

Town of Limon, Colorado
Management's Discussion and Analysis
December 31, 2015

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 decreased by \$238,638 or 1.5% during the year. The governmental net position decreased by \$414,795 or 5.3%, and the business-type net position increased by \$176,157, or 2.1%.
- The governmental activities revenue changed from \$3,325,935 in 2014 to \$3,501,679 in 2015 for an increase of \$535,414 or 16.1%. This increase is due primarily to increases in grants and tax income.
- The governmental activities expenditures changed from \$3,287,105 in 2014 to \$3,916,474 in 2015, an increase of \$629,369 or 19.1%. The increase is due primarily to an increase in general and public safety expenditures.
- The business-type activities revenue changed from \$1,999,079 in 2014 to \$1,904,652 in 2015, a decrease of \$94,427 or 4.7%. This decrease is due primarily to decreased transfers.
- The business-type activities expenditures changed from \$1,778,154 in 2014 to \$1,728,495 in 2015, a decrease of \$49,659 or 2.8%. This increase is due primarily to increased water and ambulance expenditures.
- The General Fund (the primary operating fund) reflected on a current financial resource basis, reports a decrease of \$12,780 or 1.3% in fund balance. This decrease is due primarily to capital outlays and operating transfers.

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 Recreation Area, 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:

ASSETS	Governmental Activities		Business-Type Activities		Total	Total
	2015	2014 (restated)	2015	2014	2015	2014 (restated)
Current assets	\$ 1,242,670	\$ 1,046,416	\$ 1,258,586	\$ 1,211,062	\$ 2,501,256	\$ 2,257,478
Restricted assets	464,093	433,773	986,815	886,813	1,450,908	1,320,586
Other non-current assets	184,406	198,279	302,193	338,560	486,599	536,839
Capital assets, net	<u>7,106,384</u>	<u>7,480,055</u>	<u>9,549,079</u>	<u>9,722,499</u>	<u>16,655,463</u>	<u>17,202,554</u>
Total assets	<u>8,997,553</u>	<u>9,158,523</u>	<u>12,096,673</u>	<u>12,158,934</u>	<u>21,094,226</u>	<u>21,217,457</u>
DEFERRED OUTFLOW OF RESOURCES						
Deferred outflows - pension	<u>157,770</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>157,770</u>	<u>-</u>
Total deferred outflow of resources	<u>157,770</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>157,770</u>	<u>-</u>
LIABILITIES						
Current liabilities	395,729	167,889	409,534	398,012	805,263	565,901
Non-current liabilities	<u>988,982</u>	<u>806,986</u>	<u>3,084,492</u>	<u>3,334,432</u>	<u>4,073,474</u>	<u>4,141,418</u>
Total liabilities	<u>1,384,711</u>	<u>974,875</u>	<u>3,494,026</u>	<u>3,732,444</u>	<u>4,878,737</u>	<u>4,707,319</u>
DEFERRED INFLOW OF RESOURCES						
Deferred property taxes	<u>322,666</u>	<u>320,907</u>	<u>-</u>	<u>-</u>	<u>322,666</u>	<u>320,907</u>
Total deferred inflow of resources	<u>322,666</u>	<u>320,907</u>	<u>-</u>	<u>-</u>	<u>322,666</u>	<u>320,907</u>
NET POSITION	<u>\$ 7,447,946</u>	<u>\$ 7,862,741</u>	<u>\$ 8,602,647</u>	<u>\$ 8,426,490</u>	<u>\$ 16,050,593</u>	<u>\$ 16,289,231</u>
Net Position consist of:						
Invested in capital assets	\$ 6,510,067	\$ 6,842,799	\$ 6,546,885	\$ 6,469,848	\$ 13,056,952	\$ 13,312,647
Restricted net position	464,093	433,773	376,734	376,427	840,827	810,200
Unrestricted net position	<u>473,786</u>	<u>586,169</u>	<u>1,679,028</u>	<u>1,580,215</u>	<u>2,152,814</u>	<u>2,166,384</u>
Total net position	<u>\$ 7,447,946</u>	<u>\$ 7,862,741</u>	<u>\$ 8,602,647</u>	<u>\$ 8,426,490</u>	<u>\$ 16,050,593</u>	<u>\$ 16,289,231</u>

The net position of the Town's governmental activities as of December 31, 2015 were \$7,447,946 of which \$473,786 was unrestricted and is available for spending at the government's discretion. The remainder is net investment in capital assets of \$6,510,067, reserved for Emergency Reserve of \$78,978 and Capital Replacement Reserve of \$385,115.

