

TOWN OF LIMON, COLORADO
MANAGEMENT'S DISCUSSION AND ANALYSIS
DECEMBER 31, 2007

For the December 31, 2007 financial statements, the Town is in the fourth year of reporting a major new reporting format in compliance with the Governmental Accounting Standards Board Statement Number 34 also known as GASB34.

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

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

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

FINANCIAL HIGHLIGHTS

- The Town's total net assets increased by \$3,944,122 or 33.73% during the year. The governmental net assets increased by \$2,908,100 or 60.93%, and the business-type net assets increased by \$1,036,022, or 14.97%.
- The governmental activities revenue changed from \$3,041,516 in 2006 to \$6,113,095 in 2007 an increase of \$3,071,579 or 100.99%.
- The governmental activities expenditures changed from \$2,735,457 in 2006 to \$2,936,738 in 2007 an increase of \$201,281 or 7.36%.
- The business-type activities revenue changed from \$1,911,679 in 2006 to \$2,526,479 in 2007 an increase of \$614,800 or 32.16%.
- The business-type activities expenditures changed from \$1,391,677 in 2006 to \$1,490,457 in 2007 an increase of \$98,780 or 7.10%

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- The General Fund (the primary operating fund) reflected on a current financial resource basis, reports a decrease of \$71,198 or 10.66% in fund balance.

OVERVIEW OF THE FINANCIAL STATEMENTS

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

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

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

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

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

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

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

GOVERNMENT-WIDE FINANCIAL ANALYSIS

The government-wide statements report information about the Town as a whole using accounting methods similar to those used by private-sector companies. The statement of net assets includes all of the government's assets and liabilities. All of the current year's revenues and expenses are accounted for in the statement of activities regardless of when cash is received or paid.

The two government-wide statements report the Town's net assets and how they have changed. Net assets-the difference between the Town's assets and liabilities- is one way to measure the Town's financial health, or position.

- Over time, increases or decreases in the Town's net assets are an indicator of whether its financial health is improving or deteriorating, respectively.
- To assess the overall health of the Town, additional non-financial factors need to be considered, such as changes in the Town's property tax base and the condition of the Town's roads.

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

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

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

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FUND FINANCIAL STATEMENTS

The fund financial statements provide more detailed information about the Town's most significant funds – not the Town as a whole. Funds are accounting devices that a Town uses to account for specific sources of funding and spending for particular purposes.

- Some funds are required by State law and by bond covenants.
- The Board of Trustees establishes other funds to control and manage money for particular purposes or to show that it is properly using certain taxes and grants, such as the Conservation Trust Fund.

The Town has two kinds of funds:

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

FINANCIAL ANALYSIS OF THE TOWN'S FUNDS

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

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

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

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| | Governmental Activities | | Business-Type Activities | | Total | |
|----------------------------|-------------------------|---------------------|--------------------------|---------------------|----------------------|----------------------|
| | 2006 | 2007 | 2006 | 2007 | 2006 | 2007 |
| Current assets | \$ 859,699 | \$ 953,566 | \$ 529,975 | \$ 591,514 | \$ 1,389,674 | \$ 1,545,080 |
| Restricted Assets | 359,413 | 216,242 | 933,532 | 1,069,593 | 1,292,945 | 1,285,835 |
| Other Non-current Assets | 416,944 | 396,385 | 385,034 | 365,991 | 801,978 | 762,376 |
| Capital assets-net | 4,391,115 | 7,298,116 | 9,683,295 | 10,305,612 | 14,074,410 | 17,603,728 |
| Total assets | <u>6,027,171</u> | <u>8,864,309</u> | <u>11,531,836</u> | <u>12,332,710</u> | <u>17,559,007</u> | <u>21,197,019</u> |
| Current Liabilities | 552,009 | 573,904 | 412,490 | 385,555 | 964,499 | 959,459 |
| Non-current Liabilities | 702,054 | 609,197 | 4,198,254 | 3,990,041 | 4,900,308 | 4,599,238 |
| Total liabilities | <u>1,254,063</u> | <u>1,183,101</u> | <u>4,610,744</u> | <u>4,375,596</u> | <u>5,864,807</u> | <u>5,558,697</u> |
| Net assets | <u>\$ 4,773,108</u> | <u>\$ 7,681,208</u> | <u>\$ 6,921,092</u> | <u>\$ 7,957,114</u> | <u>\$ 11,694,200</u> | <u>\$ 15,638,322</u> |
| Net assets consist of: | | | | | | |
| Invested in capital assets | 3,624,423 | 6,621,062 | 5,490,970 | 6,322,631 | 9,115,393 | 12,943,693 |
| Restricted net assets | 92,719 | 98,462 | 344,284 | 344,685 | 437,003 | 443,147 |
| Unrestricted net assets | 1,055,966 | 961,684 | 1,085,838 | 1,289,798 | 2,141,804 | 2,251,482 |
| Net assets | <u>\$ 4,773,108</u> | <u>\$ 7,681,208</u> | <u>\$ 6,921,092</u> | <u>\$ 7,957,114</u> | <u>\$ 11,694,200</u> | <u>\$ 15,638,322</u> |

