

Town of Limon, Colorado
Management's Discussion and Analysis
December 31, 2013

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 \$33,253 or 0.2% during the year. The governmental net position decreased by \$166,682 or 2.0%, and the business-type net position increased by \$199,935, or 2.5%.
- The governmental activities revenue changed from \$3,213,989 in 2012 to \$3,050,079 in 2013 for a decrease of \$163,910 or 5.1%. This decrease is due primarily to decreases in grants.
- The governmental activities expenditures changed from \$3,127,627 in 2012 to \$3,216,761 in 2013, an increase of \$89,134 or 2.8%. The increase is due primarily to an increase in capital expenditures.
- The business-type activities revenue changed from \$1,790,012 in 2012 to \$1,765,323 in 2013, a decrease of \$24,689 or 1.4%.
- The business-type activities expenditures changed from \$1,656,258 in 2012 to \$1,640,675 in 2013, an decrease of \$15,583 or 0.1%.
- The General Fund (the primary operating fund) reflected on a current financial resource basis, reports an increase of \$419,864 or 51.6% in fund balance. This increase is due primarily to loan funds received during the year.

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	
	2013	2012	2013	2012	2013	2012
ASSETS						
Current assets	\$ 1,073,870	\$ 1,198,700	\$ 1,566,274	\$ 1,087,622	\$ 2,640,144	\$ 2,286,322
Restricted assets	749,132	327,835	1,105,920	1,286,514	1,855,052	1,614,349
Other non-current assets	207,726	259,368	373,988	408,523	581,714	667,891
Capital assets, net	7,227,293	7,364,025	9,540,462	9,135,464	16,767,755	16,499,489
Total assets	9,258,021	9,149,928	12,586,644	11,918,123	21,844,665	21,068,051
LIABILITIES						
Current liabilities	243,983	392,999	770,124	387,873	1,014,107	780,872
Non-current liabilities	657,256	236,000	3,611,766	3,525,431	4,269,022	3,761,431
Total liabilities	901,239	628,999	4,381,890	3,913,304	5,283,129	4,542,303
DEFERRED INFLOW OF RESOURCES						
Deferred property taxes	324,200	321,665	-	-	324,200	321,665
Total deferred inflow of resources	324,200	321,665	-	-	324,200	321,665
NET POSITION	\$ 8,032,582	\$ 8,199,264	\$ 8,204,754	\$ 8,004,819	\$ 16,237,336	\$ 16,204,083
Net Position consist of:						
Invested in capital assets	\$ 6,526,079	\$ 7,111,025	\$ 6,031,219	\$ 5,703,833	\$ 12,557,298	\$ 12,814,858
Restricted net position	749,132	327,835	286,499	285,164	1,035,631	612,999
Unrestricted net position	757,371	760,404	1,887,036	2,015,822	2,644,407	2,776,226
Total net position	\$ 8,032,582	\$ 8,199,264	\$ 8,204,754	\$ 8,004,819	\$ 16,237,336	\$ 16,204,083

The net position of the Town’s governmental funds as of December 31, 2013 were \$8,032,582 of which \$757,371 was unrestricted and is available for spending at the government’s discretion. The remainder is net investment in capital assets of \$6,526,079, reserved for Emergency Reserve of \$148,182, bond reserves of \$216,499 and Capital Replacement Reserve of \$670,950.

