

Town of Limon, Colorado
Management's Discussion and Analysis
December 31, 2012

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 increased by \$302,488 or 1.9% during the year. The governmental net position increased by \$86,362 or 1.1%, and the business-type net position increased by \$216,126, or 2.7%.
- The governmental activities revenue changed from \$2,672,793 in 2011 to \$3,213,989 in 2012 for an increase of \$541,196 or 20.2%. This increase is due primarily to large increases in grants and sales tax revenues.
- The governmental activities expenditures changed from \$3,011,707 in 2011 to \$3,127,627 in 2012, an increase of \$115,920 or 3.8%. The increase is due primarily to an increase in losses from the disposal of capital assets.
- The business-type activities revenue changed from \$1,585,686 in 2011 to \$1,790,012 in 2012, an increase of \$204,326 or 12.9%. The increase is due primarily to increased water and sewer sales.
- The business-type activities expenditures changed from \$1,583,960 in 2011 to \$1,656,258 in 2012, an increase of \$72,298 or 4.6%.
- The General Fund (the primary operating fund) reflected on a current financial resource basis, reports a decrease of \$25,271 or 3.0% 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 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 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 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	
	2012	2011	2012	2011	2012	2011
ASSETS						
Current assets	\$ 1,198,700	\$ 1,104,698	\$ 1,087,622	\$ 837,228	\$ 1,941,926	\$ 2,286,322
Restricted assets	327,835	256,823	1,286,514	937,074	1,229,897	1,614,349
Other non-current assets	278,319	308,531	555,861	282,977	591,508	834,180
Capital assets, net	<u>7,364,025</u>	<u>7,248,866</u>	<u>9,135,464</u>	<u>9,277,770</u>	<u>16,526,636</u>	<u>16,499,489</u>
Total assets	<u>9,168,879</u>	<u>8,918,918</u>	<u>12,065,461</u>	<u>11,371,049</u>	<u>20,289,967</u>	<u>21,234,340</u>
LIABILITIES						
Current liabilities	714,664	522,065	387,873	365,538	919,746	1,102,537
Non-current liabilities	<u>236,000</u>	<u>265,000</u>	<u>3,525,431</u>	<u>3,069,480</u>	<u>3,302,337</u>	<u>3,761,431</u>
Total liabilities	<u>950,664</u>	<u>787,065</u>	<u>3,913,304</u>	<u>3,435,018</u>	<u>4,222,083</u>	<u>4,863,968</u>
NET POSITION	<u>\$ 8,218,215</u>	<u>\$ 8,131,853</u>	<u>\$ 8,152,157</u>	<u>\$ 7,936,031</u>	<u>\$ 16,067,884</u>	<u>\$ 16,370,372</u>
Net Position consist of:						
Invested in capital assets	\$ 7,111,025	\$ 6,967,866	\$ 5,703,833	\$ 6,211,325	\$ 13,179,191	\$ 12,814,858
Restricted net position	327,835	256,823	285,164	283,152	539,975	612,999
Unrestricted net position	<u>779,355</u>	<u>907,164</u>	<u>2,163,160</u>	<u>1,441,554</u>	<u>2,348,718</u>	<u>2,942,515</u>
Total net position	<u>\$ 8,218,215</u>	<u>\$ 8,131,853</u>	<u>\$ 8,152,157</u>	<u>\$ 7,936,031</u>	<u>\$ 16,067,884</u>	<u>\$ 16,370,372</u>

The net position of the Town’s governmental funds as of December 31, 2012 were \$8,218,215 of which \$779,355 was unrestricted and is available for spending at the government’s discretion. The remainder is net investment in capital assets of \$7,111,025, reserved for Emergency Reserve of \$106,427 and Capital Replacement Reserve of \$221,408.

The General Fund is the main operating fund of the Town. As of December 31, 2012, the General Fund balance was \$814,234, of which \$223,645 was unassigned. Unassigned fund balance represents 10.2% of 2012 General Fund expenditures.