The net assets of the Town's governmental funds as of December 31, 2007 were \$7,681,208 of which \$961,684 was unrestricted and is available for spending at the government's discretion. The remainder is invested in capital assets, net of related debt \$6,621,062, reserved for Emergency Reserve \$93,462 and Bond Reserve \$5,000.

The General Fund is the main operating fund of the Town. As of December 31, 2007, the General Fund balance was \$596,729 of which \$259,179 was unreserved. Unreserved fund balance represents 10.43% of 2007 General Fund expenditures.

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

| | Governmental Activities | | Business-Type Activities | | Total | |
|---|--------------------------------|---------------------|---------------------------------|---------------------|----------------------|----------------------|
| | 2006 | 2007 | 2006 | 2007 | 2006 | 2007 |
| Program revenues: | | | | | | |
| Operating Grants and Contributions | \$ 941,631 | \$ 986,436 | \$ 69,702 | \$ 51,609 | \$ 1,011,333 | \$ 1,038,045 |
| Capital Grants and Contributions | 309,564 | 3,069,709 | 447,320 | 883,594 | 756,884 | 3,953,303 |
| Charges for services | 376,358 | 546,033 | 1,286,188 | 1,458,264 | 1,662,546 | 2,004,297 |
| Total Program Revenue | <u>1,627,553</u> | <u>4,602,178</u> | <u>1,803,210</u> | <u>2,393,467</u> | <u>3,430,763</u> | <u>6,995,645</u> |
| General Revenues: | | | | | | |
| Taxes | 1,354,551 | 1,442,205 | | | 1,354,551 | 1,442,205 |
| Investment earnings | 26,203 | 27,584 | 41,334 | 47,123 | 67,537 | 74,707 |
| Insurance Proceeds | | 11,522 | | 11,646 | | 23,168 |
| Other | 33,209 | 29,606 | | | 33,209 | 29,606 |
| Total General Revenue | <u>1,413,963</u> | <u>1,510,917</u> | <u>41,334</u> | <u>58,769</u> | <u>1,455,297</u> | <u>1,569,686</u> |
| Total Revenue | <u>\$ 3,041,516</u> | <u>\$ 6,113,095</u> | <u>\$ 1,844,544</u> | <u>\$ 2,452,236</u> | <u>\$ 4,886,060</u> | <u>\$ 8,565,331</u> |
| Expenses | | | | | | |
| General government | 443,899 | 579,031 | | | 443,899 | 579,031 |
| Airport | 15,524 | 18,779 | | | 15,524 | 18,779 |
| Public safety | 394,451 | 565,245 | | | 394,451 | 565,245 |
| Highways and streets | 539,002 | 174,545 | | | 539,002 | 174,545 |
| Public Works - Sanitation | 175,612 | 418,093 | | | 175,612 | 418,093 |
| Public Health - Cemetery | 44,798 | 42,272 | | | 44,798 | 42,272 |
| Culture and recreation | 237,665 | 239,658 | | | 237,665 | 239,658 |
| Head Start Program | 608,099 | 604,467 | | | 608,099 | 604,467 |
| Rural Development | 139,290 | 87,000 | | | 139,290 | 87,000 |
| Rural Health | 30,888 | 88,645 | | | 30,888 | 88,645 |
| Water | | | 454,846 | 462,511 | 454,846 | 462,511 |
| Water Treatment Plant | | | 246,597 | 248,382 | 246,597 | 248,382 |
| Sewer | | | 252,440 | 294,163 | 252,440 | 294,163 |
| Municipal Recreation Area | | | 187,933 | 191,935 | 187,933 | 191,935 |
| Airport Fuel Fund | | | 34,616 | 47,742 | 34,616 | 47,742 |
| Ambulance Service Fund | | | 214,212 | 245,724 | 214,212 | 245,724 |
| Interest and fiscal charges | 39,094 | 44,760 | | | 39,094 | 44,760 |
| Total expenses | <u>2,668,322</u> | <u>2,862,495</u> | <u>1,390,644</u> | <u>1,490,457</u> | <u>4,058,966</u> | <u>4,352,952</u> |
| Change in net assets before transfers and special items | 373,194 | 3,250,600 | 453,900 | 961,779 | 827,094 | 4,212,379 |
| Transfers | (67,135) | (74,243) | 67,135 | 74,243 | | - |
| Gain(loss) on sale of assets | | (268,257) | (1,033) | | (1,033) | (268,257) |
| Change in net assets | <u>306,059</u> | <u>2,908,100</u> | <u>520,002</u> | <u>1,036,022</u> | <u>826,061</u> | <u>3,944,122</u> |
| Beginning net assets | <u>4,467,049</u> | <u>4,773,108</u> | <u>6,401,090</u> | <u>6,921,092</u> | <u>10,868,139</u> | <u>11,694,200</u> |
| Ending net assets | <u>\$ 4,773,108</u> | <u>\$ 7,681,208</u> | <u>\$ 6,921,092</u> | <u>\$ 7,957,114</u> | <u>\$ 11,694,200</u> | <u>\$ 15,638,322</u> |