The General Fund is the main operating fund of the Town. As of December 31, 2013, the General Fund balance was \$1,234,098, of which \$203,343 was unassigned. Unassigned fund balance represents 9.3% of 2013 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	
	2013	2012	2013	2012	2013	2012
Program revenues:						
Operating grants and contributions	\$ 867,893	\$ 887,494	\$ 284,823	\$ 192,685	\$ 1,152,716	\$ 1,080,179
Capital grants and contributions	171,693	326,699	4,304	26,688	175,997	353,387
Charges for services	<u>553,769</u>	<u>527,865</u>	<u>1,458,391</u>	<u>1,546,515</u>	<u>2,012,160</u>	<u>2,074,380</u>
Total program revenue	<u>1,593,355</u>	<u>1,742,058</u>	<u>1,747,518</u>	<u>1,765,888</u>	<u>3,340,873</u>	<u>3,507,946</u>
General revenues:						
Taxes	1,426,833	1,432,089	-	-	1,426,833	1,432,089
Investment earnings	13,122	11,277	15,763	18,950	28,885	30,227
Insurance proceeds	-	1,673	2,042	5,174	2,042	6,847
Other	<u>16,769</u>	<u>26,892</u>	<u>-</u>	<u>-</u>	<u>16,769</u>	<u>26,892</u>
Total general revenue	<u>1,456,724</u>	<u>1,471,931</u>	<u>17,805</u>	<u>24,124</u>	<u>1,474,529</u>	<u>1,496,055</u>
Total Revenue	<u>\$ 3,050,079</u>	<u>\$ 3,213,989</u>	<u>\$ 1,765,323</u>	<u>\$ 1,790,012</u>	<u>\$ 4,815,402</u>	<u>\$ 5,004,001</u>
Expenses						
General government	\$ 746,314	\$ 784,547	\$ -	\$ -	\$ 746,314	\$ 784,547
Airport	30,529	8,187	-	-	30,529	8,187
Public safety	415,445	396,922	-	-	415,445	396,922
Highways and streets	508,823	566,620	-	-	508,823	566,620
Public works - sanitation	212,114	187,551	-	-	212,114	187,551
Public health - cemetery	65,898	63,627	-	-	65,898	63,627
Culture and recreation	539,347	310,507	-	-	539,347	310,507
Head Start Program	607,537	640,764	-	-	607,537	640,764
Water	-	-	453,912	474,773	453,912	462,926
Water treatment plant	-	-	230,022	227,667	230,022	227,667
Sewer	-	-	312,005	301,690	312,005	308,266
Municipal recreation area	-	-	222,515	227,653	222,515	227,653
Airport fuel fund	-	-	37,289	36,117	37,289	36,117
Ambulance service fund	-	-	384,932	388,358	384,932	388,358
Interest and fiscal charges	<u>15,467</u>	<u>17,808</u>	<u>-</u>	<u>-</u>	<u>15,467</u>	<u>17,808</u>
Total expenses	<u>\$ 3,141,474</u>	<u>\$ 2,989,501</u>	<u>\$ 1,640,675</u>	<u>\$ 1,656,258</u>	<u>\$ 4,782,149</u>	<u>\$ 4,645,759</u>
Changes in net position before transfers and special items	(91,395)	224,488	124,648	133,754	33,253	358,242
Transfers	<u>(75,287)</u>	<u>(82,372)</u>	<u>75,287</u>	<u>82,372</u>	<u>-</u>	<u>-</u>
Change in net position	(166,682)	86,362	199,935	216,126	33,253	302,488
Beginning net position (restated)	<u>8,199,264</u>	<u>8,131,852</u>	<u>8,004,819</u>	<u>7,788,693</u>	<u>16,204,083</u>	<u>15,920,545</u>
Ending net position	<u>\$ 8,032,582</u>	<u>\$ 8,199,264</u>	<u>\$ 8,204,754</u>	<u>\$ 8,004,819</u>	<u>\$ 16,237,336</u>	<u>\$ 16,204,083</u>

Governmental Activities revenues in the amount of \$3,050,079 were less than expenses and transfers of \$3,216,761 by \$166,682. Business-type activities revenues and transfers in the amount of \$1,840,610 were more than expenses of \$1,640,675 by \$199,935.

BUDGETARY HIGHLIGHTS

The budget was amended on December 30, 2013 to include the following increases for expenditures not anticipated at the time of adoption of the original budget on December 3, 2012. 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	\$2,399,299	\$2,430,299	\$ 31,000
Recreation Area Fund	211,002	217,002	6,000
Ambulance Fund	385,322	407,322	22,000
Airport Fuel Fund	41,748	43,048	<u>1,300</u>
			<u>\$ 60,300</u>

- Changes in the General Fund Budget are attributable to capital outlays. This increase in expenditure was offset by proceeds from lease-purchase debt.
- Changes in the Recreation Area Fund Budget included capital expenditures. This increase was funded through proceeds from lease-purchase debt.
- Changes in the Ambulance Fund Budget included increases in capital expenditures. This increase was funded by State grants.
- Changes in the Airport Fuel Fund were due to increased repairs. The increases were offset by transfers from the General Fund and prior year fund balance.