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

	Governmental Activities		Business-Type Activities		Total	
	2012	2011	2012	2011	2012	2011
Program revenues:						
Operating grants and contributions	\$ 887,494	\$ 849,374	\$ 192,685	\$ 148,134	\$ 1,080,179	\$ 997,508
Capital grants and contributions	326,699	52,678	26,688	-	353,387	52,678
Charges for services	<u>527,865</u>	<u>509,898</u>	<u>1,546,515</u>	<u>1,411,482</u>	<u>2,074,380</u>	<u>1,921,380</u>
Total program revenue	<u>1,742,058</u>	<u>1,411,950</u>	<u>1,765,888</u>	<u>1,559,616</u>	<u>3,507,946</u>	<u>2,826,693</u>
General revenues:						
Taxes	1,432,089	1,396,549	-	-	1,432,089	1,359,549
Investment earnings	11,277	12,377	18,950	20,903	30,227	33,280
Insurance proceeds	1,673	4,954	5,174	5,167	6,847	10,121
Other	<u>26,892</u>	<u>34,023</u>	<u>-</u>	<u>-</u>	<u>26,892</u>	<u>34,023</u>
Total general revenue	<u>1,471,931</u>	<u>1,477,903</u>	<u>24,124</u>	<u>26,070</u>	<u>1,496,055</u>	<u>1,473,973</u>
Total Revenue	<u>\$ 3,213,989</u>	<u>\$ 2,859,853</u>	<u>\$ 1,790,012</u>	<u>\$ 1,585,686</u>	<u>\$ 5,004,001</u>	<u>\$ 4,300,666</u>
Expenses						
General government	\$ 784,547	\$ 775,732	\$ -	\$ -	\$ 784,547	\$ 775,732
Airport	21,155	8,187	-	-	21,155	8,187
Public safety	396,922	369,949	-	-	396,922	369,949
Highways and streets	566,620	537,216	-	-	566,620	537,216
Public works - sanitation	187,551	204,551	-	-	187,551	204,551
Public health - cemetery	63,627	63,517	-	-	63,627	63,517
Culture and recreation	310,507	291,307	-	-	310,507	291,307
Head Start Program	640,764	636,257	-	-	640,764	636,257
Water	-	-	474,773	462,926	474,773	462,926
Water treatment plant	-	-	227,667	232,567	227,667	232,567
Sewer	-	-	301,690	308,266	301,690	308,266
Municipal recreation area	-	-	227,653	213,034	227,653	213,034
Airport fuel fund	-	-	36,117	40,729	36,117	40,729
Ambulance service fund	-	-	388,358	326,438	388,358	326,438
Interest and fiscal charges	<u>17,808</u>	<u>31,461</u>	<u>-</u>	<u>-</u>	<u>17,808</u>	<u>31,461</u>
Total expenses	<u>\$ 2,989,501</u>	<u>\$ 2,918,177</u>	<u>\$ 1,656,258</u>	<u>\$ 1,583,960</u>	<u>\$ 4,645,759</u>	<u>\$ 4,502,137</u>
Changes in net position before transfers and special items	224,488	(58,324)	133,754	1,726	358,242	(56,598)
Transfers	(82,372)	(83,038)	82,372	83,038	-	-
Gain (loss) on sale of assets	<u>(55,754)</u>	<u>(10,492)</u>	<u>-</u>	<u>-</u>	<u>(55,754)</u>	<u>(10,492)</u>
Change in net position	86,362	(151,854)	216,126	84,764	302,488	(67,090)
Beginning net position	<u>8,131,853</u>	<u>8,283,707</u>	<u>7,936,031</u>	<u>7,851,265</u>	<u>16,067,884</u>	<u>16,134,972</u>
Ending net position	<u>\$ 8,218,215</u>	<u>\$ 8,131,853</u>	<u>\$ 8,152,157</u>	<u>\$ 7,936,029</u>	<u>\$16,370,372</u>	<u>\$16,067,882</u>

Governmental Activities revenues in the amount of \$3,213,989 were more than expenses and transfers of \$3,127,627 by \$86,362. Business-type activities revenues and transfers in the amount of \$1,872,384 were more than expenses of \$1,656,258 by \$216,126.

BUDGETARY HIGHLIGHTS

The budget was amended on December 27, 2012 to include the following increases for expenditures not anticipated at the time of adoption of the original budget on December 14, 2011. The additional expenditures were funded by unanticipated revenue and/or the prior year's fund balance. Funds with appropriation increases:

	<u>Original Budget</u>	<u>New Budget</u>	<u>Increase</u>
General Fund	\$2,311,908	\$2,361,908	\$ 50,000
Utility Fund	1,626,433	3,726,433	2,100,000
Recreation Area Fund	221,979	306,979	85,000
Head Start Fund	636,257	641,257	5,000
Ambulance Fund	474,725	524,725	50,000
Employees' Pension Fund	15,250	90,250	75,000
Airport Fuel Fund	40,327	41,166	839
			<u>\$2,365,839</u>

- Changes in the General Fund Budget are attributable to capital outlays. This increase in expenditure was offset by increased taxes collected.
- Changes in the Utility Fund Budget are attributable to the defeasance of bonds. This increase in expenditure was offset by the issuance of new bonds.
- Changes in the Recreation Area Fund Budget included capital expenditures and increased salaries. This increase was funded through increases in donations and interfund transfers.
- Changes in the Head Start Fund Budget included additional general expenditures. This increase was funded through increases in grant funds.
- Changes in the Ambulance Fund Budget included increases in capital expenditures. This increase was funded by prior year fund balance.
- Changes in the Employees' Pension Fund Budget was due to increased benefit payments, which was funded by increased investment income and prior year fund balance.
- Changes in the Airport Fuel Fund were due to increased operating expenses. The increases were offset by increased sales and prior year fund balance.