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Governmental Activities revenues in the amount of \$6,113,095 were greater than expenses, transfers, and loss on sale of assets of \$3,204,995 by \$2,908,100 primarily due to grants received and used to purchase fixed assets and infrastructure conveyed to the Town. Business-type activities revenues and transfers in the amount of \$2,526,479 were greater than expenses and disposal of assets of \$1,490,457 by \$1,036,022 mostly due to grants received and used to purchase fixed assets and infrastructure conveyed to the Town.

BUDGETARY HIGHLIGHTS

The budget was amended on December 31, 2007 to include the following increases for expenditures not anticipated at the time of adoption of the original budget on December 7, 2006. The additional expenditures were funded by unanticipated revenue and/or the prior year's fund balance. Funds with appropriation increases:

| <u>Fund</u> | <u>Original Budget</u> | <u>New Budget</u> | <u>Increase</u> |
|---------------------------|------------------------|-------------------|-----------------|
| General Fund | \$ 2,040,836 | \$ 2,565,836 | \$ 525,000 |
| Utility Fund | \$ 938,698 | \$ 1,900,000 | \$ 961,302 |
| Municipal Recreation Area | \$ 196,848 | \$ 203,598 | \$ 6,750 |
| Head Start Fund | \$ 600,088 | \$ 604,558 | \$ 4,470 |
| Limon Ambulance Service | \$ 212,721 | \$ 247,721 | \$ 35,000 |
| Conservation Trust Fund | \$ 22,850 | \$ 26,350 | \$ 3,500 |
| Firemen's Pension Fund | \$ 25,400 | \$ 425,400 | \$ 400,000 |
| Employee's Pension Fund | \$ 30,000 | \$ 90,000 | \$ 60,000 |
| Airport Fuel Fund | \$ 44,660 | \$ 52,985 | \$ 8,325 |
| Rural Health Fund | \$ - | \$ 300,000 | \$ 300,000 |

- Changes in the General Fund Budget are attributable to a donation to Plains Medical Center, additional principal payments made on the 2005 Limon Special Improvement District bonds, the purchase of a new fire truck and other capital outlay, and the transfer of assets from the Town to the Limon Area Fire Protection District.
- Changes in the Utility Fund Budget include costs donated by Cameron Butcher, Inc. for the development of Marketplace Center infrastructure and the Limon Wastewater Improvements Project completed in 2007.
- Changes in the Recreation Area Fund Budget include increased operating costs.
- Changes in the Head Start Fund Budget include expenditures of increased federal grant funds.

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- Changes in the Limon Ambulance Service Fund were due to increased personnel costs during a personnel transition and equipment purchases.
- Changes in the Conservation Trust Fund Budget include increased parks and recreation projects.
- Changes in the Fireman's Pension Fund Budget include the transfer of the pension assets to the Limon Area Fire Protection District.
- Changes in the Employees' Pension Fund Budget include increased pension distributions to retirees.
- Changes in the Airport Fuel Fund Budget include repairs to equipment, which was mostly reimbursed by insurance.
- Changes in the Rural Health Fund were associated with pass-through funding from an Energy and Mineral Impact Grant to purchase electronic medical records equipment to be used at Plains Medical Center.