The General Fund is the main operating fund of the Town. As of December 31, 2015, the General Fund balance was \$983,317, of which \$255,620 was unassigned. Unassigned fund balance represents 10.0% of 2015 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	Total
	2015	2014 (restated)	2015	2014	2015	2014 (restated)
Program revenues:						
Operating grants and contributions	\$ 905,784	\$ 954,010	\$ 200,997	\$ 161,430	\$ 1,106,781	\$ 1,115,440
Capital grants and contributions	321,518	107,720	11,292	17,000	332,810	124,720
Charges for services	<u>589,117</u>	<u>572,680</u>	<u>1,650,861</u>	<u>1,645,878</u>	<u>2,239,978</u>	<u>2,218,558</u>
Total program revenue	<u>1,816,419</u>	<u>1,634,410</u>	<u>1,863,150</u>	<u>1,824,308</u>	<u>3,679,569</u>	<u>3,458,718</u>
General revenues:						
Taxes	1,642,650	1,570,425	-	-	1,642,650	1,570,425
Investment earnings	5,271	4,942	12,165	12,988	17,436	17,930
Insurance proceeds	10,719	64,649	-	61,719	10,719	123,368
Other	<u>26,620</u>	<u>54,509</u>	<u>-</u>	<u>-</u>	<u>26,620</u>	<u>54,509</u>
Total general revenue	<u>1,685,260</u>	<u>1,691,525</u>	<u>12,165</u>	<u>74,707</u>	<u>1,697,425</u>	<u>1,766,232</u>
Total Revenue	<u>\$ 3,501,679</u>	<u>\$ 3,325,935</u>	<u>\$ 1,875,315</u>	<u>\$ 1,899,015</u>	<u>\$ 5,376,994</u>	<u>\$ 5,224,141</u>
Expenses						
General government	\$ 1,020,984	\$ 815,123	\$ -	\$ -	\$ 1,020,984	\$ 815,123
Airport	191,516	31,781	-	-	191,516	31,781
Public safety	686,254	420,110	-	-	686,254	420,110
Highways and streets	635,000	584,467	-	-	635,000	584,467
Public works - sanitation	221,140	231,244	-	-	221,140	231,244
Public health - cemetery	65,420	63,048	-	-	65,420	63,048
Culture and recreation	393,455	364,067	-	-	393,455	364,067
Head Start Program	648,961	648,961	-	-	648,961	648,961
Water	-	-	461,450	492,510	461,450	492,510
Water treatment plant	-	-	241,442	234,886	241,442	234,886
Sewer	-	-	338,458	332,296	338,458	332,296
Municipal recreation area	-	-	229,612	237,565	229,612	237,564
Airport fuel fund	-	-	35,748	36,518	35,748	36,518
Ambulance service fund	-	-	421,537	444,379	421,537	443,569
Interest and fiscal charges	<u>24,407</u>	<u>27,429</u>	<u>-</u>	<u>-</u>	<u>24,407</u>	<u>13,824</u>
Total expenses	<u>\$ 3,887,137</u>	<u>\$ 3,186,230</u>	<u>\$ 1,728,495</u>	<u>\$ 1,778,154</u>	<u>\$ 5,615,632</u>	<u>\$ 4,964,384</u>
Changes in net position before transfers and special items	(385,458)	139,705	146,820	120,861	(238,638)	260,566
Transfers	<u>(29,337)</u>	<u>(100,875)</u>	<u>29,337</u>	<u>100,875</u>	<u>-</u>	<u>-</u>
Change in net position	(414,795)	38,830	176,157	221,736	(238,638)	260,566
Beginning net position (restated)	<u>7,862,741</u>	<u>7,823,911</u>	<u>8,426,490</u>	<u>8,204,754</u>	<u>16,289,231</u>	<u>16,028,665</u>
Ending net position	<u>\$ 7,447,946</u>	<u>\$ 7,862,741</u>	<u>\$ 8,602,647</u>	<u>\$ 8,426,490</u>	<u>\$16,050,593</u>	<u>\$16,289,231</u>

Governmental Activities revenues in the amount of \$3,501,679 were less than expenses and transfers of \$3,916,474 by \$414,795. Business-type activities revenues and transfers in the amount of \$1,904,652 were more than expenses of \$1,728,495 by \$176,157.

