

As management of the City of Idaho Springs (“City”), we offer readers of the City’s financial statements this narrative overview and analysis of the financial activities of the City for the fiscal year ended December 31, 2013. We encourage readers to consider the information presented here in conjunction with the additional information furnished in our basic financial statements to better understand the financial position of the City of Idaho Springs.

A. FINANCIAL HIGHLIGHTS

- The assets of the City exceeded its liabilities by \$16,436,710 at the end of 2013.
- Governmental funds reported combined fund equity of \$4,051,197, an increase of \$847,920 in comparison with the prior year. This increase is due primarily to savings in the Sales Tax Improvement Fund which will be used for future capital projects.
- The City’s unassigned fund balance for the General Fund was \$1,041,216, while committed fund balance totaled \$275,259 of which \$99,380 is for cemetery maintenance and \$175,879 is for storm water system improvements. The unassigned portion of fund balance is available to meet the City’s reserve requirements and future spending at the City’s discretion.
- Total long-term liabilities decreased by \$272,888 as a result of principal payments on long-term debt held by the Water and Wastewater Funds.
- Sales, Use and Property Tax Revenues were \$1,833,149, an increase of \$196,471 or 12% from the prior year.

B. OVERVIEW OF THE FINANCIAL STATEMENTS

This discussion and analysis is intended to serve as an introduction to the City’s basic financial statements. The basic financial statements consist of three components: (1) government-wide financial statements; (2) fund financial statements; and (3) notes to the financial statements. This report also contains other supplementary information in addition to the basic financial statements themselves.

Government-wide financial statements

The government-wide financial statements are designed to provide readers with a broad overview of our finances in a manner similar to a private sector business.

The ***Statement of Net Position*** presents information on all assets, deferred outflows of resources, liabilities, and deferred inflows of resources, with the difference between the two reported as net position. Over time, increases or decreases in net position may serve as a useful indicator of whether the financial situation of the City is improving or deteriorating.

The ***Statement of Activities*** presents information showing how the City’s net position changed during the most recent fiscal year. All changes in net position are reported as soon as the underlying event giving rise to the change occurs, regardless of the timing of cash flows. Thus, revenues and expenses are reported in this statement for some items that will only result in cash flows in future fiscal periods (e.g., uncollected taxes and earned but unused vacation leave).

Both of the government-wide financial statements distinguish functions that are principally supported by taxes and intergovernmental revenues (*Governmental Activities*) from other functions that are intended to recover all or a significant portion of their costs through user fees and charges (*Business-type Activities*). The governmental activities include the following: general government (administration, building inspector, court, and cemetery), public safety (police and fire), streets, community promotion and parks. The business-type activities include water and wastewater.

Fund Financial Statements

A fund is a group of related accounts that is used to maintain control over resources that have been segregated for specific activities or objectives. Fund accounting is used to ensure and demonstrate compliance with finance-related legal requisites. The City's funds can be divided into three categories: Governmental Funds, Proprietary Funds, and Fiduciary Funds.

Governmental funds - Governmental funds are used to account for essentially the same functions reported as governmental activities in the government-wide financial statements. However, unlike the government-wide financial statements, governmental fund financial statements focus on near-term inflows and outflows of spendable resources, as well as on balances of spendable resources available at the end of the fiscal year. Such information may be useful in evaluating a government's near-term financing requirements.

Because the focus of governmental funds is narrower than that of the government-wide financial statements, it is useful to compare the information presented for governmental activities in the government-wide financial statements. By doing so, readers may better understand the long-term impact of the government's near-term financing decisions. The Balance Sheet and the Statement of Revenues, Expenditures and Changes in Fund Balances provide a reconciliation to facilitate this comparison between governmental funds and governmental activities. The governmental funds are separated into two major funds: the general fund and sales tax improvement fund.

An annual appropriated budget is adopted for all governmental funds. A budgetary comparison statement has been provided for these funds to demonstrate compliance with these budgets.

Proprietary funds - Proprietary funds are used to report the same functions presented as business-type activities in the government-wide financial statements, only in more detail. The proprietary fund financial statements provide separate information for water and wastewater, which are considered to be major funds.

Fiduciary funds - Fiduciary funds are used to account for resources held for the benefit of parties outside the government. Fiduciary funds are *not* reflected in the government-wide financial statements because the resources of those funds are *not* available to support the City's own programs. The method of accounting used for fiduciary funds is much like that used for proprietary funds.