CAPITAL ASSETS AND DEBT ADMINISTRATION

Capital Assets

As of December 31, 2013, Limon's investment in capital assets for its governmental and business type activities net of accumulated depreciation was \$16,767,755. 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	
	2013	2012	2013	2012	2013	2012
Land	\$ 1,278,989	\$ 1,278,989	\$ 243,476	\$ 243,476	\$ 1,522,465	\$ 1,522,465
Buildings and water and sewer systems	3,137,255	3,089,340	12,590,998	12,178,690	15,728,253	15,268,030
Equipment	2,071,003	1,983,037	1,592,582	1,469,146	3,663,585	3,452,183
Other capital assets	-	-	1,048,995	1,048,995	1,048,995	1,048,995
Construction in progress	-	-	279,799	-	279,799	-
Infrastructure	<u>4,824,704</u>	<u>4,763,537</u>	-	-	<u>4,824,704</u>	<u>4,763,537</u>
Total	\$ 11,311,951	\$ 11,114,903	\$ 15,755,850	\$ 14,940,307	\$ 27,067,801	\$ 26,055,210
Accumulated depreciation	<u>(4,084,658)</u>	<u>(3,750,878)</u>	<u>(6,215,388)</u>	<u>(5,804,843)</u>	<u>(10,300,046)</u>	<u>(9,555,721)</u>
Capital assets, net	<u>\$ 7,227,293</u>	<u>\$ 7,364,025</u>	<u>\$ 9,540,462</u>	<u>\$ 9,135,464</u>	<u>\$ 16,767,755</u>	<u>\$ 16,499,489</u>

This year's major capital asset additions include:

- Water line replacement/improvements - \$276,842
- Well drilling and improvements - \$249,504
- Sewer line replacement/repair - \$123,181
- Street repairs - \$45,867.

Long-term Debt

As of December 31, 2013 the Town had \$4,494,528 in outstanding debt as follows.

	Governmental Activities		Business-Type Activities		Total	
	2013	2012	2013	2012	2013	2012
Revenue bonds	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -
Special assessment bonds	224,000	253,000	-	-	224,000	253,000
Capital leases	-	-	-	-	-	-
Bonds payable:						
2000 Water Revenue	-	-	612,073	687,905	612,073	687,905
2012 Water Revenue	-	-	2,790,000	2,935,000	2,790,000	2,935,000
Loans payable:						
Lease-Purchase	477,214	-	352,162	-	829,376	-
Capital lease	-	-	7,229	46,229	7,229	46,229
Colorado maintenance fee	-	-	31,850	42,564	31,850	42,564
Total	<u>\$ 701,214</u>	<u>\$ 281,000</u>	<u>\$ 3,793,314</u>	<u>\$ 3,711,698</u>	<u>\$ 4,494,528</u>	<u>\$ 3,964,698</u>

ECONOMIC FACTORS AND NEXT YEAR'S BUDGETS AND RATES

- Sales tax revenues budgeted for 2014 is \$905,251, which is \$38,159 less than 2013 actual.
- The property tax revenue budgeted for 2014 is \$324,200, which is \$1,908 less than 2013 actual.
- Governmental funds revenues were budgeted at \$3,034,212 in 2014, which is a decrease of 0.5% from the 2013 actual revenues. Governmental revenue and expenditures included direct pass-through grants to other entities. The 2014 budgeted direct pass-through amounts are \$607,537, which is the same as the 2013 actual amount. The 2014 budgeted expenditures for governmental activities are projected to be \$3,245,359, which is a 0.9% increase from the 2013 actual.
- Proprietary funds revenues were budgeted at \$1,739,540 for 2014, which is a decrease of 5.5% from the 2013 actual revenues. 2014 budgeted expenditures of \$1,773,050 represent an increase from 2013 actual expenditures of 8.1%.

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.