

**Rio Grande County  
Management's Discussion and Analysis  
For the Year Ended December 31, 2008**

As management of Rio Grande County, we offer readers of County's financial statements this narrative overview and analysis of the financial activities of the County for the year ended December 31, 2008. We encourage readers to consider the information presented here in conjunction with additional information that we have furnished in the County's financial statements, which follow this section.

**Financial Highlights**

- The County's financial status remained basically the same over the course of the year ending December 31, 2008. Total net assets increased 2.93 percent disregarding the adjustments made for GASB 34 infrastructure reporting.
- General revenues, primarily taxes, account for approximately \$4,977,535 or 41.9 percent of all revenues. Program specific revenues in the form of charges for services and sales, grants and contributions, accounted for \$6,911,056 or 58.1 percent of total revenues of \$11,888,591.
- The County had \$10,892,237 in expenses related to governmental activities; only \$6,911,056 of these expenses was offset by program specific charges for services and grants.
- Outlays for capital assets were primarily comprise of one sheriff's department vehicle, a Cat Loader and excavator for the Road & Bridge Department, a ATV for the Weed Control Department, and a car for the Social Services Department.
- The County has long-term debt to fund the addition and remodeling of the Jail. Rio Grande County entered into an annually renewable Lease Purchase Agreement with San Luis Valley Federal Bank. This Lease Purchase Agreement is for \$2,500,000 with a 20-year payout schedule at 4.5%. The first payment was paid in 2006.

**Overview of the Financial Statements**

This annual report consists of three parts: management's discussion and analysis, the basic financial statements, and supplementary information. The basic financial statements include:

- The first two statements are government-wide financial statements that provide both short-term and long-term information about the County's overall financial status.
- The remaining statements are fund financial statements that focus on individual parts of the County, reporting the county's operations in more detail than the government-wide statements.
- The governmental funds statements tell how basic services were financed in the short-term as well as what remains for future spending.
- Fiduciary funds statements provide information about the financial relationships in which the County acts solely as a trustee or agent for the benefit of others.

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The financial statements also include notes that explain some of the information in the statements and provide more detailed data. The statements are followed by a section of supplementary information that further explains and supports the financial statements, and includes a comparison to the County's budget for the year.

**Government-wide Financial Statements**

The government-wide financial statements are designed to provide readers a broad overview of the County's finances, in a manner similar to a private-sector business.

The statement of net assets presents information on all of the Rio Grande County's assets and liabilities, with the difference between the two reported as net assets. Over time, increases or decreases in net assets may serve as a useful indicator of whether the financial position of the County is improving or deteriorating. To assess the County's overall health, you need to consider additional non-financial factors such as changes in the County's property tax base and the condition of County buildings and other facilities.

The statement of activities presents information showing how the government's net assets changed during the most recent fiscal year. All changes in net assets are reported as soon as the underlying event giving rise to the change occurs, regardless of the timing of related cash flows. Thus, revenue 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 of the County that are principally supported by taxes and intergovernmental revenues (governmental activities). Included in governmental activities are most of the County's basic services such as regular government operations such as law enforcement, tax assessment and collection, social service programs, highway maintenance and construction.

**Fund Financial Statements**

The fund financial statements provide more detailed information about the County's funds, focusing on its most significant or "major" funds, not the County as a whole. Funds are accounting devices the County uses to track specific sources of funding and spending on particular programs. The County, like other local governments, uses fund accounting to ensure and demonstrate compliance with finance-related legal requirements. The County's funds are divided into two categories: governmental funds and fiduciary funds. Governmental Funds are further divided into Governmental Activities which includes: General Government, Public Safety, Health and Welfare, Highways and Streets, Judicial, Auxiliary Services and Culture and Recreation.

*Governmental Funds:* All of the County's basic services are included in governmental funds, which generally focus on (1) how cash and other financial assets that can readily be converted to cash flow in and out and (2) balances remaining at year-end which are available for spending.

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Consequently, the governmental funds statements provide a detailed short-term view that helps determine financial resources that may be available in the near term to finance the County's programs. Because this information does not encompass the long-term focus of the government-wide statements, the reconciliations on Pages 14 and 16, explain the relationship (or differences) between them.

