

TOWN OF LIMON, COLORADO
MANAGEMENT'S DISCUSSION AND ANALYSIS
DECEMBER 31, 2004

For the December 31, 2004 financial statements, the Town is in the first 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 transmittal letter at the beginning of this Audit and 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 \$911,564 or 10.23% during the year. The governmental net assets increased by \$506,688, or 15.36%, and the business-type net assets increased by \$404,876, or 7.21%.
- The governmental activities revenue changed from \$2,561,255 in 2003 to \$3,145,826 in 2004 an increase of \$584,571 or 22.8%.
- The governmental activities expenditures changed from \$2,392,168 in 2003 to \$2,639,138 in 2004 an increase of \$246,970 or 10.3%.
- The business-type activities revenue changed from \$1,368,988 in 2003 to \$1,636,501 in 2004 an increase of \$267,513 or 19.5%.

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- The business-type activities expenditures changed from \$1,254,065 in 2003 to \$1,231,625 in 2004 a decrease of \$22,440 or (1.8%).
- The General Fund (the primary operating fund) reflected on a current financial resource basis, reports a decrease of \$14,753 or (2.67%) 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

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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 Fireman's Pension Fund and the Employee's Pension Fund. The Town is responsible for the assets in these funds and for reporting. The above funds are reported in separate statements of Fiduciary Net Assets and Change in Fiduciary Net Assets. They have been excluded from the Town's government-wide financial statements because the Town cannot use these funds 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 individual fund statements and budget schedules.

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.

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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.

The Town did not restate its December 31, 2003 financial statements in this first year of implementation of GASB 34. Comparative information will be provided in future years.

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

	Governmental Activities <u>Dec. 31, 2004</u>	Business-Type Activities <u>Dec. 31, 2004</u>	<u>Total</u>
Current assets	\$1,031,915	\$642,625	\$1,674,540
Restricted Assets	255,833	1,908,124	2,163,957
Other Non-current Assets	128,245	421,303	549,548
Capital assets-net	<u>3,653,840</u>	<u>8,096,384</u>	<u>11,750,224</u>
Total assets	<u>5,069,833</u>	<u>11,068,436</u>	<u>16,138,269</u>
Current Liabilities	740,271	461,201	1,201,472
Non-current Liabilities	<u>523,620</u>	<u>4,590,284</u>	<u>5,113,904</u>
Total liabilities	<u>1,263,891</u>	<u>5,051,485</u>	<u>6,315,376</u>
Net assets	<u>\$ 3,805,942</u>	<u>\$6,016,951</u>	<u>\$ 9,822,893</u>
Net assets consist of:			
Invested in capital assets	3,082,001	4,867,275	7,949,276
Restricted net assets	120,336	109,468	229,804
Unrestricted net assets	<u>603,605</u>	<u>1,040,208</u>	<u>1,643,813</u>
Net assets	<u>\$ 3,805,942</u>	<u>\$6,016,951</u>	<u>\$ 9,822,893</u>

The fund balance of the Town's governmental funds as of December 31, 2004 was \$3,805,942 of which \$603,605 was unrestricted and is available for spending at the government's discretion. The remainder is invested in capital assets, net of related debt (\$3,082,001), reserved for Emergency Reserve (\$82,563), Bond Reserve (\$6,080) and Federal Forfeiture Reserve (\$31,693).

