

TOWN OF LIMON, COLORADO
MANAGEMENT'S DISCUSSION AND ANALYSIS
DECEMBER 31, 2005

For the December 31, 2005 financial statements, the Town is in the second year of reporting a major new reporting format in compliance with the Governmental Accounting Standards Board Statement Number 34 also known as GASB34.

In compliance with this reporting requirement, we present this report titled Management's Discussion and Analysis, or MD&A. Please read the MD&A in conjunction with the financial statements and notes to the financial statements, which begin on page 16. The GASB34 statements are listed and described below with additional information in the accompanying text:

- Statements of Net Assets, the balance sheet that combines all funds on a Town-wide basis.
- Statement of Activities, the income statement that combines all funds on a Town-wide basis.
- Statements for Governmental funds, which combines Governmental funds such as the General, Conservation Trust, Cemetery Perpetual Care, Head Start and other funds.
- Statements for Business-type funds, the label for the Town's Proprietary funds such as Utility, Recreation Area, Ambulance and Airport Fuel.

As stated above, the purpose of the MD&A is to provide, in lay terms, an explanation of the effect on the Town's financial position of factors such as local economic and business factors, and to explain the reasons for changes in the financial position of the Town. It will closely resemble the MD&A produced for decades by private industry and publicly traded companies. This discussion starts with a summary of the economic factors affecting the Town during this past year, and then moves on to a more detailed discussion of fund statements and funds.

FINANCIAL HIGHLIGHTS

- The Town's total net assets increased by \$1,045,246 or 10.64% during the year. The governmental net assets increased by \$661,107 or 17.37%, and the business-type net assets increased by \$384,139, or 6.38%.
- The governmental activities revenue changed from \$3,145,826 in 2004 to \$3,368,185 in 2005 an increase of \$222,359 or 7.07%.
- The governmental activities expenditures changed from \$2,639,138 in 2004 to \$2,707,078 in 2005 an increase of \$67,940 or 2.57%.
- The business-type activities revenue changed from \$1,636,501 in 2004 to \$1,718,051 in 2005 an increase of \$81,550 or 4.98%.
- The business-type activities expenditures changed from \$1,231,625 in 2004 to \$1,333,912 in 2005 a increase of \$102,287 or 8.31%

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- The General Fund (the primary operating fund) reflected on a current financial resource basis, reports an increase of \$317,085 or 59.78% in fund balance.

OVERVIEW OF THE FINANCIAL STATEMENTS

This annual report consists of four parts – management's discussion and analysis, the basic financial statements, required supplementary information, and a section that presents combining statements for nonmajor governmental funds.

Basic financial statements - include two kinds of statements that present different views of the Town.

- **Government-wide financial statements** provide both long-term and short-term information about the Town's overall financial status. The required financial statements include statement of net assets, and statement of activities. The measurement focus is on economic resources and accrual accounting is used. Assets and liabilities include both financial and capital and are reported as short and long term. Revenues and expenses are included regardless of when cash is received or paid.
- **Fund Financial Statements** focus on the individual parts of the Town reporting in more detail the Town's operations.
 1. **Governmental Funds** show how general government services like public safety, public works, recreation, and general government administration were financed in the short term and what remains for future spending. The required financial statements are a balance sheet and statement of revenues, expenditures and changes in fund balance. Only assets expected to be used and liabilities that come due during the year or soon thereafter are included. Capital assets are not included as assets. The measurement focus is on current financial resources and modified accrual accounting is used to report revenues and expenses that are received during the year or soon thereafter.
 2. **Proprietary Funds** include activities, such as the water, water treatment and sewer systems, the Municipal Recreation, Airport Fuel, and Ambulance Service, are operated similar to private business with an economic resource focus and accrual accounting. The required financial statements include Statement of Net Assets, Statement of Revenues, expenses, and changes in Net Assets, and Statement of cash flows. All assets and liabilities, both financial and capital, long and short-term are 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

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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 budgetary comparison schedules for the General Fund and major special revenue funds.

Other Supplementary Information includes combining statements for nonmajor governmental funds and budget comparison schedules for all nonmajor special revenue funds, capital project funds, and proprietary funds.