Rio Grande County maintains eight individual governmental funds. Information is presented separately in the governmental fund balance sheet and in the governmental fund statement of revenues, expenditures and changes in fund balances for the (1) General Fund, (2) the Road and Bridge Fund, (3) the Social Services Fund, (4) the Capital Expenditures Fund, (5) Weed Control District Fund, (6) the Airport Fund, (7) the Conservation Trust Fund, and (8) the Tourism Fund. Data from the Funds (4) through (8) are combined into a single, aggregated presentation.

*Fiduciary Funds:* Fiduciary funds are used to account for resources held for the benefit of parties outside the government. The County is responsible for ensuring that the assets reported in these funds are used only for their intended purposes and by those to whom the assets belong. Fiduciary funds are not reflected in the government-wide financial statements because the resources of those funds are not available to support the County's own programs.

**Notes to the 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 supplementary information. Supplementary information includes combining statements mentioned earlier in connection with non-major governmental funds as well as budget-to-actual information for all funds as dictated by state law.

**Government-wide Financial Analysis**

Table 1 provides a summary of the district's net assets at December 31, 2007, and 2008.

<b>Table 1</b>		
<b>Condensed Statement of Net Assets</b>		
	<b>Governmental Activities 2007</b>	<b>Governmental Activities 2008</b>
Current and Other Assets	\$ 10,682,692	\$ 11,469,549
Noncurrent Assets	<u>38,280,826</u>	<u>38,462,950</u>
<b>Total assets</b>	<b><u>\$ 48,963,518</u></b>	<b><u>\$ 49,932,499</u></b>

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Current liabilities	5,192,518	5,037,893
Noncurrent liabilities	<u>2,452,055</u>	<u>2,364,832</u>
<b>Total liabilities</b>	<b><u>\$ 7,644,573</u></b>	<b><u>\$ 7,402,725</u></b>
Net assets		
Invested in capital assets, net of related debt	\$ 35,923,709	\$ 36,193,379
Restricted	255,130	414,661
Unrestricted (Deficit)	<u>5,140,106</u>	<u>5,921,734</u>
<b>Total net assets at December 31, 2007 &amp; 2008</b>	<b><u>\$41,318,945</u></b>	<b><u>\$ 42,529,774</u></b>

Table 2 provides a summary of the changes in net assets. Following Table 2 is a specific discussion related to overall revenues and expenses.

**Table 2  
Changes in Net Assets from Operating Results**

	<b>Governmental Activities 2007</b>	<b>Governmental Activities 2008</b>
<b>Revenues</b>		
Program Revenues		
Charges for Services	\$ 999,042	\$1,012,825
Operating grants and contributions	4,769,758	5,577,450
Capital grants/restricted investment earnings	650,760	320,781
General revenues		
Taxes	3,508,646	4,048,315
Payment in Lieu of Taxes	429,503	682,171
Other	<u>356,216</u>	<u>247,049</u>
<b>Total Revenues</b>	<b><u>10,713,925</u></b>	<b><u>11,888,591</u></b>
<b>Expenses</b>		
General Government	2,325,160	2,577,534
Public Safety	1,986,268	2,028,764
Health and Welfare	2,925,740	3,611,814
Highways and Streets	2,200,294	2,148,860
Judicial	161,940	161,940
Auxiliary Services	55,729	87,663
Culture and recreation	138,520	170,905
Interest on Debt	<u>107,566</u>	<u>104,757</u>
<b>Total Expenses</b>	<b><u>9,901,217</u></b>	<b><u>10,892,237</u></b>
Increase (decrease) in net assets	<b><u>\$ 812,708</u></b>	<b><u>\$ 996,354</u></b>

Property taxes, Sales Tax, and other taxes account for 34.0 percent (\$4,048,315) of the County's revenue. State Funding and Grants contributes \$5,898,231 or 49.6 percent of the funding. The remainder from fees charged for services and miscellaneous sources equals to \$1,259,874 or 10.6 percent of the funding revenue.

