	(45,000)	270,000	50,000
2000 Water Revenue	834,152	-	(70,415)	763,737	75,832
Loans payable:					
Colorado Water					
Conservation Board	276,710	-	(24,145)	252,565	24,869
Capital lease	109,944	-	(25,715)	84,229	-
Colorado Maintenance Fee	<u>41,853</u>	<u>2,797</u>	<u>-</u>	<u>44,650</u>	<u>-</u>
	<u>3,497,659</u>	<u>2,797</u>	<u>(220,275)</u>	<u>3,280,181</u>	<u>210,701</u>
Total long-term liabilities	<u>\$ 3,962,714</u>	<u>\$ 2,797</u>	<u>\$ (404,330)</u>	<u>\$ 3,561,181</u>	<u>\$ 226,701</u>

Legal Debt Limit - The legal debt limit as defined by Colorado State Statutes, for General Obligation Bonds issued by the Town is as follows at December 31, 2011:

Actual Property Value (taxable)	\$ 109,355,179
	x 3%
	<u>3,280,655</u>
General Obligation Bonds issued, other than for Water & Sewer purposes, which are specifically exempted for the limitation	<u>-</u>
Available Debt Margin	<u>\$ 3,280,655</u>

The issues have certain early redemption provisions that could be utilized in future years at the option of the Board of Trustees.

Town of Limon, Colorado
Notes to Financial Statements (continued)
December 31, 2011

9. Risk Management

The Town is exposed to various risks of loss to torts, theft of, damage to, and destruction of assets, errors and omissions, injuries to employees, and natural disasters.

The Town carries commercial insurance for risks described below and employee health insurance. Settled claims resulting from these risks have not exceeded commercial insurance coverage in any of the past three years. The pools have certain deductibles, which resulted in an out of pocket cost to the Town of \$414 in 2011.

Property, Casualty, Errors and Omissions and Liability Insurance

The Town is exposed to various risks of loss related to property, casualty, errors and omissions and liability losses. In 1986 due to the excessive cost of this insurance, the Town joined together with other cities and towns in the State of Colorado to form the Colorado Intergovernmental Risk Sharing Agency (CIRSA), a public entity risk pool currently operating as a common risk management and insurance program for members. The Town pays an annual contribution to CIRSA for its insurance coverage. The member agreement provides that the pool will be self-sustaining through member contributions and additional assessments, if necessary, and the pool will purchase excess insurance through commercial companies for member's claims in excess of a specified self insurance retention, which is determined each policy year.

During 2011 the Town paid \$59,594 for insurance coverage to the pool which is included in the operating expense of the general and enterprise funds.

Workers' Compensation Insurance

The Town is exposed to various risks of loss related to injuries of employees while on the job. In 2009 the Town discontinued its membership in the Colorado Intergovernmental Risk Sharing Agency, Workers Compensation Pool (CIRSA), and obtained coverage from a commercial insurance provider.

During 2011 the Town paid \$33,611 for workers compensation coverage, which is included in the operating expense of the general and enterprise funds.

Town of Limon, Colorado
Notes to Financial Statements (continued)
December 31, 2011

10. Interfund Transactions

Interfund receivable and payable are included within the balance sheet as they are current obligation and receivable of the appropriate fund. No eliminations have been made for interfund transactions in the fund financial statements.

The Town had the following interfund transactions during 2011:

Transfer from General Fund to Municipal Recreation Area Fund for general purposes.	\$ 34,045
Transfer from General Fund to Ambulance Service Fund for general purposes.	<u>16,340</u>
Total General Fund transfers	<u>\$ 50,385</u>
Transfer from Conservation Trust Fund to Municipal Recreation Area Fund for improvements.	<u>\$ 32,653</u>

11. Contingent Construction Payable

During the year 2000, the Town obtained two acres of land for a water treatment plant, in exchange for providing certain street, water and sewer improvements for seller's adjacent property. The agreed-upon value was \$114,000. The Town's obligation in this trade consists of two elements: (1) an obligation to complete certain improvements with an estimated cost of \$41,622, which were completed by the Town in 2001, and (2) a contingent liability to pay the seller's obligation of \$72,378 for improvements in the event the seller develops the adjacent land within 20 years. During 2006, the Town paid \$15,160 for those improvements resulting in a remaining contingent payable of \$57,218. There were no payments made under this agreement in 2011.

12. Employment Agreements

During 2003, the Town entered into employment agreements with four members of management. The agreements cover a variety of matters, including lump sum payment of three months' salary and three months' benefits, in the event the Board does not reappoint the employee after a regular municipal election, and he or she is willing and able to perform his or her duties. As of December 31, 2011, three of these individuals were employed, by appointment, by the Town. The fourth individual is now an at-will employee.

Town of Limon, Colorado
Notes to Financial Statements (continued)
December 31, 2011

13. Water Rights Lease

On June 2, 2004, the Town purchased land, improvements, and water rights for \$689,454. The Town resold the real property to Frazier Farms. As a condition of the sale, the Town entered into a lease agreement to lease the water rights to Frazier Farms for 10 years at no charge. The lease contains a provision to temporarily terminate if the Town has an emergency shortage, then extend the lease to its original 10 year term and compensate Frazier Farms for any crop losses.