

TOWN OF LIMON, COLORADO
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2003

(1) Summary of Significant Accounting Policies

The Town of Limon operates under a council-mayor form of government and maintains accounting policies to conform to generally accepted accounting principles as applicable to governments. Proprietary funds and similar component units apply Financial Accounting Standards Board (FASB) pronouncements and Accounting Principles Board (APB) opinions issued on or before November 30, 1989, unless those pronouncements conflict with or contradict GASB pronouncements, in which case, GASB prevails. The following is a summary of the more significant policies.

A. Reporting Entity

The Town has no component units using the criteria as set forth in generally accepted accounting principles. The determination to include separate governmental entities is based on the criteria of Governmental Accounting Standards Board (GASB) Statement-14. GASB Statement-14 defines the reporting entity as the primary government and those component units for which the primary government is financially accountable. To be financially accountable, a voting majority of the component unit's board must be appointed by the primary government, and either A) the primary government must be able to impose its will, or B) the primary government may potentially benefit financially or be financially responsible for the component unit.

B. Related Organizations

The Town's Board of Trustees is responsible for appointing the members of the board of the Limon Housing Authority, but the Town's financial responsibility for this organization does not extend beyond making the appointments. Therefore, it is not included in these financial statements.

The financial statements of the authority may be obtained from: Director, Limon Housing Authority, 1880 Circle lane, Limon, Co 80828.

C. Fund Accounting

The accounts of the Town are organized on the basis of funds and account groups, each of which is considered a separate accounting entity. The operations of each fund are accounted for with a separate set of self-balancing accounts that comprise its assets, liabilities, fund equity, revenues, and expenditures or expenses, as appropriate. Government resources are allocated to and accounted for in individual funds based upon the purposes for which they are to be spent and the means by which spending activities are controlled. The various funds are grouped, in the financial statements in this report, into fund types and account groups as follows:

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GOVERNMENTAL FUNDS

General Fund - The general fund is the general operating fund of the Town. It is used to account for all financial resources except those required to be accounted for in another fund. Principal revenue sources include local property taxes and sales and use taxes. Primary expenditures are for public works, public safety, culture and recreation, and general administration.

Special Revenue Funds - Special revenue funds are used to account for the proceeds of specific revenue sources (other than special assessments, expendable trusts, or major capital projects) that are legally restricted to expenditures for specified purposes. The Special Revenue Funds are the Conservation Trust Fund, which accounts for lottery funds from the State of Colorado that are to be expended for recreation purposes, the Cemetery Perpetual Care Fund, which accounts for the continuing maintenance and improvements to the cemetery, the Head Start Fund which accounts for a Federal Head Start grant, which is passed through to the local child-care center, and the Rural Development Fund, which accounts for a Colorado grant that is passed through to the Colorado Rural Development Council.

PROPRIETARY FUND TYPES:

Enterprise Funds - Enterprise funds are established to account for operations that intended to be self-supporting through user charges. The Town of Limon operates the Water and Sewer Utilities, the Municipal Recreation Area (primarily golfing activities), the Airport Fuel Fund (for the sale of fuel to airplane operators), and the Ambulance Service Fund on this basis.

FIDUCIARY FUND TYPE:

Fiduciary funds are used to account for assets held on behalf of outside parties in a trustee capacity. The Town administers two pension funds in this capacity, as more fully described in Note 7.

ACCOUNT GROUPS:

The two account groups are not “funds”. They are concerned only with the measurement of financial position. They are not involved with the measurement of results of operations.

General Fixed Assets – This account group is established to account for the property and equipment owned by the Town exclusive of those relating to Enterprise Fund operations. Expenditures to acquire general fixed assets occur in the Governmental fund types. Public domain (“infrastructure”) general fixed assets consisting of certain improvements including roads, bridges, curbs, streets and sidewalks, drainage and lighting systems, are not capitalized along with other general fixed assets.

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All general fixed assets are valued at historical cost or estimated historical cost if actual historical cost is not available. Donated fixed assets are valued at their estimated fair value on the date donated. It is the town's policy to capitalize all capital expenditures over \$5,000.

No depreciation is recorded on general fixed assets.

General Long-Term Debt – This account group records the principal outstanding on all types of long-term debt that does not relate to Enterprise Fund activities. It is offset by the amount to be provided in future years. This account group includes a revenue bond issue, an obligation on a capital lease, accrued vacation pay and the estimated future costs for monitoring the closed landfill. Long-term debt of the Enterprise Funds is recorded as a liability of those funds.

D. Financial Reporting

The general purpose financial statements show the basic financial statements of the Town by providing a combined overview of financial position and results of operations and cash flow of the Enterprise fund types. The total “memorandum only” columns in these statements are presented only to facilitate financial analysis and are not meant to fairly present financial position or results of operations of the Town in conformity with generally accepted accounting principles. Neither is such data comparable to a consolidation since interfund eliminations have not been made.

Comparative total data for the prior year has been presented in the accompanying financial statements in order to provide an understanding of changes in the Town’s financial position and operations. However, comparative (i.e., presentation of prior year totals by fund type) data have not been presented in each of the statements since their inclusion would make the statements unduly complex and difficult to read.

E. Basis of Accounting

Basis of accounting refers to when revenues and expenditures or expenses are recognized in the accounts and reported in the financial statements. Basis of accounting relates to the timing of the measurements made, regardless of the measurement focus applied.

All governmental funds are accounted for using the modified accrual basis of accounting. Their revenues are recognized when they become measurable and available as net current assets. Service revenue is recognized when the customer is billed.

Expenditures are generally recognized under the modified accrual basis of accounting when the related fund liability is incurred.

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All Enterprise funds and Pension Trust funds are accounted for using the accrual basis of accounting. Their revenues are recognized when they are earned, and their expenses are recognized when they are incurred. Water and sewer revenue is recognized when the customer is billed.