Notes to financial statements

The notes provide additional information that is essential to a full understanding of the data provided in the government-wide and fund financial statements.

Other Information

In addition to the basic financial statements and accompanying notes, this report also presents certain supplementary information which is required to be disclosed by the *Governmental Accounting Standards Board*.

Capital Assets

Beginning with the 2003 financial statements, the City must comply with capital assets reporting requirements as specified in *Governmental Accounting Standards Board Statement 34 (GASB34)*. One of the requirements is to report capital assets in the government-wide financial statements. The City has complied with these requirements. Accordingly, the government-wide financial statements include information about capital assets and infrastructure and their related expenses.

C. GOVERNMENT-WIDE FINANCIAL ANALYSIS

At the close of 2013, total net assets were \$16,436,710. By far the largest portion of net assets is the investment in capital assets (net of related debt) of \$10,532,994 (64%). This amount reflects the investment in all capital assets (e.g.; infrastructure, land, buildings, and equipment) less any debt used to acquire those assets that are still outstanding. These capital assets are used to provide services to citizens; consequently, these assets are not available for future spending. Although the investment in capital assets is reported net of debt, it should be noted that the resources needed to repay this debt must be provided from other sources since capital assets themselves cannot be used to liquidate these liabilities.

The following table summarizes the City's governmental and business-type net position for 2013 and 2012.

Statement of Net Position

	Governmental		Business-Type		Total	
	Activities		Activities			
	2014	2012	2013	2012	2013	2012
Current & other assets	\$ 4,271,084	\$ 3,431,095	\$ 2,109,940	\$ 1,766,102	\$ 6,381,024	\$ 5,197,197
Capital assets	4,022,909	4,051,353	9,055,272	9,420,532	13,078,181	13,471,885
Total Assets	8,293,993	7,482,448	11,165,212	11,186,634	19,459,205	18,669,082
Current Liabilities	82,190	90,042	199,428	119,387	281,618	209,429
Noncurrent Liabilities	57,993	55,041	2,545,187	2,818,075	2,603,180	2,873,116
Total Liabilities	140,183	145,083	2,744,615	2,937,462	2,884,798	3,082,545
Deferred Inflows of Resources:	137,697	137,776	-	-	137,697	137,776
Net Position:						
Invested in capital assets net of related debt	4,022,909	4,051,353	6,510,085	6,602,457	10,532,994	10,653,810
Restricted	182,516	172,193	-	-	182,516	172,193
Unrestricted	3,810,688	2,976,043	1,910,512	1,646,715	5,721,200	4,622,758
Total Net Position	\$ 8,016,113	\$ 7,199,589	\$ 8,420,597	\$ 8,249,172	\$ 16,436,710	\$ 15,448,761

The restricted portion of net position (1.1%) represents resources that are subject to external restrictions on how they may be used. The remaining balance of \$5,721,200 is

unrestricted and may be used to meet the City's ongoing obligations to citizens and creditors.

Changes in Net Position

Governmental and business-type activities increased the City's net position by \$987,949 in 2013.