GOVERNMENT-WIDE FINANCIAL ANALYSIS

The government-wide statements report information about the Town as a whole using accounting methods similar to those used by private-sector companies. The statement of net assets includes all of the government's assets and liabilities. All of the current year's revenues and expenses are accounted for in the statement of activities regardless of when cash is received or paid.

The two government-wide statements report the Town's net assets and how they have changed. Net assets-the difference between the Town's assets and liabilities- is one way to measure the Town's financial health, or position.

- Over time, increases or decreases in the Town's net assets are an indicator of whether its financial health is improving or deteriorating, respectively.
- To assess the overall health of the Town, additional non-financial factors need to be considered, such as changes in the Town's property tax base and the condition of the Town's roads.

The government-wide financial statements of the Town are divided into two categories:

Governmental Activities – Most of the Town's basic services are included here, such as police, streets, parks and recreation departments, and general administration. Sales taxes, property taxes, franchise taxes, and charges for services finance most of these activities.

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.

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

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	Governmental Activities		Business-Type Activities		Total	
	2004	2005	2004	2005	2004	2005
Current assets	\$ 1,031,915	\$ 792,628	\$ 642,625	\$ 582,155	\$ 1,674,540	\$ 1,374,783
Restricted Assets	255,833	571,802	1,908,124	893,289	2,163,957	1,465,091
Other Non-current Assets	128,245	463,915	421,303	403,460	549,548	867,375
Capital assets-net	3,653,840	4,014,032	8,096,384	9,315,881	11,750,224	13,329,913
Total assets	<u>5,069,833</u>	<u>5,842,377</u>	<u>11,068,436</u>	<u>11,194,785</u>	<u>16,138,269</u>	<u>17,037,162</u>
Current Liabilities	740,271	597,703	461,201	388,774	1,201,472	986,477
Non-current Liabilities	523,620	777,625	4,590,284	4,404,921	5,113,904	5,182,546
Total liabilities	<u>1,263,891</u>	<u>1,375,328</u>	<u>5,051,485</u>	<u>4,793,695</u>	<u>6,315,376</u>	<u>6,169,023</u>
Net assets	<u>\$ 3,805,942</u>	<u>\$ 4,467,049</u>	<u>\$ 6,016,951</u>	<u>\$ 6,401,090</u>	<u>\$ 9,822,893</u>	<u>\$ 10,868,139</u>
Net assets consist of:						
Invested in capital assets	3,082,001	3,180,407	4,867,275	4,784,506	7,949,276	7,964,913
Restricted net assets	120,336	403,518	109,468	114,874	229,804	518,392
Unrestricted net assets	603,605	883,124	1,040,208	1,501,710	1,643,813	2,384,834
Net assets	<u>\$ 3,805,942</u>	<u>\$ 4,467,049</u>	<u>\$ 6,016,951</u>	<u>\$ 6,401,090</u>	<u>\$ 9,822,893</u>	<u>\$ 10,868,139</u>

The net assets of the Town's governmental funds as of December 31, 2005 was \$4,467,049 of which \$883,124 was unrestricted and is available for spending at the government's discretion. The remainder is invested in capital assets, net of related debt (\$3,180,407), reserved for Emergency Reserve (\$85,072), Bond Reserve (\$242,106) and Loan Reserve (\$76,340).

The General Fund is the main operating fund of the Town. As of December 31, 2005, the General Fund balance was \$847,509 of which \$254,981 was unreserved. Unreserved fund balance represents 13.00% of 2005 General Fund expenditures.

