

TOWN OF LIMON, COLORADO
MANAGEMENT'S DISCUSSION AND ANALYSIS
DECEMBER 31, 2008

For the December 31, 2008 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 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 \$122,069 or 0.78% during the year. The governmental net assets increased by \$131,655 or 1.71%, and the business-type net assets decreased by \$9,586, or 0.12%.
- The governmental activities revenue changed from \$6,113,095 in 2007 to \$3,168,755 in 2008 for a decrease of \$2,944,340 or 48.16%. This decrease is due primarily to unusually large 2007 Capital Grants and Contributions associated with the development of and subsequent contribution of street improvements to the Town of Limon in the Marketplace Business Center.
- The governmental activities expenditures changed from \$2,936,738 in 2007 to \$3,037,100 in 2008 an increase of \$100,362 or 3.42%.
- The business-type activities revenue changed from \$2,526,479 in 2007 to \$1,543,739 in 2008 a decrease of \$982,740 or 38.90%. This decrease is due primarily to unusually large 2007 Capital Grants and Contributions associated with the development of and subsequent

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contribution of sewer and water improvements to the Town of Limon in the Marketplace Business Center.

- The business-type activities expenditures changed from \$1,490,457 in 2007 to \$1,553,325 in 2008 an increase of \$62,868 or 4.22%
- The General Fund (the primary operating fund) reflected on a current financial resource basis, reports an increase of \$13,239 or 2.22% 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

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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.

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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.

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

	Governmental Activities		Business-Type Activities		Total	
	2007	2008	2007	2008	2007	2008
Current assets	\$ 953,566	\$ 941,392	\$ 591,514	\$ 768,787	\$ 1,545,080	\$ 1,710,179
Restricted Assets	216,242	378,615	1,069,593	840,560	1,285,835	1,219,175
Other Non-current Assets	396,385	374,364	365,991	346,282	762,376	720,646
Capital assets-net	7,298,116	7,393,794	10,305,612	10,134,410	17,603,728	17,528,204
Total assets	<u>8,864,309</u>	<u>9,088,165</u>	<u>12,332,710</u>	<u>12,090,039</u>	<u>21,197,019</u>	<u>21,178,204</u>
Current Liabilities	573,904	736,533	385,555	391,503	959,459	1,128,036
Non-current Liabilities	609,197	538,769	3,990,041	3,751,008	4,599,238	4,289,777
Total liabilities	<u>1,183,101</u>	<u>1,275,302</u>	<u>4,375,596</u>	<u>4,142,511</u>	<u>5,558,697</u>	<u>5,417,813</u>
Net assets	<u>\$ 7,681,208</u>	<u>\$ 7,812,863</u>	<u>\$ 7,957,114</u>	<u>\$ 7,947,528</u>	<u>\$ 15,638,322</u>	<u>\$ 15,760,391</u>
Net assets consist of:						
Invested in capital assets	6,621,062	6,786,597	6,322,631	6,361,088	12,943,693	13,147,685
Restricted net assets	98,462	102,438	344,685	345,028	443,147	447,466
Unrestricted net assets	961,684	923,828	1,289,798	1,241,412	2,251,482	2,165,240
Net assets	<u>\$ 7,681,208</u>	<u>\$ 7,812,863</u>	<u>\$ 7,957,114</u>	<u>\$ 7,947,528</u>	<u>\$ 15,638,322</u>	<u>\$ 15,760,391</u>

The net assets of the Town's governmental funds as of December 31, 2008 were \$7,812,863 of which \$923,828 was unrestricted and is available for spending at the government's discretion. The remainder is invested in capital assets, net of related debt \$6,786,597, reserved for Emergency Reserve \$97,438 and Bond Reserve \$5,000.

The General Fund is the main operating fund of the Town. As of December 31, 2008, the General Fund balance was \$609,968 of which \$160,051 was unreserved. Unreserved fund balance represents 7.58% of 2008 General Fund expenditures.