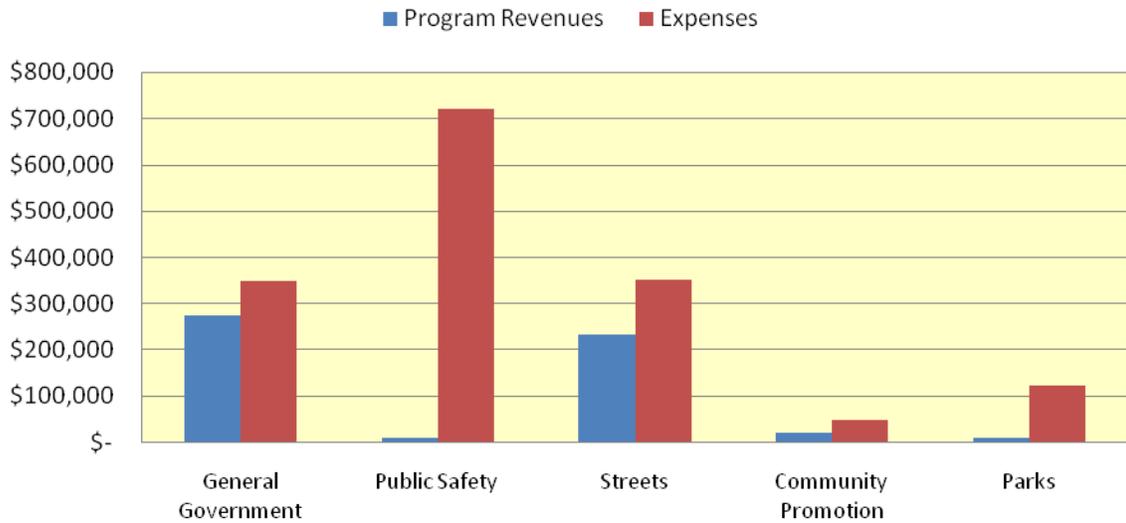
Changes in Net Position

	Governmental		Business-Type		Total	
	Activities		Activities			
	2013	2012	2013	2012	2013	2012
Revenues:						
Program revenues:						
Charges for services	\$ 272,357	\$ 211,319	\$ 1,376,714	\$ 1,443,994	\$ 1,649,071	\$ 1,655,313
Operating grants	32,093	86,115	9,932	-	42,025	86,115
Capital grants & contributions	237,766	290,461	47,470	10,000	285,236	300,461
General revenues:						
Property taxes	151,803	149,827	-	-	151,803	149,827
Sales & use taxes	1,597,755	1,409,214	-	-	1,597,755	1,409,214
Other taxes	206,063	210,141	-	-	206,063	210,141
Interest Income	17,239	18,524	1,564	1,936	18,803	20,460
Other general revenues	25,869	20,767	16,474	24,386	42,343	45,153
Total revenues	2,540,945	2,396,368	1,452,154	1,480,316	3,993,099	3,876,684
Expenses:						
General Government	346,322	364,203	-	-	346,322	364,203
Public Safety	721,100	737,277	-	-	721,100	737,277
Streets	351,514	377,288	-	-	351,514	377,288
Community Promotion	48,090	32,215	-	-	48,090	32,215
Parks	122,595	125,273	-	-	122,595	125,273
Non-capitalized outlay	-	-	-	-	-	-
Interest on long-term debt	-	-	123,400	148,925	123,400	148,925
Water	-	-	649,453	641,055	649,453	641,055
Wastewater	-	-	642,676	613,382	642,676	613,382
Total expenses	1,589,621	1,636,256	1,415,529	1,403,362	3,005,150	3,039,618
Transfers In (Out)	(134,800)	(140,000)	134,800	140,000	-	-
Change in Net Position	816,524	620,112	171,425	216,954	987,949	837,066
Net Position – Beginning	7,199,589	6,579,477	8,249,172	8,032,218	15,448,761	14,611,695
Net Position – Ending	\$8,016,113	\$7,199,589	\$ 8,420,597	\$8,249,172	\$16,436,710	\$15,448,761