F. Budget and Budgetary Accounting

The Town follows these procedures in establishing the budgetary data reflected in the financial statements.

Prior to October 15, the Town Administrator submits to the Board of Trustees a proposed operating budget for the fiscal year commencing the following January 1. The operating budget includes proposed expenditures and the means of financing them.

Public hearings are conducted to obtain taxpayer comments.

Prior to January 1, the budget is legally enacted through the passage of an ordinance. Amendments can be made until year end. On December 29, 2003, the Board approved a resolution appropriating additional sums of money for the year 2003. These amended appropriation amounts are used in the budgetary data in the financial statements.

Budgets for the general, special revenue, capital projects, and the pension funds are adopted on a basis consistent with generally accepted accounting principles. Budgets for the Enterprise funds are adopted to fulfill statutory requirements and are prepared on an appropriation basis. Principally, the appropriation basis of budgeting provides for a full accrual basis of accounting, loans and reimbursements received, note receivable principal, capital expenditures and bond principal payments, but does not provide for depreciation and amortization.

For 2003 the Board of Trustees budgeted all funds and appropriated spending limits by fund. Therefore, the comparisons of actual and budget amounts relating to legal requirements shown in the financial statements is based on "total expenditures" plus "operating transfers to other funds" in the various fund types. All appropriations lapse at year end.

G. Encumbrances

The Town does not employ the method of encumbrance accounting that reserves specific appropriations for purchase orders and other commitments. Encumbrances outstanding at year end, when material, are reported as a reservation of fund balance since they do not constitute expenditures or liabilities.

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H. Depreciation

Depreciation of all exhaustible property and equipment used by the Enterprise Funds is charged as an expense against their operations. Accumulated depreciation is reported on Enterprise Fund balance sheets. Depreciation has been recorded on the straight-line method using the following useful lives:

Buildings	20-40	years
Water and Sewer Systems	50	years
Water Treatment Plant	20-33	years
Sewer Treatment Plant and Overflow Pond	25-50	years
Recreation Area Cart Houses, Concession Stand and Bleachers	20-25	years
Recreation Area Irrigation System	50	years
Equipment	5-15	years
Water Wells	20	years

I. Contributed Capital

Water and sewer tap fees are charged to customers for the privilege of tapping into the Town's water and sewer system. Developers also pay for water and sewer improvements directly. The fees and developer improvements have been accounted for as capital contributed by customers beginning January 1, 1978.

Beginning in 1988, any water or sewer system extensions that are financed by special assessments to the homeowners are recorded in the Water and Sewer Funds as capital contributed by customers.

Grants received for water and sewer construction and tap fees paid directly by other government agencies have been added as capital contributed.

Changes to contributed capital during 2003:

	<u>12-31-02</u>	<u>Additions</u>	<u>12-31-03</u>
Tap fees and improvements -customers and developers	\$ 683,139	\$9,707	\$ 692,846
Improvements by a special Improvement district	92,637	-	92,637
Intergovernmental	1,883,660	-	1,883,660
Limon Ambulance Service	<u>277,135</u>	<u>-</u>	<u>277,135</u>
	<u>\$2,936,571</u>	<u>\$9,707</u>	<u>\$2,946,278</u>

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J. Cash and Investments

Cash includes interest-bearing demand deposits (checking and money-market accounts), as well as short-term investments with a maturity date within three months of the date acquired.

Investments are stated at cost, except for marketable debt and equity security investments of the two pension trusts, which are valued at market. State statutes authorize the allowable type of investments, which are detailed in Note 2.

K. Property Taxes

Annual property taxes are levied and assessed on January 1 and are certified to the County by December 15 of the current year. On January 1 of the following year, the County Treasurer bills the property owners, thus establishing an enforceable lien on the property. The County Treasurer also collects the property taxes and remits the collections on a monthly basis to the Town.

The Town recognizes a receivable for property tax levies upon certification by the County Treasurer. A deferred revenue liability is recorded in the same amount since the taxes are not available at year end to fund expenditures of the current year. They are recognized as revenue when collected in the following year.

Property taxes are computed using mills, where one mill is equal to \$1 of \$1,000 of assessed value. The mill levy for 2003 was 22.672.

L. Inventories

Inventories of items in the following funds were valued at cost:

General Fund - Dumpsters and polycarts	
held for resale and street supplies	\$28,093
Water Utility - Treatment supplies, meters and parts	39,673
Municipal Recreation Area - Merchandise & Concessions	1,582
Airport Fuel Fund - Airplane fuel	<u>2,822</u>
Total Inventories	<u>\$72,170</u>

M. Compensated Absences

By ordinance, the Town's policy regarding vacation time is to not let it accumulate beyond one year, although some exceptions are made upon approval of management. Any unused vacation time is paid upon termination. Also by ordinance, any employee accumulating sick leave beyond 60 days shall continue to accrue sick leave at the rate of one-half day per month

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and shall have the additional leave added to vacation leave for the following year. The liability for vacation pay included in these financial statements includes such sick leave accrued to December 31, 2003.

N. Compliance with Colorado Contraband Forfeiture Act

Contraband funds collected and related disbursements are included in the financial statements.

O. Bond Discounts and Issuance Costs

The bond discount and issuance cost of the 1992 issue of \$12,893, the 2000 issue of \$25,059 and the 2001 issue of \$19,900 are being amortized over the term of the bonds (40, 20 and 15 years, respectively), on the straight-line method. Costs of Enterprise Funds' issues prior to 1989 were either expensed or added to the cost of the related assets. Bond issue costs on bonds not related to Enterprise Funds are expensed in the period incurred.

(2) Cash and Investments

For the purpose of the statement of cash flows, the Town considers all highly liquid investments (excluding restricted assets) with a maturity of three months or less when purchased to be cash equivalents.