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

	Governmental Activities		Business-Type Activities		Total	
	2004	2005	2004	2005	2004	2005
Program revenues:						
Operating Grants and Contributions	\$ 997,615	\$ 996,674	\$ 29,793	\$ 60,347	\$ 1,027,408	\$ 1,057,021
Capital Grants and Contributions	399,431	264,161	339,314	282,680	738,745	546,841
Charges for services	459,283	769,790	1,177,263	1,245,647	1,636,546	2,015,437
Total Program Revenue	1,856,329	2,030,625	1,546,370	1,588,674	3,402,699	3,619,299
General Revenues:						
Taxes	1,258,142	1,285,087			1,258,142	1,285,087
Investment earnings	9,036	21,041	38,577	51,944	47,613	72,985
Other	22,319	22,004			22,319	22,004
Total General Revenue	1,289,497	1,328,132	38,577	51,944	1,328,074	1,380,076
Total Revenue	\$ 3,145,826	\$ 3,358,757	\$ 1,584,947	\$ 1,640,618	\$ 4,730,773	\$ 4,999,375
Expenses						
General government	443,341	445,681			443,341	445,681
Airport	36,070	13,598			36,070	13,598
Public safety	539,155	394,448			539,155	394,448
Highways and streets	56,011	470,093			56,011	470,093
Public Works - Sanitation	391,557	154,276			391,557	154,276
Public Health - Cemetery	39,097	54,241			39,097	54,241
Culture and recreation	234,327	237,722			234,327	237,722
Head Start Program	609,833	619,056			609,833	619,056
Rural Development	215,312	170,177			215,312	170,177
Rural Health		42,000				42,000
Water			386,334	435,030	386,334	435,030
Water Treatment Plant			234,208	247,976	234,208	247,976
Sewer			236,986	250,363	236,986	250,363
Municipal Recreation Area			147,920	173,031	147,920	173,031
Airport Fuel Fund			18,234	28,020	18,234	28,020
Ambulance Service Fund			203,643	199,492	203,643	199,492
Interest and fiscal charges	22,881	28,353			22,881	28,353
Total expenses	2,587,584	2,629,645	1,227,325	1,333,912	3,814,909	3,963,557
Change in net assets before transfers and special items	558,242	729,112	357,622	306,706	915,864	1,035,818
Transfers	(51,554)	(77,433)	51,554	77,433		-
Gain(loss) on sale of assets		9,428	(4,300)		(4,300)	9,428
Change in net assets	506,688	661,107	404,876	384,139	911,564	1,045,246
Beginning net assets	3,299,254	3,805,942	5,612,075	6,016,951	8,911,329	9,822,893
Ending net assets	\$ 3,805,942	\$ 4,467,049	\$ 6,016,951	\$ 6,401,090	\$ 9,822,893	\$ 10,868,139

Governmental Activities revenues in the amount of \$3,368,185 were greater than expenses and transfers of \$2,707,078 by \$661,107 partially due to an increase in charges for services and partially due to grants received and used to purchase fixed assets. Business-type activities revenues and

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transfers in the amount of \$1,718,051 were greater than expenses and disposal of assets of \$1,333,912 by \$384,139 mostly due to grants received and used to purchase fixed assets.

BUDGETARY HIGHLIGHTS

The budget was amended on December 27, 2005 to include the following increases for expenditures not anticipated at the time of adoption of the original budget on December 2, 2004. 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	\$ 2,043,275	\$ 2,063,275	\$ 20,000
Municipal Recreation Area	\$ 144,511	\$ 195,000	\$ 50,489
Airport Fuel Fund	\$ 22,000	\$ 34,000	\$ 12,000
Conservation Trust Fund	\$ 32,950	\$ 40,000	\$ 7,050
Capital Projects Fund	\$ -	\$ 350,000	\$ 350,000
Head Start Fund	\$ 584,948	\$ 620,588	\$ 35,640
Employee's Pension Fund	\$ 27,000	\$ 70,000	\$ 43,000
Firemen's Pension Fund	\$ 19,300	\$ 31,982	\$ 12,682

- Changes in the General Fund Budget are attributable to the creation of Limon Special Improvement District No. 2-2005(a)(b)(c).
- Changes in the Recreation Area Fund Budget include increased usage costs and capital expenditures.
- Changes in the Capital Projects Fund Budget are due to the airport runway construction project that extended into 2005 from 2004.