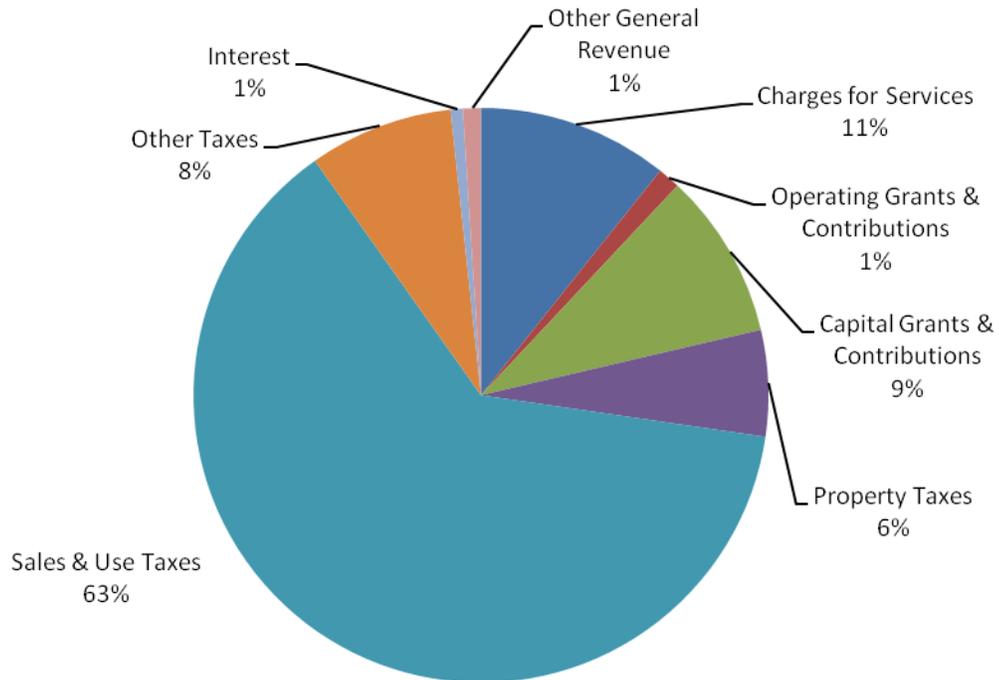
Governmental Activities

Governmental activities increased the City's net position by \$816,524. Overall revenue exceeded budget projections by \$444,659, or 21% while increasing 6% over 2012 revenues. Expenditures were under budget and \$46,635 less than in 2012. Governmental activities were subsidized by tax revenue and other general non-program revenues. The following illustrates the governmental activities expenses and program revenues:

City of Idaho Springs Expenses & Program Revenues - Governmental Activities

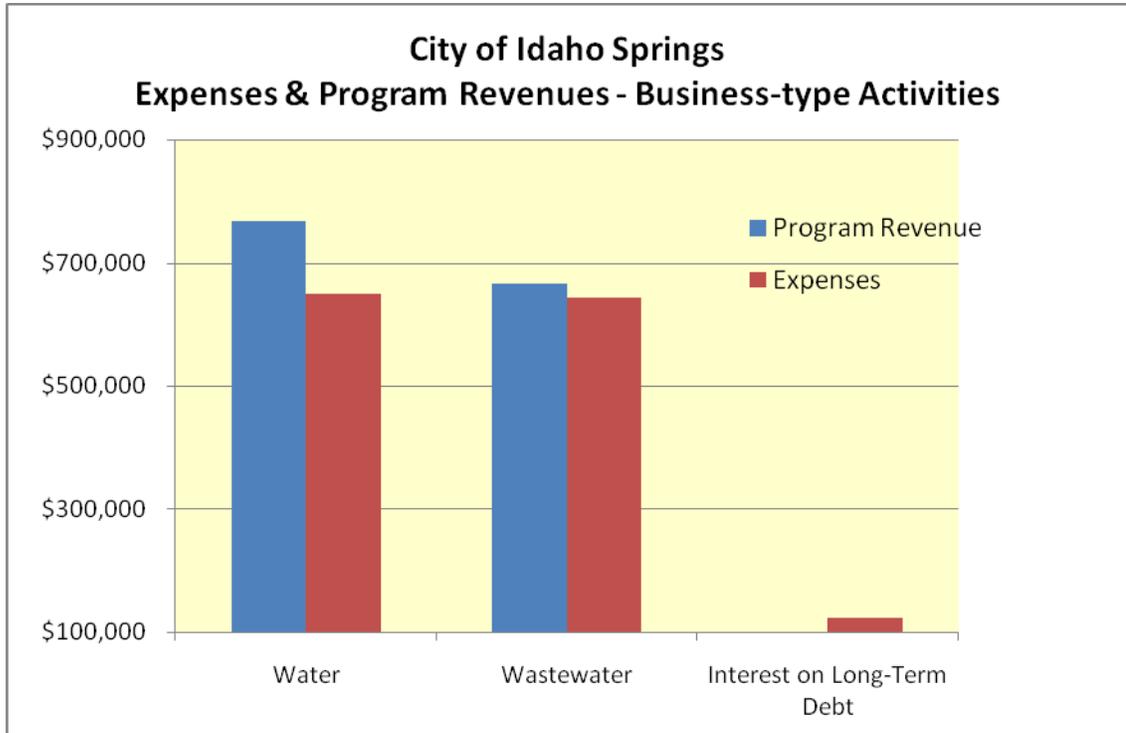


City of Idaho Springs Revenue by Source - Governmental Activities



Business-type Activities

Business-type activities for the year resulted in an increase of net position of \$171,425. Charges for services accounted for 95 percent of total revenues and decreased \$67,280 compared to 2012. Overall revenue decreased 2 percent while expenditures increased one percent. The following illustrates the business-type activities program revenues and expenses:



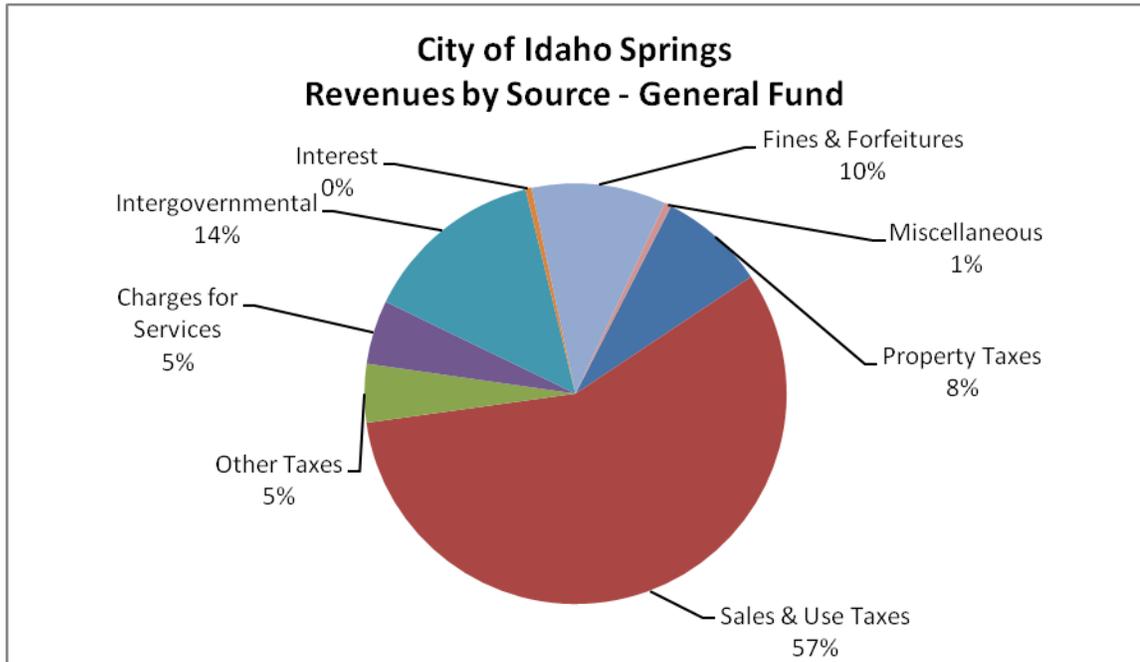
D. FINANCIAL ANALYSIS OF GOVERNMENTAL FUNDS

Governmental funds – The focus of government funds is to provide information on near-term inflows, outflows and balances of spendable resources. In particular, unreserved fund balance may serve as a useful measure of the City’s net resources available for spending at the end of the fiscal year.

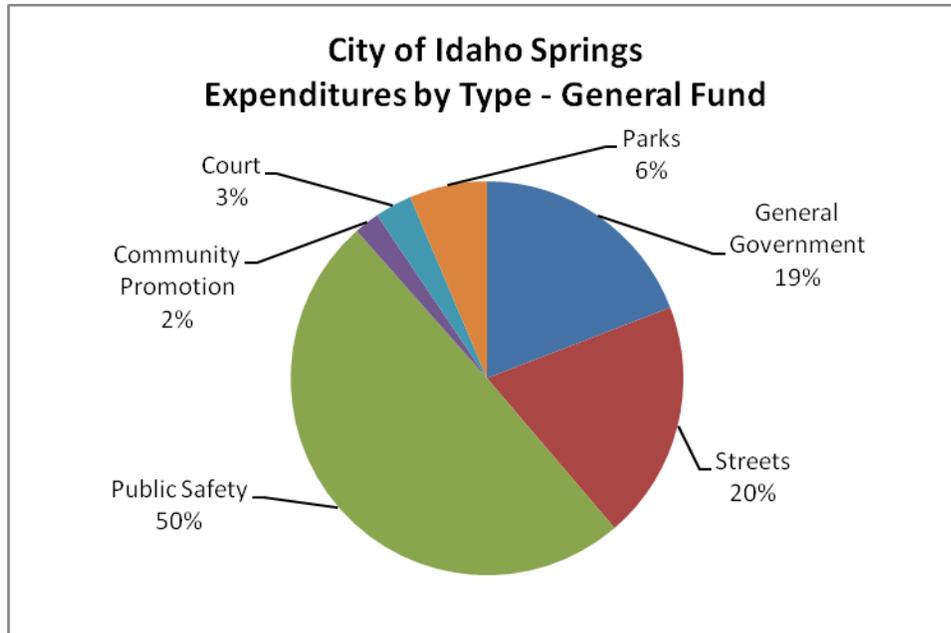
As of the end of 2013, the City’s governmental funds reported combined ending fund balances of \$4,051,197, an increase of \$847,920 in comparison with the prior year. Expenditures for capital equipment and capital projects were \$184,680 and are reflected in the Sales Tax Improvement Fund, Conservation Trust and Grants Funds. Of the combined ending fund balances for all governmental funds, \$345,707 is non-spendable, \$182,516 is restricted, \$2,481,758 is committed for cemetery maintenance and capital improvements, and \$1,041,216 is available for appropriation according to the City’s Fund Balance and Reserve Policy.

