

Town of Limon, Colorado
Management's Discussion and Analysis
December 31, 2009

For the December 31, 2009 financial statements, the Town is in the fifth 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 14. 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 decreased by \$253,305 or (1.6)% during the year. The governmental net assets increased by \$51,240 or 7.9%, and the business-type net assets decreased by \$216,186, or (2.7)%.
- The governmental activities revenue changed from \$3,187,410 in 2008 to \$2,848,209 in 2009 for a decrease of \$339,201 or (10.6)%. This decrease is due primarily to a large decrease in intergovernmental grants.
- The governmental activities expenditures changed from \$3,202,023 in 2008 to \$2,796,969 in 2009 a decrease of \$405,054 or (12.6)%. The decrease is due primarily to a decrease in capital expenditures in 2009, along with the elimination of expenses in the Rural Health Fund.
- The business-type activities revenue changed from \$1,543,739 in 2008 to \$1,296,752 in 2009 a decrease of \$246,987 or (16.0)%. This decrease is due primarily to a large increase in bad debts in the Ambulance Service Fund in 2009.

- The business-type activities expenditures changed from \$1,553,325 in 2008 to \$1,512,938 in 2009 a decrease of \$40,387 or (2.6)%
- The General Fund (the primary operating fund) reflected on a current financial resource basis, reports an increase of \$40,693 or 6.7% 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 Employee’s Pension Fund. The Town is responsible for the assets in this fund and for reporting. The above fund is reported in separate statements of Fiduciary Net Assets and Change in Fiduciary Net Assets. It has been excluded from the Town’s government-wide financial statements because the Town cannot use this fund to service its operations.

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

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

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

GOVERNMENT-WIDE FINANCIAL ANALYSIS

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

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

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

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

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

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

FUND FINANCIAL STATEMENTS

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

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

The Town has two kinds of funds:

- **Governmental Funds** – Most of the Town’s basic services are included in the governmental funds, which focus on the flow of cash in and out and how balances remaining at the end of the year are available for spending. Consequently, the governmental funds statements provide a detailed short-term view that helps 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:

	Governmental Activities		Business-Type Activities		Total	
	2009	2008	2009	2008	2009	2008
ASSETS						
Current assets	\$ 1,028,168	\$ 941,392	\$ 744,915	\$ 768,787	\$ 1,773,083	\$ 1,710,179
Restricted assets	246,120	378,615	708,501	840,560	954,621	1,219,175
Other non-current assets	356,444	374,364	325,928	346,282	682,372	720,646
Capital assets, net	7,255,042	7,393,794	9,822,372	10,134,410	17,077,414	17,528,204
Total assets	8,885,774	9,088,165	11,601,716	12,090,039	20,487,490	21,178,204
LIABILITIES						
Current liabilities	646,975	736,533	378,509	391,503	1,025,484	1,128,036
Non-current liabilities	463,055	538,769	3,491,865	3,751,008	3,954,920	4,289,777
Total liabilities	1,110,030	1,275,302	3,870,374	4,142,511	4,980,404	5,417,813
NET ASSETS	\$ 7,775,744	\$ 7,812,863	\$ 7,731,342	\$ 7,947,528	\$ 15,507,086	\$ 15,760,391
Net assets consist of:						
Invested in capital assets	\$ 6,717,273	\$ 6,786,597	\$ 6,316,217	\$ 6,361,088	\$ 13,033,490	\$ 13,147,685
Restricted net assets	115,037	102,438	277,403	345,028	392,440	447,466
Unrestricted net assets	943,434	923,828	1,137,722	1,241,412	2,081,156	2,165,240
Total net assets	\$ 7,775,744	\$ 7,812,863	\$ 7,731,342	\$ 7,947,528	\$ 15,507,086	\$ 15,760,391

The net assets of the Town’s governmental funds as of December 31, 2009 were \$7,775,744 of which \$943,434 was unrestricted and is available for spending at the government’s discretion. The remainder is invested in capital assets, net of related debt \$6,717,273, reserved for Emergency Reserve \$110,037 and Bond Reserve \$5,000.

The General Fund is the main operating fund of the Town. As of December 31, 2009, the General Fund balance was \$650,661 of which \$214,502 was unreserved. Unreserved fund balance represents 48.3% of 2009 General Fund expenditures.

