

**Town of Limon, Colorado**  
**Management's Discussion and Analysis**  
**December 31, 2014**

In compliance with this reporting requirement, we present this report titled Management's Discussion and Analysis, or MD&A. Please read the MD&A in conjunction with the financial statements and notes to the financial statements, which begin on page 14. The GASB 34 statements are listed and described below with additional information in the accompanying text:

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

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

**FINANCIAL HIGHLIGHTS**

- The Town's total net position increased by \$260,566 or 1.6% during the year. The governmental net position increased by \$38,830 or 0.5%, and the business-type net position increased by \$221,736, or 2.7%.
- The governmental activities revenue changed from \$3,050,079 in 2013 to \$3,325,935 in 2014 for an increase of \$275,856 or 9.0%. This increase is due primarily to increases in grant and tax income.
- The governmental activities expenditures changed from \$3,216,761 in 2013 to \$3,287,105 in 2014, an increase of \$70,344 or 2.2%. The increase is due primarily to an increase in transfers and public works expenditures.
- The business-type activities revenue changed from \$1,765,323 in 2013 to \$1,999,079 in 2014, an increase of \$233,756 or 13.2%. This increase is due primarily to increased water and ambulance revenues.
- The business-type activities expenditures changed from \$1,638,552 in 2013 to \$1,778,154 in 2014, an increase of \$138,791 or 8.5%. 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 \$238,001 or 19.3% 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:

	Governmental Activities		Business-Type Activities		Total	
	2014	2013	2014	2013	2014	2013
<b>ASSETS</b>						
Current assets	\$ 1,046,416	\$ 1,073,870	\$ 1,211,062	\$ 1,566,274	\$ 2,257,478	\$ 2,640,144
Restricted assets	433,773	749,132	886,813	1,105,920	1,320,586	1,855,052
Other non-current assets	198,279	207,726	338,560	373,988	536,839	581,714
Capital assets, net	7,480,055	7,227,293	9,722,499	9,540,462	17,202,554	16,767,755
Total assets	9,158,523	9,258,021	12,158,934	12,586,644	21,317,457	21,844,665
<b>LIABILITIES</b>						
Current liabilities	167,889	243,983	398,012	770,124	565,901	1,014,107
Non-current liabilities	598,315	657,256	3,334,432	3,611,766	3,932,747	4,269,022
Total liabilities	766,204	901,239	3,732,444	4,381,890	4,498,648	5,283,129
<b>DEFERRED INFLOW OF RESOURCES</b>						
Deferred property taxes	320,907	324,200	-	-	320,907	324,200
Total deferred inflow of resources	320,907	324,200	-	-	320,907	324,200
<b>NET POSITION</b>	\$ 8,071,412	\$ 8,032,582	\$ 8,426,490	\$ 8,204,754	\$ 16,497,902	\$ 16,237,336
Net Position consist of:						
Invested in capital assets	\$ 6,842,799	\$ 6,526,079	\$ 6,469,848	\$ 6,031,219	\$ 13,312,647	\$ 12,557,298
Restricted net position	433,773	749,132	376,427	286,499	810,200	1,035,631
Unrestricted net position	794,840	757,371	1,580,215	1,887,036	2,375,055	2,644,407
Total net position	\$ 8,071,412	\$ 8,032,582	\$ 8,426,490	\$ 8,204,754	\$ 16,497,902	\$ 16,237,336

The net position of the Town's governmental activities as of December 31, 2014 were \$8,071,412 of which \$794,840 was unrestricted and is available for spending at the government's discretion. The remainder is net investment in capital assets of \$6,842,799, reserved for Emergency Reserve of \$78,569 and Capital Replacement Reserve of \$355,204.