The Town's investments at December 31, 2003 are shown below. Under Government Accounting Standards Board Statement No. 3, investments are placed into three categories depending on the degree of risk in the investment. Category 1 is investments which are insured or registered or held by the entity or its agent in the entity's name. Category 2 is investments which are uninsured, and unregistered, with securities held in the counterparty's trust department or agent in the entity's name. Category 3 investments are those which are uninsured and unregistered with securities held by the counterparty, or by its trust department or agent but not in the entity's name.

The Town's cash and investments at December 31, 2003 was \$2,488,500, which is the total of cash, investments, and restricted assets. Cash on hand was \$676 and the remaining \$2,487,824 is explained below:

Cash balances, certificates of deposit and other investments:

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<u>Category 1 Investments:</u>	<u>Bank Balance</u>	<u>Carrying Balance</u>
Bank balances and certificates of deposit, insured (FDIC)	\$ 211,032	\$ 211,032
 <u>Category 2 Investments:</u>		
Bank balances and certificates of deposit, uninsured and collateralized	<u>1,229,183</u>	<u>1,192,460</u>
Total cash and certificates of deposit	<u>\$1,440,215</u>	<u>\$1,403,492</u>
Not Categorized:		<u>Market Value</u>
Stocks, bonds and mutual funds:		
Cash and cash equivalents		\$ 19,824
Fixed income:		
U.S. Treasury and Agencies		153,927
Corporate bonds		147,608
Domestic stocks		325,159
International stocks and bonds		150,309
Other Investments:		
Fire & Police Pension Association		<u>287,505</u>
Total Other Investments		<u>1,084,332</u>
Total cash and investments		<u>\$2,487,824</u>

All uninsured monies were deposited in banks covered by the Colorado Public Deposits Protection Act of 1975. Under this act all government funds within a bank are pooled and the pool is pledged with government securities.

The difference between the bank balance and carrying balance is \$36,723, which were outstanding items that had not cleared the banks as of December 31, 2003.

Investments - Colorado statutes specify in which instruments the local government may invest, which include:

1. Repurchase agreements in obligations of the United States;
2. Obligations of the United States or obligations unconditionally guaranteed by the United States;

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3. General obligation or revenue bonds of any state, District of Columbia, US territory or any of their subdivisions, with certain limitations;
4. Bankers acceptance issued by a state or national bank, with certain limitations;
5. Commercial paper, with certain limitations;
6. Any obligation, certificate of participation or lease/purchase of the investing public entity;
7. Money market funds, with certain limitations, which invest in the types of securities listed above;
8. Guaranteed investment contracts, with other certain limitations;
9. Participation with other local governments in pooled investment funds (trusts). These trusts are supervised by participating governments, and must comply with the same restrictions on cash deposits and investments. These trusts are "Colotrust", "Jefftrust" and "CSafe".

Colorado statutes also specify in which instruments a municipal retirement board may participate in the following types of retirement plans:

1. A plan administered by a qualified insurance company;
2. Establish a trust with a bank or trust company;
3. Belong to Colorado's Public Employees Retirement Association (PERA);
4. Invest in the same manner as PERA is authorized. It is authorized to make a broad range of investments, with these limitations on common or preferred stock:
 1. The aggregate amount of moneys invested in corporate stocks or corporate bonds, notes, or debentures which are convertible into corporate stock or in investment trust shares shall not exceed 65% of the then book value of the fund.
 2. No investment of the fund in common or preferred stock, or both, of any single corporation shall be of an amount which exceeds 5% of the then book value of the fund, nor shall the fund acquire more than 12% of the outstanding stock or bonds of any single corporation.

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(3) Restricted Assets

Restricted assets are for the following purposes:

General Fund – Emergency reserve under Article X, Section 20 of the Colorado Constitution. Accumulation at December 31, 2003 of \$80,052 is 3% of the Town’s annual expenditures in the governmental fund types and the Ambulance Service Fund in the proprietary fund types. Reserve is held in bank certificates of deposit.

General Fund – reserve for payment of 1999 revenue bonds. Total required accumulation at December 31, 2003 is \$5,000. Reserve is held in a bank savings account.

General Fund – equipment replacement reserve. Accumulation at December 31, 2003 is \$96,447. Reserve is held in a bank savings account.

General Fund – police contraband forfeiture funds for future police equipment purchases. Amount held in a bank savings account is \$30,995 at December 31, 2003.

Water Utility Fund – reserve for repayment of 1992 revenue bonds. Total required accumulation at December 31, 2003 is \$8,195. Reserve is held in a bank savings account.

Water Utility Fund – reserve for operations and maintenance of the water treatment plant. Total required accumulation at December 31, 2003 is \$30,909. Reserve is held in a bank savings account.

Water Utility Fund – reserve for repayment of 2000 revenue bonds. There is no required accumulation at December 31, 2003. Reserve is held in a bank savings account.

Water Utility Fund – reserve for future purchase of water rights. Reserve is held in a bank certificate of deposit.

Water Utility Fund – accumulation of monthly fee from State of Colorado for maintenance of the sewer system serving the Limon Correctional Facility. This fee eventually will be returned to the State if the maintenance is less than the accumulated amount. The amount accumulated is in a bank savings account.

Municipal Recreation Area Fund – accumulation of special green fees, which is spent on specific items approved by the women’s and men’s golf associations. The amount accumulated is in a bank savings account.

Municipal Recreation Area Fund – reserve for repayment of the 1974 revenue bonds. Total required accumulation at December 31, 2003 is \$13,200. Reserve is held in a bank savings account.

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Ambulance Service Fund – equipment replacement reserve. Accumulation at December 31, 2003 is \$73,188. Reserve is held in bank certificates of deposit.