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

	<u>Governmental Activities</u>		<u>Business-Type Activities</u>		<u>Total</u>	
	<u>2009</u>	<u>2008</u>	<u>2009</u>	<u>2008</u>	<u>2009</u>	<u>2008</u>
Program revenues:						
Operating grants and contributions	\$ 833,351	\$ 806,496	\$ 73,107	\$ 50,806	\$ 906,458	\$ 857,302
Capital grants and contributions	68,495	407,652	-	57,709	68,495	465,361
Charges for services	<u>541,604</u>	<u>509,991</u>	<u>1,085,683</u>	<u>1,298,830</u>	<u>1,627,287</u>	<u>1,808,821</u>
Total program revenue	<u>1,443,450</u>	<u>1,724,139</u>	<u>1,158,790</u>	<u>1,407,345</u>	<u>2,602,240</u>	<u>3,131,484</u>
General revenues:						
Taxes	1,329,898	1,360,005	-	-	1,329,898	1,360,005
Investment earnings	22,343	17,769	28,052	46,243	50,395	64,012
Insurance proceeds	-	13,247	1,059	12,500	1,059	25,747
Other	<u>40,209</u>	<u>53,574</u>	<u>15,568</u>	<u>-</u>	<u>55,777</u>	<u>53,574</u>
Total general revenue	<u>1,392,450</u>	<u>1,444,595</u>	<u>44,679</u>	<u>58,743</u>	<u>1,437,129</u>	<u>1,503,338</u>
Total Revenue	<u>\$ 2,835,900</u>	<u>\$ 3,168,734</u>	<u>\$ 1,203,469</u>	<u>\$ 1,466,088</u>	<u>\$ 4,039,369</u>	<u>\$ 4,634,822</u>
Expenses						
General government	\$ 645,224	\$ 438,322	\$ -	\$ -	\$ 645,224	\$ 438,322
Airport	16,264	18,801	-	-	16,264	18,801
Public safety	359,199	364,232	-	-	359,199	364,232
Highways and streets	481,500	781,536	-	-	481,500	781,536
Public works - sanitation	187,651	189,841	-	-	187,651	189,841
Public health - cemetery	52,219	43,356	-	-	52,219	43,356
Culture and recreation	276,846	263,820	-	-	276,846	263,820
Head Start Program	644,259	605,857	-	-	644,259	605,857
Economic development	-	47,578	-	-	-	47,578
Rural health	78,508	166,635	-	-	78,508	166,635
Water	-	-	502,498	488,270	502,498	488,270
Water treatment plant	-	-	238,604	240,046	238,604	240,046
Sewer	-	-	305,574	326,794	305,574	326,794
Municipal recreation area	-	-	185,898	197,424	185,898	197,424
Airport fuel fund	-	-	26,735	41,777	26,735	41,777
Ambulance service fund	-	-	253,629	259,014	253,629	259,014
Interest and fiscal charges	<u>35,525</u>	<u>39,471</u>	<u>-</u>	<u>-</u>	<u>35,525</u>	<u>39,471</u>
Total expenses	<u>\$ 2,777,195</u>	<u>\$ 2,959,449</u>	<u>\$ 1,512,938</u>	<u>\$ 1,553,325</u>	<u>\$ 4,290,133</u>	<u>\$ 4,512,774</u>
Changes in net assets before transfers and special items	58,705	209,285	(309,469)	(87,237)	(250,764)	122,048
Transfers	(93,283)	(77,651)	93,283	77,651	-	-
Gain (loss) on sale of assets	<u>(2,541)</u>	<u>21</u>	<u>-</u>	<u>-</u>	<u>(2,541)</u>	<u>21</u>
Change in net assets	(37,119)	131,655	(216,186)	(9,586)	(253,305)	122,069
Beginning net assets	<u>7,812,863</u>	<u>7,681,208</u>	<u>7,947,528</u>	<u>7,957,114</u>	<u>15,760,391</u>	<u>15,638,322</u>
Ending net assets	<u>\$ 7,775,744</u>	<u>\$ 7,812,863</u>	<u>\$ 7,731,342</u>	<u>\$ 7,947,528</u>	<u>\$15,507,086</u>	<u>\$15,760,391</u>

Governmental Activities revenues in the amount of \$2,835,900 were less than expenses and transfers of \$2,873,019 by \$37,119. Business-type activities revenues and transfers in the amount of \$1,296,752 were less than expenses of \$1,512,938 by \$216,186.

BUDGETARY HIGHLIGHTS

The budget was amended on December 29, 2009 to include the following increases for expenditures not anticipated at the time of adoption of the original budget on December 4, 2008. The additional expenditures were funded by unanticipated revenue and/or the prior year's fund balance. Funds with appropriation increases:

	Original <u>Budget</u>	New <u>Budget</u>	<u>Increase</u>
GENERAL FUND	\$2,029,852	\$2,129,852	\$100,000
RECREATION AREA FUND	\$ 183,338	\$ 255,644	\$ 72,306
HEAD START FUND	\$ 602,968	\$ 645,190	\$ 42,222
LIMON AMBULANCE SERVICE FUND	\$ 235,784	\$ 286,192	\$ 50,408
CEMETERY PERPETUAL CARE FUND	\$ 600	\$ 929	\$ 329
CAPITAL PROJECTS FUND	\$ -0-	\$ 120,000	<u>\$120,000</u>
			<u>\$385,265</u>