The General Fund is the main operating fund of the Town. As of December 31, 2014, the General Fund balance was \$996,097, of which \$329,382 was unassigned. Unassigned fund balance represents 12.2% of 2014 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
	2014	2013	2014	2013	2014	2013
<b>Program revenues:</b>						
Operating grants and contributions	\$ 954,010	\$ 867,893	\$ 161,430	\$ 284,823	\$ 1,115,440	\$ 1,152,716
Capital grants and contributions	107,720	171,693	17,000	4,304	124,720	175,997
Charges for services	<u>572,680</u>	<u>553,769</u>	<u>1,645,878</u>	<u>1,458,391</u>	<u>2,218,558</u>	<u>2,012,160</u>
Total program revenue	<u>1,634,410</u>	<u>1,593,355</u>	<u>1,824,308</u>	<u>1,747,518</u>	<u>3,458,718</u>	<u>3,340,873</u>
<b>General revenues:</b>						
Taxes	1,570,425	1,426,833	-	-	1,570,425	1,426,833
Investment earnings	4,942	13,122	12,988	15,763	17,930	28,885
Insurance proceeds	61,649	-	61,719	2,042	123,368	2,042
Other	<u>54,509</u>	<u>16,769</u>	<u>-</u>	<u>-</u>	<u>54,509</u>	<u>16,769</u>
Total general revenue	<u>1,691,525</u>	<u>1,456,724</u>	<u>74,707</u>	<u>17,805</u>	<u>1,766,232</u>	<u>1,474,529</u>
<b>Total Revenue</b>	<u>\$ 3,325,935</u>	<u>\$ 3,050,079</u>	<u>\$ 1,899,015</u>	<u>\$ 1,765,323</u>	<u>\$ 5,224,141</u>	<u>\$ 4,815,402</u>
<b>Expenses</b>						
General government	\$ 815,123	\$ 746,314	\$ -	\$ -	\$ 815,123	\$ 746,314
Airport	31,781	30,529	-	-	31,781	30,529
Public safety	420,110	415,445	-	-	420,110	415,445
Highways and streets	584,467	508,823	-	-	584,467	508,823
Public works - sanitation	231,244	212,114	-	-	231,244	212,114
Public health - cemetery	63,048	65,898	-	-	63,048	65,898
Culture and recreation	364,067	539,347	-	-	364,067	539,347
Head Start Program	648,961	607,537	-	-	648,961	607,537
Water	-	-	492,510	453,912	492,510	453,912
Water treatment plant	-	-	234,886	230,022	234,886	230,022
Sewer	-	-	332,296	312,005	332,296	312,005
Municipal recreation area	-	-	237,565	222,515	237,564	222,515
Airport fuel fund	-	-	36,518	37,289	36,518	37,289
Ambulance service fund	-	-	444,379	384,932	443,569	384,932
Interest and fiscal charges	<u>27,429</u>	<u>15,467</u>	<u>-</u>	<u>-</u>	<u>13,824</u>	<u>15,467</u>
Total expenses	<u>\$ 3,186,230</u>	<u>\$ 3,141,474</u>	<u>\$ 1,778,154</u>	<u>\$ 1,640,675</u>	<u>\$ 4,964,384</u>	<u>\$ 4,782,149</u>
Changes in net position before transfers and special items	139,705	(91,395)	120,861	124,648	220,566	33,253
Transfers	<u>(100,875)</u>	<u>(75,287)</u>	<u>100,875</u>	<u>75,287</u>	<u>-</u>	<u>-</u>
Change in net position	38,830	(166,682)	221,736	199,935	220,566	33,253
Beginning net position (restated)	<u>8,032,582</u>	<u>8,199,264</u>	<u>8,204,754</u>	<u>8,004,819</u>	<u>16,237,336</u>	<u>16,204,083</u>
Ending net position	<u>\$ 8,071,412</u>	<u>\$ 8,032,582</u>	<u>\$ 8,426,490</u>	<u>\$ 8,204,754</u>	<u>\$ 16,497,902</u>	<u>\$ 16,237,336</u>

Governmental Activities revenues in the amount of \$3,325,935 were more than expenses and transfers of \$3,287,105 by \$38,830. Business-type activities revenues and transfers in the amount of \$1,999,890 were more than expenses of \$1,778,154 by \$221,736.

## BUDGETARY HIGHLIGHTS

The budget was amended on December 30, 2014 to include the following increases for expenditures not anticipated at the time of adoption of the original budget on December 5, 2013. The additional expenditures were funded by unanticipated revenue and/or the prior year's fund balance. Funds with appropriation increases:

	Original <u>Budget</u>	New <u>Budget</u>	<u>Increase</u>
General Fund	\$2,488,822	\$2,888,822	\$ 400,000
Recreation Area Fund	202,472	240,378	37,906
Utility Fund	1,145,416	1,575,416	430,000
Cemetery Perpetual Care Fund	3,000	7,700	4,700
Head Start Fund	607,537	648,961	41,424
Conservation Trust Fund	24,500	24,600	100
Capital Projects Fund	121,500	124,000	2,500
Ambulance Fund	383,714	463,714	<u>80,000</u>
			<u>\$ 996,630</u>

- Changes in the General Fund Budget are attributable to capital outlays and transfers. This increase in expenditure was offset by proceeds from taxes and insurance claims.
- Changes in the Recreation Area Fund Budget included capital expenditures and maintenance. This increase was funded primarily through proceeds from insurance claims and transfers.
- Changes in the Utility Fund Budget included increases in capital expenditures. This increase was funded primarily through State grants and water revenues.
- Changes in the Cemetery Perpetual Fund were due to increased capital expenditures. The increases were offset by prior year fund balance.
- Changes in the Head Start Fund were due to increased salaries and operations. The increases were funded by Federal grant funds.
- Changes in the Conservation Trust Fund were due to increased improvements. The increases were funded by prior year fund balance.
- Changes in the Capital Projects Fund were due to increased capital expenditures. The increase was funded by prior year fund balance.
- Changes in the Ambulance Fund were due primarily to capital expenditures and repairs. The increase was funded by grant funds, transfers and insurance claims.