The General Fund is the main operating fund of the Town. As of December 31, 2004, the General Fund balance was \$530,424 of which \$243,906 was unreserved. Unreserved fund balance represents 12.37% of 2004 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 Dec. 31, 2004	Business-Type Activities Dec. 31, 2004	Total
Program revenues:			
Operating Grants and Contributions	\$997,615	\$29,793	\$1,027,408
Capital Grants and Contributions	399,431	339,314	738,745
Charges for services	459,283	1,177,263	1,636,546
Total Program Revenue	<u>1,856,329</u>	<u>1,546,370</u>	<u>3,402,699</u>
General Revenues:			
Taxes	1,258,142		1,258,142
Investment earnings	9,036	38,577	47,613
Other	22,319		22,319
Total General Revenue	<u>1,289,497</u>	<u>38,577</u>	<u>1,328,074</u>
Total Revenue	<u>\$3,145,826</u>	<u>\$1,584,947</u>	<u>\$4,730,773</u>
Expenses			
General government	443,341		443,341
Airport	36,070		36,070
Public safety	539,155		539,155
Highways and streets	56,011		56,011
Public Works - Sanitation	391,557		391,557
Public Health - Cemetery	39,097		39,097
Culture and recreation	234,327		234,327
Head Start Program	609,833		609,833
Rural Development	215,312		215,312
Water		386,334	386,334
Water Treatment Plant		234,208	234,208
Sewer		236,986	236,986
Municipal Recreation Area		147,920	147,920
Airport Fuel Fund		18,234	18,234
Ambulance Service Fund		203,643	203,643
Interest and fiscal charges	22,881		22,881
Total expenses	<u>2,587,584</u>	<u>1,227,325</u>	<u>3,814,909</u>
Change in net assets before transfers and special items	558,242	357,622	915,864
Transfers	(51,554)	51,554	
Gain(loss) on sale of assets		(4,300)	(4,300)
Change in net assets	<u>506,688</u>	<u>404,876</u>	<u>911,564</u>
Beginning net assets, Restated	<u>3,299,254</u>	<u>5,612,075</u>	<u>8,911,329</u>
Ending net assets	<u>\$3,805,942</u>	<u>\$6,016,951</u>	<u>\$9,822,893</u>

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Governmental Activities revenues in the amount of \$3,145,826 were greater than expenses and transfers of \$2,639,138 by \$506,688 primarily due to grants received and used to purchase fixed assets. Business-type activities revenues and transfers in the amount of \$1,636,501 were greater than expenses and disposal of assets of \$1,231,625 by \$404,876 mostly due to grants received and used to purchase fixed assets.

BUDGETARY HIGHLIGHTS

The budget was amended on December 28, 2004 to include the following increases for expenditures not anticipated at the time of adoption of the original budget on December 4, 2003. The additional expenditures were funded by unanticipated revenue and/or the prior year's fund balance. Funds with appropriation increases:

<u>Fund</u>	<u>Original Budget</u>	<u>New Budget</u>	<u>Increase</u>
General Fund	1,668,470	2,115,470	447,000
Utility Fund	1,071,333	2,200,000	1,128,667
Ambulance Service Fund	164,770	400,000	235,230
Airport Fuel Fund	15,900	17,500	1,600
Conservation Trust Fund	8,400	11,500	3,100
Cemetery Perpetual Fund	21,925	35,000	13,075
Head Start Fund	584,948	614,079	29,131
Firemen's Pension Fund	19,300	30,000	10,700

- Changes in the General Fund Budget are attributable to the creation of Limon Special Improvement District No. 1, purchase of the Monks Gravel Pit, the contract with Ports-to-Plains Trade Corridor Coalition for Services, and Fire/EMS Grants.
- Changes in the Utility Fund Budget are attributable to projects associated with the 2004 Water Revenue Bonds including refinancing of Water Storage Tank Bonds and the purchase of Dickens Ranch Water Rights.
- Changes in the Ambulance Service Budget were attributable to the purchase of buildings for use by the Ambulance Service.