- Changes in the General Fund Budget are attributable to a purchase of a street sweeper, rail transfer facility study, increased street repairs, trash roll-off service, library building repairs, police vehicle repairs and pension. This increase in expenditure was offset by increased gravel sales, sales tax revenues, insurance claim revenue, and donation for rail transfer facility study.
- Changes in the Recreation Area Fund Budget include new equipment, pro shop cost of goods and increased operating costs and early payoff of 1974 Bonds.
- Changes in the Head Start Fund Budget include expenditures of increased federal grant funds.
- Changes in the Limon Ambulance Service Fund were due to increased equipment purchases.
- Changes in the Cemetery Perpetual Care Fund budget were due to additional operating expenses.
- Changes in the Capital Projects Fund budget were due to unanticipated revenues used for capital expenditures.

CAPITAL ASSETS AND DEBT ADMINISTRATION

Capital Assets

As of December 31, 2009, Limon investment in capital assets for its governmental and business type activities net of accumulated depreciation was \$17,077,414. 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	
	2009	2008	2009	2008	2009	2008
Land	\$ 1,278,989	\$ 1,278,989	\$ 243,476	\$ 243,476	\$ 1,522,465	\$ 1,522,465
Buildings and water and sewer systems	2,574,742	2,496,494	11,949,066	11,913,582	14,523,808	14,410,076
Equipment	2,260,580	2,142,247	1,329,080	1,325,659	3,589,660	3,467,906
Other capital assets	-	-	1,048,995	1,048,995		
Infrastructure	<u>4,292,821</u>	<u>4,256,882</u>	<u>-</u>	<u>-</u>	<u>4,292,821</u>	<u>4,256,882</u>
Total	\$ 10,407,132	\$ 10,174,612	\$ 14,570,617	\$ 14,531,712	\$ 24,977,749	\$ 24,706,324
Accumulated depreciation	<u>(3,152,090)</u>	<u>(2,780,818)</u>	<u>(4,748,245)</u>	<u>(4,397,302)</u>	<u>(7,900,335)</u>	<u>(7,178,120)</u>
Capital assets, net	<u>\$ 7,255,042</u>	<u>\$ 7,393,794</u>	<u>\$ 9,822,372</u>	<u>\$ 10,134,410</u>	<u>\$ 17,077,414</u>	<u>\$ 17,528,204</u>

This year's major capital asset additions include:

- Backhoe \$77,393.
- Improvements to Town's railroad depot museum \$78,248.
- Infrastructure improvements \$35,939.
- Police car \$21,168.

Long-term Debt

As of December 31, 2009 the Town had \$4,247,777 in outstanding debt as follows.

	Governmental Activities		Business-Type Activities		Total	
	2009	2008	2009	2008	2009	2008
Revenue bonds	\$ 160,000	\$ 205,000	\$ -	\$ -	\$ 160,000	\$ 205,000
Special assessment bonds	324,000	339,000	-	-	324,000	339,000
Capital leases	53,769	63,197	-	-	53,769	63,197
Bonds payable:						
2004 Water Revenue	-	-	1,975,000	2,030,000	1,975,000	2,030,000
2001 Water G.O.	-	-	360,000	405,000	360,000	405,000
2000 Water Revenue	-	-	904,568	969,567	904,568	969,567
1974 Mun. Rec. Area	-	-	-	55,000	-	55,000
Loans payable:						
Colorado Water Conservation Board	-	-	300,151	322,910	300,151	322,910
Capital lease	-	-	134,230	157,802	134,230	157,802
Colorado maintenance fee	<u>-</u>	<u>-</u>	<u>36,059</u>	<u>33,059</u>	<u>36,059</u>	<u>33,059</u>
Total	<u>\$ 537,769</u>	<u>\$ 607,197</u>	<u>\$ 3,710,008</u>	<u>\$ 3,973,338</u>	<u>\$ 4,247,777</u>	<u>\$ 4,580,535</u>

ECONOMIC FACTORS AND NEXT YEAR'S BUDGETS AND RATES

- Sales tax revenues budgeted for 2010 is \$805,005, which is \$28,090 less than 2009 actual.
- The property tax revenue budgeted for 2010 is \$334,202, which is \$7,654 more than 2009 actual.
- Governmental funds revenues were budgeted at \$3,334,911, which is an increase of 4.6% from the 2009 actual revenues. Governmental revenue and expenditures included direct pass-through grants to other entities. The 2009 budgeted direct pass-through amounts are \$752,429, which is an increase of \$108,170 from the 2009 actual amounts of \$644,259. The 2010 budgeted expenditures for governmental activities are projected to be \$3,479,674, which is a 24.4% increase from the 2009 actual.
- Proprietary funds revenues were budgeted at \$1,390,895, which is an increase of 15.6% from the 2009 actual revenues. Budgeted expenditures of \$1,653,869 represent an increase from 2009 actual expenditures of 9.3%.

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.