BUDGETARY HIGHLIGHTS

The budget was amended on December 29, 2015 and March 3, 2016 to include the following increases for expenditures not anticipated at the time of adoption of the original budget on December 4, 2014. The additional expenditures were funded by unanticipated revenue and/or the prior year's fund balance. Funds with appropriation increases:

	Original <u>Budget</u>	Final <u>Budget</u>	<u>Increase</u>
General Fund	\$2,533,876	\$2,783,876	\$ 250,000
Recreation Area Fund	223,421	296,926	73,505
Employee Pension Fund	12,700	122,700	110,000
Ambulance Fund	382,606	442,606	<u>60,000</u>
			<u>\$ 493,505</u>

- Changes in the General Fund Budget are attributable to capital outlays and street expenditures. This increase in expenditure was offset by proceeds from taxes.
- Changes in the Recreation Area Fund Budget included capital expenditures and salaries. This increase was funded primarily through proceeds from prior-period fund balance.
- Changes in the Employee Pension Fund were due to increased benefit payments. The increase was funded by prior year net position.
- Changes in the Ambulance Fund were due primarily to capital expenditures and salaries. The increase was funded by sales.

CAPITAL ASSETS AND DEBT ADMINISTRATION

Capital Assets – As of December 31, 2015, Limon's investment in capital assets for its governmental and business type activities, net of accumulated depreciation, was \$16,655,463. 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	
	2015	2014	2015	2014	2015	2014
Land	\$ 1,223,226	\$ 1,278,989	\$ 241,797	\$ 243,476	\$ 1,465,023	\$ 1,522,465
Buildings and water and sewer systems	2,833,881	3,201,735	13,641,288	13,430,219	16,475,169	16,631,954
Equipment	2,647,072	2,516,087	1,516,125	1,536,797	4,163,197	4,052,884
Other capital assets	-	-	1,048,995	1,048,995	1,048,995	1,048,995
Construction in progress	-	-	-	9,957	-	9,957
Infrastructure	<u>4,935,344</u>	<u>4,873,328</u>	<u>-</u>	<u>-</u>	<u>4,935,344</u>	<u>4,873,328</u>
Total	\$ 11,639,523	\$ 11,870,139	\$ 16,448,205	\$ 16,269,444	\$ 28,087,728	\$ 28,139,583
Accumulated depreciation	<u>(4,533,139)</u>	<u>(4,390,084)</u>	<u>(6,899,126)</u>	<u>(6,546,945)</u>	<u>(11,432,265)</u>	<u>(10,937,029)</u>
Capital assets, net	<u>\$ 7,106,384</u>	<u>\$ 7,480,055</u>	<u>\$ 9,549,079</u>	<u>\$ 9,722,499</u>	<u>\$ 16,655,463</u>	<u>\$ 17,202,554</u>

This year's major capital asset additions include:

- Softball improvements - \$49,653
- Street repair and improvements - \$96,216
- Sewer system repairs and improvements - \$196,140

Long-term Debt – As of December 31, 2015 the Town had \$3,932,497 in outstanding debt as follows.

	Governmental Activities		Business-Type Activities		Total	Total
	2015	2014	2015	2014	2015	2014
Special assessment bonds	\$ 163,000	\$ 185,000	\$ -	\$ -	\$ 163,000	\$ 185,000
Bonds payable:						
2000 Water Revenue	-	-	454,992	536,241	454,992	536,241
2012 Water Revenue	-	-	2,490,000	2,640,000	2,490,000	2,640,000
2012 Bond Premium	-	-	52,421	57,707	55,421	57,707
Loans payable:						
Lease-Purchase	433,317	452,256	319,770	333,746	753,087	786,002
Colorado maintenance fee	-	-	18,997	17,247	18,997	17,247
Total	<u>\$ 596,317</u>	<u>\$ 637,256</u>	<u>\$ 3,336,180</u>	<u>\$ 3,584,941</u>	<u>\$ 3,932,497</u>	<u>\$ 4,222,197</u>

ECONOMIC FACTORS AND NEXT YEAR'S BUDGETS AND RATES

- Sales tax revenues budgeted for 2016 is \$1,089,782, which is \$24,524 less than 2015 actual.
- The property tax revenue budgeted for 2016 is \$322,666, which is \$2,386 less than 2015 actual.
- Governmental funds revenues were budgeted at \$3,347,131 in 2016, which is an increase of 4.8% from the 2015 actual revenues. Governmental revenue and expenditures included direct pass-through grants to other entities. The 2016 budgeted direct pass-through amounts are \$648,961, which is the same as the 2015 actual amount. The 2015 budgeted expenditures for governmental activities are projected to be \$3,596,340, which is a 3.1% increase from the 2015 actual.
- Proprietary funds revenues were budgeted at \$2,247,641 for 2016, which is an increase of 6.0% from the 2015 actual revenues. 2016 budgeted expenditures of \$1,958,995 represent an increase from 2015 actual expenditures of 30.0%.

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.