## CAPITAL ASSETS AND DEBT ADMINISTRATION

### Capital Assets

As of December 31, 2014, Limon's investment in capital assets for its governmental and business type activities, net of accumulated depreciation, was \$17,202,554. 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	
	2014	2013	2014	2013	2014	2013
Land	\$ 1,278,989	\$ 1,278,989	\$ 243,476	\$ 243,476	\$ 1,522,465	\$ 1,522,465
Buildings and water and sewer systems	3,201,735	3,137,255	13,430,219	12,590,998	16,631,954	15,728,253
Equipment	2,516,087	2,071,003	1,536,797	1,592,582	4,052,884	3,663,585
Other capital assets	-	-	1,048,995	1,048,995	1,048,995	1,048,995
Construction in progress	-	-	9,957	279,799	9,957	279,799
Infrastructure	<u>4,873,328</u>	<u>4,824,704</u>	<u>-</u>	<u>-</u>	<u>4,873,328</u>	<u>4,824,704</u>
Total	\$ 11,870,139	\$ 11,311,951	\$ 16,269,444	\$ 15,755,850	\$ 28,139,583	\$ 27,067,801
Accumulated depreciation	<u>(4,390,084)</u>	<u>(4,084,658)</u>	<u>(6,546,945)</u>	<u>(6,215,388)</u>	<u>(10,937,029)</u>	<u>(10,300,046)</u>
Capital assets, net	<u>\$ 7,480,055</u>	<u>\$ 7,227,293</u>	<u>\$ 9,722,499</u>	<u>\$ 9,540,462</u>	<u>\$ 17,202,554</u>	<u>\$ 16,767,755</u>

This year's major capital asset additions include:

- Lighting energy improvement - \$278,762
- Well drilling and improvements - \$137,552
- Sewer line replacement/repair - \$320,613

### Long-term Debt

As of December 31, 2014 the Town had \$4,222,197 in outstanding debt as follows.

	Governmental Activities		Business-Type Activities		Total	Total
	2014	2013	2014	2013	2014	2013
Revenue bonds	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -
Special assessment bonds	185,000	224,000	-	-	185,000	224,000
Capital leases	-	-	-	-	-	-
Bonds payable:						
2000 Water Revenue	-	-	536,241	612,073	536,241	612,073
2012 Water Revenue	-	-	2,640,000	2,790,000	2,640,000	2,790,000
2012 Bond Premium	-	-	57,707	62,993	57,707	62,993
Loans payable:						
Lease-Purchase	452,256	477,214	333,746	352,162	786,002	829,376
Capital lease	-	-	-	7,229	-	7,229
Colorado maintenance fee	-	-	17,247	31,850	17,247	31,850
Total	<u>\$ 637,256</u>	<u>\$ 701,214</u>	<u>\$ 3,584,941</u>	<u>\$ 3,856,307</u>	<u>\$ 4,222,197</u>	<u>\$ 4,557,521</u>

## **ECONOMIC FACTORS AND NEXT YEAR'S BUDGETS AND RATES**

- Sales tax revenues budgeted for 2015 is \$979,861, which is \$82,218 less than 2014 actual.
- The property tax revenue budgeted for 2015 is \$320,907, which is \$8,174 less than 2014 actual.
- Governmental funds revenues were budgeted at \$3,389,627 in 2015, which is an increase of 1.2% from the 2014 actual revenues. Governmental revenue and expenditures included direct pass-through grants to other entities. The 2015 budgeted direct pass-through amounts are \$648,961, which is the same as the 2014 actual amount. The 2015 budgeted expenditures for governmental activities are projected to be \$3,565,936, which is a 1.7% increase from the 2014 actual.
- Proprietary funds revenues were budgeted at \$1,827,675 for 2015, which is a decrease of 8.6% from the 2014 actual revenues. 2015 budgeted expenditures of \$1,958,995 represent an increase from 2014 actual expenditures of 10.2%.

## **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.