Amount of the preceding restricted assets:

	<u>Restricted Assets</u>
General Fund:	
Article X, Section 20 emergency reserve	\$ 80,052
Bond reserve account	6,047
Equipment replacement reserve	96,447
Police contraband forfeiture funds	<u>30,995</u>
Total – General Fund	<u>\$ 213,541</u>
Water Utility Fund:	
Bond reserve – 1992 revenue bonds	\$ 10,339
Reserve for treatment plant operations and maintenance	30,909
Bond reserve – 2000 revenue bonds	84,689
Water rights purchase reserve	192,799
Maintenance reserve payable to State of Colorado	58,707
Municipal Recreation Area:	
Special green fee	12,118
Bond reserve	22,964
Ambulance Service Fund:	
Equipment replacement reserve	<u>73,188</u>
Total – Enterprise Funds	<u>\$ 485,713</u>

(4) Allowance for Uncollectible Accounts

The amounts receivable on Statement 1 is net of an allowance for uncollectible accounts as follows:

	Total Receivable	Allowance	Net
General Fund:			
Sanitation	\$ 16,042	\$ 923	\$ 15,119
Miscellaneous receivables	7,068		7,068
Franchise fees	<u>17,889</u>		<u>17,889</u>
	<u>\$ 40,999</u>	<u>\$ 923</u>	<u>\$ 40,076</u>

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Enterprise Fund:			
Water Utility Fund	\$124,911	\$ 4,096	\$120,815
Airport Fuel Fund	755		755
Ambulance Service Fund	<u>74,969</u>	<u>38,550</u>	<u>36,419</u>
	<u>\$200,635</u>	<u>\$42,646</u>	<u>\$157,989</u>
Water Utility Fund:			
Special Assessment	<u>\$ 5,473</u>	<u>\$ 5,473</u>	<u>\$ 0</u>

(5) Note Receivable

The note receivable from Frazier Farms resulted from the sale of the Packard Ranch land in 1978, with the Town retaining the water rights. A final principal payment of \$46,032, with interest of \$1,452 was received in 2003.

(6) Fixed Assets

A summary of changes in general fixed assets:

	<u>Dec. 31, 2002</u>	<u>Additions</u>	<u>Deletions</u>	<u>Dec. 31, 2003</u>
Land	\$1,244,630			\$1,244,630
Buildings	2,252,995	\$ 17,686		2,270,681
Equipment	<u>1,531,431</u>	<u>7,100</u>	<u>\$ 10,870</u>	<u>1,527,661</u>
	<u>\$5,029,056</u>	<u>\$ 24,786</u>	<u>\$ 10,870</u>	<u>\$5,042,972</u>

Summary of changes in Enterprise Fund property (all property stated at cost – no interest has been capitalized as part of this cost):

	<u>Dec. 31, 2002</u>	<u>Additions</u>	<u>Deletions</u>	<u>Dec. 31, 2003</u>
Water System	\$5,960,818	\$ 83,799	\$ 14,045	\$ 6,030,572
Construction in progress	3,628	36,759		40,387
Sewer System and Plant	2,442,399	5,815		2,448,214
Water Rights	656,976			656,976
Land & Land Improvements	198,444			198,444
Recreation Area Facilities				
And Equipment	322,520	994	7,145	316,369
Ambulance Equipment	<u>362,733</u>	<u>136,092</u>	<u>14,708</u>	<u>484,117</u>
	9,947,518	263,459	35,898	10,175,079
Accum. Depreciation	<u>2,485,129</u>	<u>293,188</u>	<u>32,933</u>	<u>2,745,384</u>
	<u>\$7,462,389</u>	<u>\$ (29,729)</u>	<u>\$ 2,965</u>	<u>\$ 7,429,695</u>

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(7) Retirement Plans

The Town maintains a single-employer defined benefit pension plan which covers all eligible Town employees, including policemen. Volunteer firemen are covered by a separate defined benefit plan

Employees' Pension Plan:

Plan Description. The Town of Limon Employees' Pension Plan is a single-employer defined benefit pension plan administered by the Town of Limon. The Plan provides retirement, disability, and death benefits to plan members and beneficiaries. The Town Council has the authority to establish and amend benefit provisions. The Plan does not issue a publicly available financial report.

There is no provision for cost-of-living increases after benefits begin.

The plan covers all types of Town employees.

Membership in the Plan consisted of the following at January 1, 2003, the date of the latest actuarial valuation:

Retirees and beneficiaries currently receiving benefits	0
Terminated plan members entitled to, but not yet receiving benefits	0
Active Plan Members	<u>26</u>
Total	<u>26</u>

Funding Policy. Plan members are required to contribute 4% of compensation up to \$550 per month and 6% of compensation excess of \$550. The Town is required to contribute at an actuarially determined rate. Prior to 1991, the Town's policy had been to match the employees' contribution, instead of contributing in accordance with actuarial computations. This has resulted in funding in excess of the plan's actuarially determined requirements, and for 1988 through 2002 the required employer contribution was zero. Due to the large funding excess, the Town made no contribution from 1991 to 2002.

Direct administrative fees are paid from plan income. Indirect expenses (portions of Town administrative salaries) are not allocated to the Plan.

Annual Pension Cost and Net Pension Obligation. The Town's annual pension cost and net pension obligation to the Plan for the current year were as follows:

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Annual required contribution	19,976
Annual pension cost	19,976
Contributions made	19,976
Net pension obligation beginning of year	0
Net pension obligation end of year	0

The annual required contribution for the current year was determined as part of the January 1, 2003 actuarial valuation using the aggregate actuarial cost method. The actuarial assumptions included (a) 7.0 investment rate of return (net of administrative expenses) and (b) projected salary increases of 2.0% per year. Both (a) and (b) included an inflation component of 2.0%. The assumptions did not include postretirement benefit increases. The actuarial value of assets was determined using the market value method.