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

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	Governmental Activities		Business-Type Activities		Total	
	2007	2008	2007	2008	2007	2008
Program revenues:						
Operating Grants and Contributions	\$ 986,436	\$ 806,496	\$ 51,609	\$ 50,806	\$ 1,038,045	\$ 857,302
Capital Grants and Contributions	3,069,709	407,652	883,594	57,709	3,953,303	465,361
Charges for services	546,033	509,991	1,458,264	1,298,830	2,004,297	1,808,821
Total Program Revenue	4,602,178	1,724,139	2,393,467	1,407,345	6,995,645	3,131,484
General Revenues:						
Taxes	1,442,205	1,360,005			1,442,205	1,360,005
Investment earnings	27,584	17,769	47,123	46,243	74,707	64,012
Insurance Proceeds	11,522	13,247	11,646	12,500	23,168	25,747
Other	29,606	53,574			29,606	53,574
Total General Revenue	1,510,917	1,444,595	58,769	58,743	1,569,686	1,503,338
Total Revenue	\$ 6,113,095	\$ 3,168,734	\$ 2,452,236	\$ 1,466,088	\$ 8,565,331	\$ 4,634,822
Expenses						
General government	579,031	438,322			579,031	438,322
Airport	18,779	18,801			18,779	18,801
Public safety	565,245	364,232			565,245	364,232
Highways and streets	174,545	781,536			174,545	781,536
Public Works - Sanitation	418,093	189,841			418,093	189,841
Public Health - Cemetery	42,272	43,356			42,272	43,356
Culture and recreation	239,658	263,820			239,658	263,820
Head Start Program	604,467	605,857			604,467	605,857
Economic Development	87,000	47,578			87,000	47,578
Rural Health	88,645	166,635			88,645	166,635
Water			462,511	488,270	462,511	488,270
Water Treatment Plant			248,382	240,046	248,382	240,046
Sewer			294,163	326,794	294,163	326,794
Municipal Recreation Area			191,935	197,424	191,935	197,424
Airport Fuel Fund			47,742	41,777	47,742	41,777
Ambulance Service Fund			245,724	259,014	245,724	259,014
Interest and fiscal charges	44,760	39,471			44,760	39,471
Total expenses	2,862,495	2,959,449	1,490,457	1,553,325	4,352,952	4,512,774
Change in net assets before transfers and special items	3,250,600	209,285	961,779	(87,237)	4,212,379	122,048
Transfers	(74,243)	(77,651)	74,243	77,651		-
Gain(loss) on sale of assets	(268,257)	21			(268,257)	21
Change in net assets	2,908,100	131,655	1,036,022	(9,586)	3,944,122	122,069
Beginning net assets	4,773,108	7,681,208	6,921,092	7,957,114	11,694,200	15,638,322
Ending net assets	\$ 7,681,208	\$ 7,812,863	\$ 7,957,114	\$ 7,947,528	\$ 15,638,322	\$ 15,760,391

Governmental Activities revenues in the amount of \$3,168,755 were greater than expenses and transfers of \$3,037,100 by \$131,655. Business-type activities revenues and transfers in the amount of \$1,543,739 were less than expenses of \$1,553,325 by \$9,586.

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BUDGETARY HIGHLIGHTS

The budget was amended on December 30, 2008 to include the following increases for expenditures not anticipated at the time of adoption of the original budget on December 6, 2007. The additional expenditures were funded by unanticipated revenue and/or the prior year's fund balance. Funds with appropriation increases:

	Original Budget	New Budget	Increase
GENERAL FUND	\$1,921,738	\$2,200,000	\$278,262
UTILITY FUND	\$952,461	\$1,000,000	\$47,539
RECREATION AREA FUND	\$201,113	\$223,000	\$21,887
HEAD START FUND	\$602,968	\$607,618	\$4,650
LIMON AMBULANCE SERVICE FUND	\$236,043	\$400,000	\$163,957
EMPLOYEES PENSION FUND	\$55,000	\$225,000	\$170,000
RURAL HEALTH FUNDING PARTNERSHIP	\$0	\$350,000	\$350,000
			<u>\$1,036,295</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 Utility Fund Budget include equipment repairs, maintenance to system, DOC maintenance expenditures and water projects.
- Changes in the Recreation Area Fund Budget include new equipment, pro shop cost of goods and increased operating costs.
- 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 Employees Pension Fund Budget include employee separations.