CAPITAL ASSETS AND DEBT ADMINISTRATION

Capital Assets

As of December 31, 2005, Limon investment in capital assets for its governmental and business type activities net of accumulated depreciation was \$13,329,913. This included infrastructure assets acquired since January 1, 2004. Capital assets including land, buildings, streets, utility systems and equipment are as follows:

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	Governmental Activities		Business-Type Activities		Total	
	2004	2005	2004	2005	2004	2005
Land	\$ 1,339,838	\$ 1,277,569	\$ 243,476	\$ 243,476	\$ 1,583,314	\$ 1,521,045
Buildings and Water & Sewer Systems	2,270,681	2,270,681	8,480,627	10,287,418	10,751,308	12,558,099
Construction In Progress			349,546		349,546	-
Equipment	1,551,516	1,578,153	1,008,859	1,077,494	2,560,375	2,655,647
Other Capital Assets			1,048,995	1,048,995	1,048,995	1,048,995
Infrastructure	495,291	1,035,711			495,291	1,035,711
Total	\$ 5,657,326	\$ 6,162,114	\$ 11,131,503	\$ 12,657,383	\$ 16,788,829	\$ 18,819,497
Accumulated Depreciation	(2,003,486)	(2,148,082)	(3,035,119)	(3,341,502)	(5,038,605)	(5,489,584)
Capital Assets, Net	\$ 3,653,840	\$ 4,014,032	\$ 8,096,384	\$ 9,315,881	\$ 11,750,224	\$ 13,329,913

This year's major capital asset additions included:

- Improvements to the airport, specifically runway improvements in the amount of \$312,275.
- Improvements to the Water System including a one million gallon storage tank, new well field transmission line and replacement main on Main Street in the amount of \$1,406,452.
- Improvements to Sixth Street including asphalt and sidewalk curb and gutter in the amount of \$123,516.

Long-term Debt

As of December 31, 2005 the Town had \$5,427,956 in outstanding debt.

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	Governmental Activities		Business-Type Activities		Total	
	2004	2005	2004	2005	2004	2005
Revenue Bonds	\$ 375,000	\$ 335,000			\$ 375,000	\$ 335,000
Special Assessment Bonds	100,000	410,000			100,000	410,000
Capital Leases	96,839	88,625			96,839	88,625
Bonds Payable:						
2004 Water Revenue			2,220,000	2,175,000	2,220,000	2,175,000
2001 Water G.O.			555,000	520,000	555,000	520,000
2000 Water Revenue			1,213,313	1,159,147	1,213,313	1,159,147
1974 Mun. Rec. Area			91,000	82,000	91,000	82,000
Loans Payable:						
Colorado Water						
Conservation Board			407,508	387,286	407,508	387,286
Colorado Severance						
Tax Fund			9,175	-	9,175	-
Capital Lease			240,661	221,375	240,661	221,375
Colorado Maintenance Fee			45,475	49,523	45,475	49,523
	<u>\$ 571,839</u>	<u>\$ 833,625</u>	<u>\$ 4,782,132</u>	<u>\$ 4,594,331</u>	<u>\$ 5,353,971</u>	<u>\$ 5,427,956</u>

- Special Assessment Bonds in the amount of \$310,000 were issued which provide for payment of the Bond from Special Assessments imposed on property within Limon Special Improvement District No. 2005-2a, 2005-2b and 2005-2c.

ECONOMIC FACTORS AND NEXT YEAR'S BUDGETS AND RATES

- Sales tax revenues budgeted for 2006 is \$795,000 that is \$683 more than 2005 actual.
- The property tax revenue budgeted for 2006 is \$339,872 that is \$16,996 more than 2005 actual.
- Governmental funds revenues were budgeted at \$2,861,846, which is a decrease of 16.40% from the 2005 actual revenues. Governmental revenue and expenditures included direct pass-through grants to other entities. The 2006 budgeted direct pass-through amounts are \$967,088, which is an increase of \$135,855 over the 2005 actual amounts of \$831,233. The 2006 budgeted expenditures for governmental activities are projected to be \$2,844,235, which is an 11.19% decrease from the 2005 actual.
- Proprietary funds revenues were budgeted at \$2,081,279, which is an increase of 20.44% from the 2005 actual revenues. Improvements of \$754,324 are budgeted for wastewater system improvements. Budgeted expenditures of \$2,080,411 represent a decrease under 2005 actual of 24.30%.

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REQUESTS FOR INFORMATION

This financial report is designed to provide the citizens, taxpayers, customers and investors and creditors of the Town of Limon, Colorado a general overview of the Town's finances and to demonstrate the Town's accountability. If you have questions about this report or need additional financial information, contact the Town of Limon, Town Clerk, P. O. Box 9, Limon, Colorado 80828.