Schedule of Funding Progress (Based on Entry Age Normal Method).

<u>Actuarial Valuation Date</u>	<u>Actuarial Value of Assets (a)</u>	<u>Actuarial Accrued Liability (b)</u>	<u>Unfunded Actuarial Liability or (Funding Excess) (b-a)</u>	<u>Funded Ratio (a)/(b)</u>
1-1-98	720,205	534,671	(185,534)	134.7%
1-1-99	808,785	537,611	(271,174)	150.4%
1-1-00	862,829	616,483	(246,346)	140.0%
1-1-01	868,785	671,092	(197,693)	129.5%
1-1-02	797,474	779,692	(17,782)	102.3%
1-1-03	656,618	796,299	139,681	82.4%

Six-year Trend Information:

<u>For Each Year ended</u>	<u>Employer Annual Required Contribution and Pension Cost</u>	<u>Employer Contribution</u>	<u>Percentage Contributed</u>	<u>Net Pension Obligation</u>
12-31-98 to 12-31-02	0	0	100%	0
12-31-03	19,976	19,976	100%	0

Volunteer Fireman's Pension Plan

Plan Description. The Town of Limon, on behalf of its volunteer firefighters contributes to the Town of Limon Volunteer Firemen's Pension Plan, a defined benefit pension plan which is affiliated

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with the Colorado Fire and Police Pension Association (FPPA). Assets of the plan are commingled for investment purposes in the Fire and Police Members Benefit Fund, an agent multiple-employer defined benefit pension plan administered by the FPPA. The plan provides retirement benefits for members and beneficiaries according to the plan provisions as enacted and governed by the Board of Directors of the Limon Volunteer Firemen’s Pension Plan. Title 31, Article 30 of the Colorado Revised Statutes (CRS), as amended, establishes basic benefit provisions under the plan. FPPA issues a publicly available annual financial report that includes the assets of the Limon Volunteer Firemen’s Pension Plan. That report may be obtained by writing to FPPA of Colorado, 5290 DTC Parkway, Suite 100, Englewood, Colorado 80111 or by calling FPPA at 303-770-3772 in the Denver Metro area, or 1-800-332-3772 from outside the metro area.

Annual Pension Cost. For the fiscal year ended December 31, 2003, the annual pension cost of the Town of Limon Volunteer Firemen’s Pension Plan was \$14,626. During the year, the Town of Limon and the state of Colorado contributed \$14,626, which is equal to 100% of the annual pension cost. The Town’s annual pension cost and net pension obligation to the Plan for the current year were as follows:

Annual required contribution	<u>\$14,626</u>
Net pension obligation end of year	<u>\$ -0-</u>

Actuarial information. The Annual Required Contribution (ARC) for the current year was determined by the FPPA actuary, or an actuarial firm designated by the FPPA using the “entry age” cost method and is as of January 1, 2003. The significant actuarial assumptions used in the valuation as of January 1, 2003 were: (a) life expectancy of participants obtained from the 1994 Group Annuity Mortality Table loaded for fire and police experience; (b) retirement age assumption of age 50 and 20 years of service; and (c) investment return of 8.0% per annum net of operating expenses.

For the purpose of this actuarial study, plan assets were valued at actuarial value. The study utilized a level dollar amount open amortization over a period of 20 to 40 years.

Schedule of Funding Progress (Based on Entry Age Method).

<u>Actuarial Valuation Date</u>	<u>Actuarial Value of Assets (a)</u>	<u>Actuarial Accrued Liability (b)</u>	<u>Unfunded Actuarial Liability or (Funding Excess) (b-a)</u>	<u>Funded Ratio (a)/(b)</u>
1-1-99	311,484	162,707	(148,777)	191.4%
1-1-01	346,410	261,720	(84,690)	132.4%
1-1-03	298,950	229,002	(69,948)	130.5%

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Six-year Trend Information.

<u>For Each Year ended</u>	<u>Employer Annual Required Contribution and Pension Cost</u>	<u>Employer Contribution</u>	<u>Percentage Contributed</u>	<u>Net Pension Obligation</u>
1998	9,916	9,916	100%	0
1999	10,458	10,458	100%	0
2000	12,563	12,563	100%	0
2001	12,694	12,694	100%	0
2002	14,256	14,256	100%	0
2003	14,626	14,626	100%	0

(8) Contingency – Constitutional Amendment

In November 1992, the Colorado voters passed a constitutional amendment (Tabor Amendment) to the State Constitution (Article X, Section 20) which requires voter approval for any increases in mill levies, revenue limits, spending limits and creation of multi-year debt. In addition, the amendment requires that a reserve be established for emergencies of 3% in 1995 and thereafter.

The Town has reserved \$80,052 within the General Fund for the emergency reserve under the Tabor amendment.

On April 7, 1998, the voters of the Town approved a referendum allowing the Town to collect, retain and expend the full proceeds of the Town's sales and property tax, state grants, fees and other revenues received from December 31, 1997 and thereafter.

The Town believes that it is in compliance with the provisions of the Tabor amendment. However, many provisions of the Tabor Amendment are complex and subject to further interpretation and will require judicial interpretation.

(9) Capital Leases

In 1999 the town entered into a lease – purchase for a copy machine.

The entire cost of the copier has been recorded in the General Fixed Assets Group of Accounts and the obligation for the remainder of the lease in the General Long-Term Debt Group of Accounts. The lease met the criteria of a capital lease since the benefits and risk of ownership have been transferred to the Town.

Following is a schedule of the future minimum lease payments under the capitalized lease together with the present value of the net minimum lease payments as of December 31, 2003:

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Year ended	December 31, 2004	<u>4,135</u>
Total Minimum Lease Payments		\$ 4,135
Less, Amount Representing Interest		<u>162</u>
Present Value of Net Minimum Lease Payments		<u>\$ 3,973</u>

The current portion of the present value of the net minimum lease payments is \$3,973.