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**Governmental Activities**

The County's expenses are distributed as follows:

General Government	23.6%
Public Safety	18.6%
Health and Welfare	33.2%
Highways and Streets	19.7%
Judicial	1.5%
Auxiliary Services	.8%
Culture and Recreation	1.6%
Interest on Debt	1.0%

Rio Grande County has a mill levy of 15.568. The County is not allowed to increase this mill levy without voter approval. The two government functions of General Government and Public Safety rely heavily on property and sale tax dollars. Without being able to increase these funding sources which have remained flat for the last several years, unappropriated funds has been used to balance parts of the budget. Very little change occurred within governmental activities as shown above. Public Safety did decreased in 2008 since in 2007 the Sheriff's Department purchased two vehicles instead of one and the Weed Control District purchased a pickup. The Health and Welfare increased from 29.5% to 33.2% due to addition demands for services.

During 2008, Rio Grande County paid \$5,853,709 in salaries and fringe benefits. The employees received a seven percent Cost of Living raise increase. This was an increase of \$312,381 (\$280,362 in wages and \$32,019 in benefits).

The statement of activities provides the cost of program services and the related charges for services and grants offsetting those costs. Table 3 reflects each program's net cost (total cost less fees generated by the programs and intergovernmental aid provided for specific programs). The net cost shows the financial burden placed on the County's taxpayers by each of these programs.

**Table 3  
Net Cost of Governmental Activities (in dollars)**

	Total Cost of Services	Net Cost of Services
General Government	\$ 2,577,534	\$ (1,686,328)
Public Safety	2,028,764	(1,311,486)
Health and Welfare	3,611,814	(788,758)
Highways and Streets	2,148,860	268,849
Judicial	161,940	(161,940)
Auxiliary Services	87,663	(86,363)
Culture and Recreation	170,905	(110,398)

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Interest on Debt	<u>104,757</u>	(104,757)
Total	\$10,892,237	\$ <u>(3,981,181)</u>

- Rio Grande County is the financial agent for the Homeland Security Grant for the San Luis Valley. This grant will provide DTR communication equipment, training and exercises for all law enforcement, emergency medical and fire protection districts. During 2008, \$329,633 was received down from \$518,233 in 2007.
- \$2,278,681 was received from the State of Colorado and Federal Government for the operation of the Social Services programs such as TANF, Child Welfare, OAP, Single Entry Point, Child Care, IV-D and Fraud programs.

**Financial Analysis of the County's Funds**

Information about the County's funds follows the government-wide statements. These funds are accounted for using the modified accrual basis of accounting. All governmental funds have total revenues of \$11,888,591 and expenditures of \$10,892,237. The net change in fund balance for the year was most significant in the County General Fund with an increase of \$347,077 and the Road & Bridge Fund with an increase of \$336,376. The Social Services Fund increased their fund balance by \$39,457. The Airport Fund increased by \$13,765 due to the additional PILT payment. The Tourism Fund decreased by \$24,412 along with the Weed District Fund of \$164.

**General Fund Budgetary Highlights**

The County approved a budget in December, 2007, based on the needs of the various departments and the projected revenue. In December, 2008, the County revised the annual operating budget approved by the Board of County Commissioners in the prior year. The primary reasons for the Supplementary Budget were the receiving of additional grant funds for the Substance Abuse Prevention Program, the need for roof repair on the Museum and Courthouse, and higher than expected costs for inmate medical, fuel, and prisoner holding expenditures. The increase for the Road & Bridge Fund was due to a heavy snow year, higher than expected fuel costs and completing a project for the Town of Center. The Airport Fund was increased to complete additional hangar sites. The Tourism Fund was increased for additional advertising and a golf course study.

The actual expenditures were \$1,096,979 (not including the Department of Social Services) below the supplementary budget. The total revenues were \$782,847 over estimated. However, the expenditures were still \$214,475 less than the revenues. The County still has not replaced two open positions in the Financial and Land Use Offices and one in the Road & Bridge Fund.

The fund balance as of December 31, 2008 was \$2,678,212, compared to \$2,331,135 as of December 31, 2007.

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**Road & Bridge Fund Highlights**

The Road & Bridge Fund ended 2008 with an increase \$336,376 due to receipt of more in Forest Service receipts than expected. Highway User's Fund Tax (HUFT) provided \$1,828,874 of the total actual expenditures of \$2,312,028. The HUFT was down \$73,287 from 2007. The balance was from property tax, specific ownership tax and other fees and services.