The City has two major governmental funds. They are the General Fund and Sales Tax Improvement Fund.

The General Fund is the primary operating fund for the City of Idaho Springs. Key factors for 2013 are: Revenues were \$387,003 more than budgeted, primarily from sales and use taxes and state severance tax distribution. Expenditures were less than budgeted by \$125,445 not including contingency reserves. Savings were throughout all departments except court and fire.



General Fund expenditures include all administrative functions of the City including Council, Clerk, Administration, Court, Planning, Public Works and Public Safety (Police & Fire), Cemetery Maintenance and Storm Water system improvements. The following shows a graphical presentation of General Fund expenditures by type:



The Sales Tax Improvement Fund had a total fund balance at the end of 2013 of \$2,368,982, an increase of \$661,050. This fund accounts for one third of sales tax revenue and Idaho Springs' share of the special county road and bridge mill levy. In 2013, \$330,000 was transferred from the General Fund for additional capital improvements. These funds are to be used for street improvements, equipment and other capital projects. A Capital Improvement Plan has been put in place to guide the Council in the use of these funds.

Proprietary funds - The City's proprietary fund statements provide the same type of information found in the government-wide financial statements, but in more detail.

The City has two enterprise funds, the Water Fund and the Wastewater Fund. The net position of the enterprise funds at the end of 2013 was \$8,420,597. A breakdown by fund is Water, \$4,380,984; and Wastewater, \$4,039,613. Total net position increased by \$171,425 mainly due to delayed capital improvements. The additional funds will be used for future capital improvements as designated in the Capital Improvement Plan.

E. CAPITAL ASSET AND DEBT ADMINISTRATION

Capital Assets - The City's investment in capital assets for its governmental and business-type activities as of December 31, 2013, amounts to \$13,078,181.

Long Term Debt - At the end of 2013, total bonded debt outstanding was \$2,545,187.

Major capital expenditures during 2013 included:

Police Vehicle Replacement	\$ 79,652
Public Works Vehicle/Equipment	36,306
Computer Software	42,187
Water Distribution & Plant Improvements	154,400

F. THE FUTURE OF THE CITY

The City of Idaho Springs' financial position remains stable. Reserves continue to exceed the levels established as acceptable by the City, a circumstance that is intended to continue in future years.

Sales tax revenues reflect continued increases, due in part to the onset of retail marijuana sales in January 2014. While that economic source is expected to level out at some point in the future, the addition to the City's revenues, along with the excise tax on sales, provides the City an additional level of financial comfort.

In November 2014 the City will ask the voters for approval to increase the City sales tax rate by one percent with the resulting revenue to be dedicated to street repair and ongoing maintenance. That increase, if approved, is expected to generate sufficient funds to replace, and likely exceed, the previous special County mill levy for streets that ended in 2013.

After a number of years with no changes to water and sewer rates, the City intends to adopt some adjustments for 2015 and beyond. Without adjustment the current rates, already unable to support much in the way of capital improvements, would soon be unable to support basic maintenance and operations. At this writing, a variety of options are being considered; the type of adjustments and the resulting impacts to users and to the enterprise revenues have not been finalized.

The City continues to seek opportunities for economic growth while improving the quality of services offered and maintaining its financial sustainability.

G. REQUEST FOR INFORMATION

This financial report is designed to provide a general overview of the City of Idaho Springs's finances for all those with an interest in the City's finances. Questions concerning any of the information provided in the report or requests for additional financial information should be addressed to:

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Idaho Springs, CO 80452