(10) Long-Term Debt

General Obligation Bonds – The Town issues general obligation bonds to provide funds for the acquisition and construction of major capital facilities. General obligation bonds have been issued for proprietary activities only. Therefore they are reported in Enterprise Fund account group, as follows:

	<u>Total Payable</u>	<u>Current Portion</u>
Payable from Water Fund Revenues:		
Loan Payable to State of Colorado Water Conservation Board, 3.0%, matures annually through August 1, 2020	\$ 427,140	\$19,632
Loan Payable to State of Colorado Severance Tax Fund, 5.0%, matures annually through September 1, 2005	17,914	8,739
Serial Bonds:		
2001 General Obligation Water Refunding Bonds, 3.8% to 5.6%, matures annually through the year 2016	<u>590,000</u>	<u>35,000</u>
Total Payable from Water Fund	<u>\$1,035,054</u>	<u>\$63,371</u>

Revenue Bonds – The Town issues bonds where the government pledges income derived from the acquired or constructed assets or from a specific revenue source to pay debt service. Revenue bonds outstanding at December 31, 2003 are as follows:

	<u>Total Payable</u>	<u>Current Portion</u>
Payable from Water Fund Revenues:		
Serial Bonds:		
1992 Water Revenue Bonds, 5.5% mature annually through June 1, 2032	\$ 203,800	\$ 3,000
2000 Drinking Water Revenue Bonds, 4.5%, mature annually through August 1, 2020	1,272,895	59,582
Payable from Recreation Area Revenues:		
Serial Bonds:		
1974 Municipal Recreation Area Revenue Bonds, 5.0%, mature annually through January 1, 2014	<u>99,000</u>	<u>8,000</u>

TOWN OF LIMON, COLORADO
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Total Payable from Enterprise Funds	<u>\$1,575,695</u>	<u>\$70,582</u>
Payable from Sales and Use Tax Revenues:		
Serial Bonds:		
1999 Sales and Use Tax Refunding bonds, 5.125% to 5.625%, mature annually through December 1, 2012	<u>\$ 415,000</u>	<u>\$40,000</u>

Legal Debt Limit - The legal debt limit as defined by Colorado State Statutes, for General Obligation Bonds issued by the Town is as follows at December 31, 2003:

Actual Property Value (taxable)	\$90,697,521	
	<u>x 3%</u>	
	2,720,926	

General Obligation Bonds issued, other than for Water and Sewer purposes, which are specifically exempted for the limitation Available Debt Margin	-	<u>\$ 2,720,926</u>
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Changes in Long-Term Liabilities - During the year ended December 31, 2003 the following changes occurred in liabilities reported in the general long-term debt account group:

	<u>Balance</u> <u>12-31-02</u>	<u>Additions</u>	<u>Reductions</u>	<u>Balance</u> <u>12-31-03</u>
Revenue bonds	\$455,000		\$ 40,000	\$415,000
Capital leases	7,164		3,191	3,973
Accrued vacation payable	7,684		272	7,412
Closed landfill monitoring costs	<u>132,000</u>		<u>23,304</u>	<u>108,696</u>
	<u>\$601,848</u>	<u>NONE</u>	<u>\$ 66,767</u>	<u>\$535,081</u>

The Town's solid-waste landfill was closed and sealed in 1994 and monitoring began in 1996. The approximate annual cost is \$5,176 for the remaining 21 years of the monitoring period.

Debt Principal and Interest for Ensuing Years

	<u>General</u> <u>Obligation</u> <u>Water Bonds</u> <u>and Loans</u>	<u>Water</u> <u>Revenue</u> <u>Bonds</u>	<u>Municipal</u> <u>Recreation</u> <u>Area Revenue</u> <u>Bonds</u>	<u>Total</u> <u>Requirements</u> <u>Enterprise</u> <u>Funds</u>	<u>Sales</u> <u>Use Tax</u> <u>Revenue</u> <u>Bonds</u>
<u>Year</u>					
2004	106,261	146,985	12,950	266,196	62,719
2005	104,931	138,847	13,550	257,328	60,669
2006	93,862	141,883	13,100	248,845	63,619
2007	97,357	144,528	12,650	254,535	56,312

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2008	95,597	141,687	12,200	249,484	59,062
2009	98,757	138,575	13,750	251,082	56,531
2010	96,597	141,069	13,200	250,866	59,000
2011	94,347	137,782	12,650	244,779	61,188
2012	97,052	140,237	12,100	249,389	58,094
2013	94,452	136,235	11,550	242,237	
2014	96,802	132,583		229,385	
2015	93,832	134,198		228,030	
2016	95,807	130,258		226,065	
2017	32,447	131,501		163,948	
2018	32,447	132,576		165,023	
2019	32,447	126,293		158,740	
2020	32,447	126,503		158,950	
2021		14,020		14,020	
2022		13,997		13,997	
2023		14,049		14,049	
2024		13,976		13,976	
2025		13,978		13,978	
2026		13,953		13,953	
2027		13,900		13,900	
2028		13,917		13,917	
2029		13,901		13,901	
2030		13,852		13,852	
2031		13,867		13,867	
2032		13,358		13,358	
	<u>\$1,395,442</u>	<u>\$2,488,508</u>	<u>\$127,700</u>	<u>\$4,011,650</u>	<u>\$537,194</u>

These issues have certain early redemption provisions that could be utilized in future years at the option of the Board of Trustees.

(11) Risk Management

The Town is exposed to various risks of loss to torts, theft of, damage to, and destruction of assets, errors and omissions, injuries to employees, and natural disasters.