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- Changes in the Rural Health Funding Partnership Fund Budget include increase grant expenditures offset by grant revenue.

CAPITAL ASSETS AND DEBT ADMINISTRATION

Capital Assets

As of December 31, 2008, Limon investment in capital assets for its governmental and business type activities net of accumulated depreciation was \$17,528,204. 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	
	2007	2008	2007	2008	2007	2008
Land	\$ 1,278,989	\$ 1,278,989	\$ 243,476	\$ 243,476	\$ 1,522,465	\$ 1,522,465
Buildings and Water & Sewer Systems	2,332,586	2,496,494	11,851,741	11,913,582	14,184,327	14,410,076
Equipment	1,856,705	2,142,247	1,170,094	1,325,659	3,026,799	3,467,906
Other Capital Assets			1,048,995	1,048,995	1,048,995	1,048,995
Infrastructure	4,256,882	4,256,882			4,256,882	4,256,882
Total	\$ 9,725,162	\$ 10,174,612	\$14,314,306	\$14,531,712	\$24,039,468	\$24,706,324
Accumulated Depreciation	(2,427,046)	(2,780,818)	(4,008,694)	(4,397,302)	(6,435,740)	(7,178,120)
Capital Assets, Net	<u>\$ 7,298,116</u>	<u>\$ 7,393,794</u>	<u>\$10,305,612</u>	<u>\$10,134,410</u>	<u>\$17,603,728</u>	<u>\$17,528,204</u>

This year's major capital asset additions include:

- Used street sweeper \$65,000.
- Improvements to Town's railroad depot museum \$137,250.
- Computers, software, and other equipment for the medical clinic purchased with grant funds \$191,197.
- Playground equipment \$41,445.
- Water and sewer system improvements \$42,134.
- New ambulance \$135,981.
- Recreation area tractor and aerator \$22,294.

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Long-term Debt

As of December 31, 2008 the Town had \$4,580,535 in outstanding debt.

	Governmental Activities		Business-Type Activities		Total	
	2007	2008	2007	2008	2007	2008
Revenue Bonds	\$ 250,000	\$ 205,000			\$ 250,000	\$ 205,000
Special Assessment Bonds	355,000	339,000			355,000	339,000
Capital Leases	72,054	63,197			72,054	63,197
Bonds Payable:						
2004 Water Revenue			2,080,000	2,030,000	2,080,000	2,030,000
2001 Water G.O.			445,000	405,000	445,000	405,000
2000 Water Revenue			1,034,566	969,567	1,034,566	969,567
1974 Mun. Rec. Area			64,000	55,000	64,000	55,000
Loans Payable:						
Colorado Water						
Conservation Board			345,006	322,910	345,006	322,910
Capital Lease			179,946	157,802	179,946	157,802
Colorado Maintenance Fee			49,761	33,059	49,761	33,059
	<u>\$ 677,054</u>	<u>\$ 607,197</u>	<u>\$ 4,198,279</u>	<u>\$ 3,973,338</u>	<u>\$ 4,875,333</u>	<u>\$ 4,580,535</u>

ECONOMIC FACTORS AND NEXT YEAR'S BUDGETS AND RATES

- Sales tax revenues budgeted for 2009 is \$805,005 that is \$71,266 less than 2008 actual.
- The property tax revenue budgeted for 2009 is \$322,429 that is \$11,501 more than 2008 actual.
- Governmental funds revenues were budgeted at \$2,612,056, which is a decrease of 18.57% from the 2008 actual revenues. Governmental revenue and expenditures included direct pass-through grants to other entities. The 2009 budgeted direct pass-through amounts are \$602,968, which is a decrease of \$284,005 from the 2008 actual amounts of \$886,973. The 2009 budgeted expenditures for governmental activities are projected to be \$2,670,299, which is a 17.13% decrease from the 2008 actual.
- Proprietary funds revenues were budgeted at \$1,655,570, which is an increase of 4.52% from the 2008 actual revenues. Budgeted expenditures of \$1,859,430 represent an increase from 2008 actual expenditures of 15.38%.

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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.