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CAPITAL ASSETS AND DEBT ADMINISTRATION

Capital Assets

As of December 31, 2004, Limon investment in capital assets for its governmental and business type activities net of accumulated depreciation was \$11,750,224. This included infrastructure assets acquired since January 1, 2004. Capital assets including land, buildings, streets, utility systems and equipment are as follows:

	Governmental Activities Dec. 31, 2004	Business-Type Activities Dec. 31, 2004	Total
Land	\$ 1,339,838	\$ 243,476	\$ 1,583,314
Buildings and Water & Sewer Systems	2,270,681	8,480,627	10,751,308
Construction In Progress		349,546	349,546
Equipment	1,551,516	1,008,859	2,560,375
Other Capital Assets		1,048,995	1,048,995
Infrastructure	495,291		495,291
Total	\$ 5,657,326	\$11,131,503	\$16,788,829
Accumulated Depreciation	(2,003,486)	(3,035,119)	(5,038,605)
Capital Assets, Net	\$ 3,653,840	\$ 8,096,384	\$11,750,224

This year's major capital asset additions included:

- Improvements to the airport, specifically runway improvements in the amount of \$362,998
- Purchase of a Gravel Pit in the amount of \$90,140
- Special Improvement District No. 1, including asphalt streets and concrete sidewalk, curb & gutter in the amount of \$97,650
- Improvements to Cemetery, specifically asphalt paving in the amount of \$34,643
- Purchase of Facilities for Limon Ambulance Service in the amount of \$225,161
- Purchase of Water Rights from the Dickens Ranch in the amount of \$367,848
- Water well, storage, and distribution projects of \$309,159

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Long-term Debt

As of December 31, 2004 the Town had \$5,353,971 in outstanding debt.

	Governmental Activities Dec. 31, 2004	Business-Type Activities Dec. 31, 2004	Total
Revenue Bonds	\$ 375,000		\$ 375,000
Special Assessment Bond	100,000		100,000
Capital Leases	96,839		96,839
Bonds Payable:			
2004 Water Revenue		2,220,000	2,220,000
2001 Water G.O.		555,000	555,000
2000 Water Revenue		1,213,313	1,213,313
1974 Mun. Rec. Area		91,000	91,000
Loans Payable:			
Colorado Water Conservation Board		407,508	407,508
Colorado Severance Tax Fund		9,175	9,175
Capital Lease		240,661	240,661
Colorado Maintenance Fee		45,475	45,475
	<u>\$ 571,839</u>	<u>\$ 4,782,132</u>	<u>\$ 5,353,971</u>

- Taxable Water Revenue Improvement Bonds, Series 2004A in the amount of \$360,000 and Water Revenue Refunding and Improvement Bonds, Series 2004B in the amount of \$1,920,000 were issued during 2004. This bonding includes the purchase of Dickens Ranch Water Rights, Main Street Water Distribution Line, 1.0 million Gallon Water Storage Tank and Mock Well Field Water Transmission Line.
- Certificates of Participation, Series 2004 in the amount of \$337,000 for the purchase of gravel pit and facilities for the Limon Ambulance Service were issued during 2004.

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- Special Assessment Bonds in the amount of \$100,000 were issued which provide for payment of the Bond from Special Assessments imposed on property within Limon Special Improvement District No. 2004-1.

ECONOMIC FACTORS AND NEXT YEAR'S BUDGETS AND RATES

- Sales tax revenues budgeted for 2005 is \$795,000 that is \$19,313 more than 2004 actual.
- The property tax revenue budgeted for 2005 is \$336,975 that is \$8,743 more than 2004 actual.
- Governmental funds revenues were budgeted at \$3,015,118, which is a decrease of (7.45%) from the 2004 actual revenues. Governmental revenue and expenditures included direct pass-through grants to other entities. The 2005 budgeted direct pass-through amounts for 2005 are \$944,948, which is an increase of \$25,115 over the 2004 actual amounts of \$919,833. The 2005 budgeted expenditures for governmental activities are projected to be \$3,030,424, which is a (8.1%) decrease from the 2004 actual.
- Proprietary funds revenues were budgeted at \$1,807,198, which is a decrease of (60%) from the 2004 actual revenues. This was mainly due to bond proceeds received in 2004 not budgeted in 2005. Improvements of \$1,669,130 are budgeted for water system improvements. Budgeted expenditures of \$2,980,394 represent an increase over 2004 actual of 9.9%.

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.