The Town carries commercial insurance for risks described below and employee health insurance. Settled claims resulting from these risks have not exceeded commercial insurance coverage in any of the past three years. The pools have certain deductibles, which resulted in an out of pocket cost to the Town of \$1,309 in year 2003.

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Property, Casualty, Errors and Omissions and Liability Insurance

The Town is exposed to various risks of loss related to property, casualty, errors and omissions and liability losses. In 1986 due to the excessive cost of this insurance, the Town joined together with other cities and towns in the State of Colorado to form the Colorado Intergovernmental Risk Sharing Agency (CIRSA), a public entity risk pool currently operating as a common risk management and insurance program for members. The Town pays an annual contribution to CIRSA for its insurance coverage. The member agreement provides that the pool will be self-sustaining through member contributions and additional assessments, if necessary, and the pool will purchase excess insurance through commercial companies for member's claims in excess of a specified self insurance retention, which is determined each policy year.

During 2003 the Town paid \$45,151 for insurance coverage to the pool and is included in the operating expense of the general and enterprise funds.

Workers' Compensation Insurance

The Town is exposed to various risks of loss related to injuries of employees while on the job. In 1989 the Town, due to the excessive cost of workers compensation insurance coverage, the Town joined together with other cities and towns in the State of Colorado to form the Colorado Intergovernmental Risk Sharing Agency, Workers Compensation Pool (CIRSA), a public entity risk pool currently operating as a carrier risk management and insurance program for members. The Town pays an annual contribution to CIRSA for its workers compensation insurance coverage. The member agreement provides that the pool will be self-sustaining through member contributions and additional assessments, if necessary, and the pool will purchase excess insurance through commercial companies for member claims in excess of a specified self insurance retention, which is determined each policy year.

During 2003 the Town paid \$40,967 for workers compensation coverage to the pool and is included in the operating expense of the general and enterprise funds.

(12) Deferred Revenues and Deposits

Deferred revenue and deposits consist of the following:

Property taxes	\$333,562
Unearned grant revenue	30,994
Deposit from State of Colorado - Monthly fee and account earnings for maintenance of the sewer system serving the Limon	

TOWN OF LIMON, COLORADO
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Correctional Facility. This deposit will eventually be returned to the State if the maintenance is less than accumulated amount.	58,427
Deferred capital contributed for future purchase of water rights.	<u>175,000</u>
	<u>\$597,983</u>

(13) Fund Balances and Retained Earnings

General Fund:

Reserved for:

Inventory	\$ 28,093	
Equipment replacement reserve	96,447	
Bond reserve fund	5,000	
Police contraband forfeiture funds	30,995	
Emergency reserve under Article X		
Section 20 of the Colorado Constitution	<u>80,052</u>	<u>\$240,587</u>

Unreserved:

Undesignated		<u>\$304,590</u>
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Special Revenue – Unreserved:

Designated for spending in 2004 budget	\$17,925	
Undesignated	<u>63,454</u>	<u>\$ 81,379</u>

Capital Projects:

Reserved for encumbrance		<u>\$ 6,098</u>
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Reserved Retained Earnings - Enterprise Funds:

Bond, equipment and operations reserves and special green fee funds described in Note 3.		<u>\$222,299</u>
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(14) Segment Information - Enterprise Funds

General accepted accounting principles require disclosure, as part of the Combined Statements, of certain information concerning individual funds:

Segment Information for Enterprise Funds:

TOWN OF LIMON, COLORADO
NOTES TO FINANCIAL STATEMENTS
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	Water Utility Fund	Sewer Utility Fund	Municipal Recreation Area	Airport Fuel Fund	Ambulance Service Fund	Total
Operating Revenues	\$895,556		\$113,154	\$16,926	\$183,056	\$1,208,692
Operating Expenses other than depreciation	533,987		128,429	14,658	143,506	820,580
Amortization	2,882					2,882
Depreciation	237,514		16,283		39,391	293,188
Operating income (loss)	121,173		(31,558)	2,268	159	92,042
Operating transfers in (out)	(31,658)	31,658	35,597	(1,000)	(5,000)	29,597
Non-operating Revenues(Expenses)	(75,340)		(4,870)		73,494	(6,716)
Net income (loss)	14,175	31,658	(831)	1,268	68,653	114,923
Contributed capital	2,669,143				277,135	2,946,278
Net working capital	90,910		1,603	4,478	88,060	185,051
Total assets	8,043,822		175,360	5,378	440,839	8,665,399
Bonds and other long-term liabilities payable from operating revenues	2,444,223		91,000			2,535,223
Total equity	5,101,958		72,311	4,478	433,328	5,612,075
Property and equipment:						
Additions	126,373		994		136,092	263,459
Deletions	14,045		7,145		14,708	35,898

(15) Assistance from Federal Government

	<u>Total Grant</u>	<u>Earned in 2003</u>
Department of Health and Human Services, Office for Children and Families. Head Start Pass-through grant to the local child-care center.	<u>\$590,796</u>	\$590,796
U.S. Dept. of Transportation through the Colorado Department of Transportation for Public transportation.	<u>\$ 2,376</u>	\$ 2,376
Department of Treasury for approved police equipment	<u>\$ 33,057</u>	\$ 2,402

TOWN OF LIMON, COLORADO
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Department of Health and Human Services through Colorado Rural Health Center for emergency medical training	<u>\$ 4,808</u>	\$ 4,808
Department of Transportation for airport culvert engineering	<u>\$ 78,862</u>	\$ 21,285
Department of Transportation for airport design engineering	<u>\$ 71,138</u>	\$ 48,323
Department of Justice for police protection vests	<u>\$ 367</u>	\$ 367
Environmental Protection Agency, for interest earnings subsidy for bonding provided by the Colorado Water Resources and Power Development Authority for construction of a water treatment plant.		<u>\$ 21,900</u>
Total Federal Revenue		<u>\$ 692,257</u>