CAPITAL ASSETS AND DEBT ADMINISTRATION

Capital Assets

As of December 31, 2012, Limon's investment in capital assets for its governmental and business type activities net of accumulated depreciation was \$16,499,489. 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	
	2012	2011	2012	2011	2012	2011
Land	\$ 1,278,989	\$ 1,278,989	\$ 243,476	\$ 243,476	\$ 1,522,465	\$ 1,522,465
Buildings and water and sewer systems	3,089,340	2,653,875	12,178,690	12,046,080	15,268,030	14,699,955
Equipment	1,983,037	2,415,478	1,469,146	1,420,471	3,452,183	3,835,949
Other capital assets	-	-	1,048,995	1,048,995	1,048,995	1,048,995
Infrastructure	<u>4,763,537</u>	<u>4,716,370</u>	-	-	<u>4,763,537</u>	<u>4,716,370</u>
Total	\$ 11,114,903	\$ 11,064,712	\$ 14,940,307	\$ 14,759,022	\$ 26,055,210	\$ 25,823,734
Accumulated depreciation	<u>(3,750,878)</u>	<u>(3,815,846)</u>	<u>(5,804,843)</u>	<u>(5,481,252)</u>	<u>(9,555,721)</u>	<u>(9,297,098)</u>
Capital assets, net	<u>\$ 7,364,025</u>	<u>\$ 7,248,866</u>	<u>\$ 9,135,464</u>	<u>\$ 9,277,770</u>	<u>\$ 16,499,489</u>	<u>\$ 16,526,636</u>

This year's major capital asset additions include:

- Snow removal equipment storage building - \$332,225.
- J Avenue construction - \$47,167.
- Street shed - \$47,183.
- Railroad park pavillion - \$35,075.

Long-term Debt

As of December 31, 2012 the Town had \$3,964,698 in outstanding debt as follows.

	Governmental Activities		Business-Type Activities		Total	
	2012	2011	2012	2011	2012	2011
Revenue bonds	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -
Special assessment bonds	253,000	281,000	-	-	281,000	281,000
Capital leases	-	-	-	-	-	-
Bonds payable:						
2004 Water Revenue	-	-	-	1,865,000	-	1,865,000
2001 Water G.O.	-	-	-	270,000	-	270,000
2000 Water Revenue	-	-	687,905	763,737	687,905	763,737
2012 Water Revenue	-	-	2,935,000	-	2,935,000	-
Loans payable:						
Colorado Water Conservation Board	-	-	-	252,565	-	252,565
Capital lease	-	-	46,229	84,229	46,229	84,229
Colorado maintenance fee	<u>-</u>	<u>-</u>	<u>42,564</u>	<u>44,650</u>	<u>42,564</u>	<u>44,650</u>
Total	<u>\$ 253,000</u>	<u>\$ 281,000</u>	<u>\$ 3,711,698</u>	<u>\$ 3,280,181</u>	<u>\$ 3,964,698</u>	<u>\$ 3,561,181</u>

ECONOMIC FACTORS AND NEXT YEAR'S BUDGETS AND RATES

- Sales tax revenues budgeted for 2013 is \$881,138, which is \$78,844 less than 2012 actual.
- The property tax revenue budgeted for 2013 is \$321,665, which is \$1,105 more than 2012 actual.
- Governmental funds revenues were budgeted at \$3,181,019 in 2013, which is a decrease of 1.9% from the 2012 actual revenues. Governmental revenue and expenditures included direct pass-through grants to other entities. The 2013 budgeted direct pass-through amounts are \$640,764, which is the same as the 2012 actual amount. The 2013 budgeted expenditures for governmental activities are projected to be \$3,398,826, which is a 6.7% increase from the 2012 actual.
- Proprietary funds revenues were budgeted at \$2,036,254 for 2013, which is an increase of 15.3% from the 2012 actual revenues. 2013 budgeted expenditures of \$2,320,251 represent an increase from 2012 actual expenditures of 40.1%.

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.