The fund balance as of December 31, 2008 was \$2,659,527 compared to \$2,323,151 as of December 31, 2007.

**Social Service Fund Highlights**

The Social Services Fund ended 2008 with an increase of \$39,457. Expenditures increased by \$651,609. State funding sources increased by \$555,052 while local sources increased by \$76,132.

The fund balance as of December 31, 2008, was \$686,427 compared to \$432,495 as of December 31, 2007. This increase reflects a \$214,475 prior year adjustment made by the auditors.

**Non-Major Funds Highlights**

Non-Major Funds include the Airport Fund, Conservation Trust Fund, Tourism Fund, Capital Expenditure Fund, and the Rio Grande County Weed Control District. These funds realized a \$10,023 increase in fund balance during 2008. The Weed Control District Fund had a decrease of \$164, and the Tourism Fund of \$24,412. The other funds increased by \$34,599 with a \$13,765 increase in the Airport Fund, \$19,984 in Conservation Trust Fund and \$850 in Capital Expenditure Fund.

As of December 31, 2008, the fund balances were as follows: Airport Fund - \$30,281; Conservation Trust Fund - \$221,729; Tourism Fund - \$144,633; Capital Expenditure Fund - \$8,180; and Rio Grande County Weed Control Fund - \$122,980.

**Capital Assets and Debt Administration**

By the end of the fiscal year 2008, the County had \$1,787,337 of additional capital assets, which included building improvements, new road construction, one sheriff's vehicles, and a loader and excavator for Road & Bridge Fund (See Note 6.) There were no deletions of vehicles and equipment which gave a net change in Assets before depreciation of \$59,546,227. The depreciation for 2008 was \$1,605,213, bringing the County's Net Capital Depreciation to \$21,516,578. This brings the Net Capital Assets to \$38,462,950.

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**Table 4  
Capital Assets**

	Governmental Activities	
	2007	2008
Land	\$ 433,301	\$ 433,301
Construction In Progress	0	0
Building & Site Improvements	5,855,640	5,721,384
Equipment & Vehicles	2,080,211	2,016,740
Infrastructure	<u>29,911,674</u>	<u>30,291,525</u>
Total	<u>\$38,280,826</u>	<u>\$38,462,950</u>

In order to finance the needed expansion of the County Jail, Rio Grande County entered into an annually renewable Lease Purchase Agreement with San Luis Valley Federal Bank. The bank issued \$2,500,000 for the purchase of the McCallister Building, the Annex, and two county shop buildings. The county is leasing the buildings back via the Lease Purchase Agreement at 4.5% interest. This agreement is for 20 years with an annual payment of \$191,328.27.

**Factors Bearing on the County's Future**

At the time these financial statements were prepared and audited, the County was aware of the following existing circumstances that could significantly affect its financial health in the future.

- Rio Grande County continues to see moderate increases in assessed value. However, most of the growth in the County is in residential properties which demands more services and provides little increase in property tax dollars.
- Sales tax continues to be flat.
- The County continues to watch the State's financial shortfalls and will continue to fight the trend of shifting costs from the State to the County.
- The additional election requirements are continuing to result in substantial dollar expenditures. The County will be testing out the mail ballot election in 2009 and comparing it to the expenditures of having a polling place election.
- With the economic climate in the State of Colorado and the United States, the County is continuing to see reductions in funds from the state and federal governments. With reduced revenue, services and programs will be monitored.
- There continues to be pressure from citizens for more of the county roads to be paved. The Commissioners will continue to work on these requests as funds allow.
- With increasing fuel and oil prices, the county will need to continue to explore methods to provide services more efficiently. However, there comes a time that services will have to be reduced to maintain a balanced budget. More user fees will be explored.

**Contacting the County's Financial Management**

This financial report is designed to provide the County's citizens, taxpayers, customers, and investors and creditors with a general overview of the County's finances and to demonstrate the

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County's accountability for the money it receives. If you have questions about this report or need additional financial information, contact the County Administrator, 925 6<sup>th</sup> Street, Room 207, Del Norte, CO 81132.