(16) Grants other than from Federal Government

	<u>Total Grant</u>	<u>Earned in 2002</u>	<u>Earned in 2003</u>
Colorado Department of Local Affairs Severance Tax Fund for various water projects	<u>\$210,365</u>	<u>\$ 43,358</u>	\$ 24,838
Colorado Department of Local Affairs, Energy and Mineral Impact Fund for pass-through grant to Colorado Rural Development Council	<u>\$360,000</u>		\$ 50,220
Colorado Department of Transportation, Aeronautics Division for airport runway repairs (\$31,557 was earned in 2001)	<u>\$105,000</u>		\$ 73,443
Colorado Department of Transportation, Aeronautics Division for airport runway repairs	<u>\$ 18,298</u>		\$ 18,298
Colorado Department of Transportation, Aeronautics Division for airport culvert engineering	<u>\$ 36,111</u>		\$ 1,183
Colorado Department of Public Health for purchase of new ambulance and equipment	<u>\$ 38,754</u>		\$ 38,754

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Mountain View Round-up Fund, Inc. for Ambulance Fund equipment	<u>\$ 4,299</u>	<u>\$ 4,299</u>
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Total other grants		<u>\$211,035</u>
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(17) Capital Outlay

	<u>Budget</u>	<u>Actual</u>
General Fund:		
Administration	\$ 3,000	\$ 2,760
Streets	15,299	5,480
Public Safety	12,569	11,233
Public Health - Cemetery	299	180
Culture & Recreation	<u>4,350</u>	<u>2,631</u>
	<u>\$ 35,517</u>	<u>\$22,284</u>
Special Revenue Fund:		
Park Improvements	\$ 6,800	\$12,250
Golf Course Improvements	1,600	
Cemetery Improvements	<u>8,500</u>	<u>7,676</u>
	<u>\$ 16,900</u>	<u>\$19,926</u>
Capital Projects Fund	<u>\$175,099</u>	<u>\$200,209</u>

(18) Interfund Transactions

Interfund receivable and payable are included within the balance sheet as they are current obligation and receivable of the appropriate fund. No eliminations have been made for interfund transactions.

The Town had the following interfund transactions during 2003:

Payments from the General and Enterprise Funds to the Employees' Pension Plan totaling \$58,336 are included as operating revenue and expenditures of each respective fund.

Transfer from General Fund to Municipal Recreation Area Fund for general purposes.	\$ 35,597
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Transfer from General Fund to Capital Projects Fund for airport improvements	<u>42,775</u>
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Total General Fund Transfers	<u>\$ 78,372</u>
Transfer from Airport Fuel Fund to Capital Projects Fund for airport improvements	<u>\$ 1,000</u>
Transfer from Ambulance Service Fund to General Fund for rescue training	<u>\$ 5,000</u>
Transfer from Water Utility to Close the Sewer Utility Fund, which was combined with the Water Utility Fund on January 1, 2003.	<u>\$ 31,658</u>

Amounts due to/from other funds at December 31, 2003:

Due to General Fund from Head Start Fund for money advanced to the local child care center under the Head Start grant, pending reimbursement from the Federal government	\$ 86,435
Due to General Fund from Rural Development Fund for money advanced to Colorado Rural Development Council under the Colorado grant, pending reimbursement from Colorado	\$ 30,220
Due to the Employees' Pension Plan by the General and Proprietary Fund Types for the Town's 2003 retirement contribution	<u>\$ 19,976</u>
	<u>\$136,631</u>

(19) Statement of Cash Flows - Supplemental Information

Interest paid	
Water Fund	\$110,463
Municipal Recreation Area	<u>5,350</u>
	<u>\$115,813</u>
Non-Cash Transactions	
Water Fund	
Interest Subsidy	<u>\$ 21,900</u>

For additional cash flow information see Note 2.

TOWN OF LIMON, COLORADO
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(20) Contract Commitments

On June 6, 2003, the Town entered into an agreement for engineering services for improvements at the municipal airport. The total contract is \$79,043, with \$53,693 paid by December 31, 2003, and \$25,350 remaining.

(21) Contingent Construction Payable

During the year 2000, the Town obtained two acres of land for a water treatment plant, in exchange for providing certain street, water and sewer improvements for seller's adjacent property. The agreed-upon value was \$114,000. The Town's obligation in this trade broke down into two elements: an obligation to complete certain improvements with an estimated cost of \$41,622, which were completed by the Town in 2001, and a contingent liability to pay the seller's obligation of \$72,378 for improvements in the event the seller develops the adjacent land within 20 years.

(22) Employment Agreements

During 2003, the Town entered into employment agreements with four members of management. The agreements cover a variety of matters, including lump sum payment of three months' salary and three months' benefits, in the event the Board does not reappoint the employee after a regular municipal election, and he is willing and able to perform his duties.

(23) Subsequent Event

On June 2, 2004, the Town sold \$2,280,000 of serial water revenue bonds, payable with interest at 2.75% to 6.0% over 20 years. The average payment per year is \$199,473. Proceeds were used as follows:

Retire 1992 water revenue bonds	\$ 209,418
Underwriter's discount and issuance fees	\$ 68,071
Town received for purchase of land and construction of storage tank and water lines	<u>\$2,002,511</u>
Total	<u>\$2,280,000</u>

On June 2, 2004, the Town purchased land, improvements, and water rights for \$689,454. The Town resold the real property to Frazier Farms for \$331,600, payable with interest at 5.369% over 20 years. Payments are \$13,728 per year.

The Town entered into a lease agreement with Frazier Farms to lease the water rights for 10 years at no charge as part of the consideration for the sale of the real property. The lease contains a provision to temporarily terminate if the Town has an emergency shortage, then extend the lease to its original 10 year term and compensate Frazier Farms for any crop losses.