CAPITAL ASSETS AND DEBT ADMINISTRATION

Capital Assets

As of December 31, 2007, Limon investment in capital assets for its governmental and business type activities net of accumulated depreciation was \$17,603,728. This included infrastructure assets acquired since January 1, 2004. Capital assets including land, buildings, streets, utility systems and equipment are as follows:

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| | Governmental Activities | | Business-Type Activities | | Total | |
|--|-------------------------|--------------|--------------------------|---------------|---------------|---------------|
| | 2006 | 2007 | 2006 | 2007 | 2006 | 2007 |
| Land | \$ 1,278,989 | \$ 1,278,989 | \$ 243,476 | \$ 243,476 | \$ 1,522,465 | \$ 1,522,465 |
| Buildings and Water & Sewer Systems | 2,287,724 | 2,332,586 | 10,706,680 | 11,851,741 | 12,994,404 | 14,184,327 |
| Construction In Progress | 1,067 | | 199,203 | | 200,270 | - |
| Equipment | 1,833,924 | 1,856,705 | 1,138,264 | 1,170,094 | 2,972,188 | 3,026,799 |
| Other Capital Assets | | | 1,048,995 | 1,048,995 | 1,048,995 | 1,048,995 |
| Infrastructure | 1,347,109 | 4,256,882 | | | 1,347,109 | 4,256,882 |
| Total | \$ 6,748,813 | \$ 9,725,162 | \$ 13,336,618 | \$ 14,314,306 | \$ 20,085,431 | \$ 24,039,468 |
| Accumulated Depreciation | (2,357,698) | (2,427,046) | (3,653,323) | (4,008,694) | (6,011,021) | (6,435,740) |
| Capital Assets, Net | \$ 4,391,115 | \$ 7,298,116 | \$ 9,683,295 | \$ 10,305,612 | \$ 14,074,410 | \$ 17,603,728 |

This year's major capital asset additions include:

- Conveyance of street improvements from developer of \$2,511,004
- Conveyance of water improvements from developer of \$244,692
- Conveyance of wastewater improvements from developer of \$497,451
- Completion of the sewer lift station in progress at December 31, 2006 of \$170,527
- Improvements to the airport taxiways and other airport infrastructure in the amount of \$390,768

Long-term Debt

As of December 31, 2007 the Town had \$4,875,333 in outstanding debt.

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| | Governmental Activities | | Business-Type Activities | | Total | |
|--------------------------|--------------------------------|-------------------|---------------------------------|---------------------|---------------------|---------------------|
| | 2006 | 2007 | 2006 | 2007 | 2006 | 2007 |
| Revenue Bonds | \$ 290,000 | \$ 250,000 | | | \$ 290,000 | \$ 250,000 |
| Special Assessment Bonds | 395,000 | 355,000 | | | 395,000 | 355,000 |
| Capital Leases | 80,625 | 72,054 | | | 80,625 | 72,054 |
| Bonds Payable: | | | | | | |
| 2004 Water Revenue | | | 2,130,000 | 2,080,000 | 2,130,000 | 2,080,000 |
| 2001 Water G.O. | | | 485,000 | 445,000 | 485,000 | 445,000 |
| 2000 Water Revenue | | | 1,099,564 | 1,034,566 | 1,099,564 | 1,034,566 |
| 1974 Mun. Rec. Area | | | 73,000 | 64,000 | 73,000 | 64,000 |
| Loans Payable: | | | | | | |
| Colorado Water | | | | | | |
| Conservation Board | | | 366,459 | 345,006 | 366,459 | 345,006 |
| Capital Lease | | | 201,375 | 179,946 | 201,375 | 179,946 |
| Colorado Maintenance Fee | | | 49,736 | 49,761 | 49,736 | 49,761 |
| | <u>\$ 765,625</u> | <u>\$ 677,054</u> | <u>\$ 4,405,134</u> | <u>\$ 4,198,279</u> | <u>\$ 5,170,759</u> | <u>\$ 4,875,333</u> |

ECONOMIC FACTORS AND NEXT YEAR'S BUDGETS AND RATES

- Sales tax revenues budgeted for 2008 is \$862,000 that is \$39,939 less than 2007 actual.
- The property tax revenue budgeted for 2008 is \$319,133 that is \$6,286 less than 2007 actual.
- Governmental funds revenues were budgeted at \$2,981,163, which is a decrease of 17.81% from the 2007 actual revenues. Governmental revenue and expenditures included direct pass-through grants to other entities. The 2007 budgeted direct pass-through amounts are \$602,968, which is a decrease of \$137,489 from the 2007 actual amounts of \$740,457. The 2008 budgeted expenditures for governmental activities are projected to be \$2,953,072, which is a 20.02% decrease from the 2007 actual.
- Proprietary funds revenues were budgeted at \$1,570,956, which is a decrease of 38.39% from the 2007 actual revenues. Budgeted expenditures of \$1,434,278 represent a decrease from 2007 actual expenditures of 9.36%

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.