

**Rio Grande County
Management's Discussion and Analysis
For the Year Ended December 31, 2012**

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, 2012. 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, 2012. Total net assets increased 1.9 percent disregarding the adjustments made for GASB 34 infrastructure reporting.
- General revenues, primarily taxes, account for approximately \$4,759,694 or 26.5 percent of all revenues. Program specific revenues in the form of charges for services and sales, grants and contributions, accounted for \$13,177,654 or 73.5 percent of total revenues of \$17,937,348.
- The County had \$17,032,966 in expenses related to governmental activities; only \$13,177,654 of these expenses was offset by program specific charges for services and grants.
- Outlays for capital assets were primarily comprised of an ATV maintenance vehicle for the Building & Maintenance Department, a new transport van for the Sheriff's Department, an utility truck and tractor for the Road & Bridge Department, a van and Smart Board for the Social Services Department and a pickup for the Weed Control District.
- Through an energy audit, the county entered into a Lease Purchase Agreement on November 20, 2012 with All American Investment Group, LLC in the amount of \$367,062 for the purchase and installation of energy efficient components in various county buildings. This is a ten-year agreement with the first payment being made in 2013.

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.

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.

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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 position presents information on all of the Rio Grande County's assets and liabilities, 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 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 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 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. 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 15 and 17, explain the relationship (or differences) between them.

Rio Grande County maintains nine 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 Projects Fund, (5) Weed Control District Fund, (6) the Airport Fund, (7)

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the Conservation Trust Fund, (8) the Tourism Fund, and (9) the Public Health Agency Fund. Data from the Funds (4) through (9) 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 County's net position at December 31, 2011, and 2012.

**Table 1
Condensed Statement of Net Position**

	Governmental Activities 2011	Governmental Activities 2012
Current and Other Assets	\$ 12,493,141	\$ 13,487,362
Noncurrent Assets	<u>40,680,723</u>	<u>40,738,135</u>
Total assets	<u>\$ 53,173,864</u>	<u>\$ 54,225,497</u>
Current liabilities	3,410,693	810,770
Noncurrent liabilities	<u>2,080,880</u>	<u>2,064,398</u>
Total liabilities	<u>\$ 5,491,573</u>	<u>\$ 2,875,168</u>
Deferred Inflows of Resources	\$ 0	\$ 2,763,656
Net position		
Net Investment in Capital Assets	\$ 38,698,299	\$ 38,742,524
Restricted	465,662	555,355
Unrestricted (Deficit)	<u>8,518,330</u>	<u>9,288,794</u>
Total net position at Dec. 31, 2011 & 2012	<u>\$ 47,682,291</u>	<u>\$ 48,586,673</u>

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

Table 2
Changes in Net Assets from Operating Results

	Governmental Activities 2011	Governmental Activities 2012
Revenues		
Program Revenues		
Charges for Services	\$ 798,227	\$ 825,022
Operating grants and contributions	5,500,442	11,789,192
Capital grants/restricted investment earnings	397,973	563,440
General revenues		
Taxes	4,149,845	3,953,666
Payment in Lieu of Taxes	682,924	744,087
Other	<u>187,899</u>	<u>61,941</u>
Total Revenues	<u>11,717,310</u>	<u>17,937,348</u>
Expenses		
General Government	2,715,125	2,856,431
Public Safety	2,153,125	2,203,738
Health and Welfare	2,964,388	9,080,161
Highways and Streets	2,186,659	2,436,794
Judicial	160,677	161,000
Auxiliary Services	58,969	58,225
Culture and recreation	132,845	148,601
Interest on Debt	<u>92,465</u>	<u>88,016</u>
Total Expenses	<u>10,464,253</u>	<u>17,032,966</u>
Increase (decrease) in net position	<u>\$ 1,253,057</u>	<u>\$ 904,382</u>
Ending Net Position	<u>\$47,682,291</u>	<u>\$48,586,673</u>

Property taxes, Sales Tax, and other taxes account for 26.2 percent (\$4,697,753) of the County's revenue. State Funding and Grants contributes \$12,352,632 or 68.9 percent of the funding. The remainder from fees charged for services and miscellaneous sources equals to \$886,963 or 4.9 percent of the funding revenue.

Governmental Activities

The County's expenses are distributed as follows:

General Government	16.8%
Public Safety	12.9%
Health and Welfare	53.3%
Highways and Streets	14.3%
Judicial	1.0%
Auxiliary Services	0.3%

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Culture and Recreation	0.9%
Interest on Debt	0.5%

Rio Grande County has a mill levy of 15.568. The County is not allowed to increase this mill levy without voter approval. All the government functions rely heavily on property tax dollars. Without being able to increase the mill levy revenue which has remained flat for the last several years, unappropriated funds has been used to balance parts of the budget. The major change that occurred within governmental activities as shown above was the increase in Health and Welfare which reflects the total expenditures for Social Service. In the 2011 audit, only the actual expenditure of county funds was reported. A slight increase was shown in General Government all the other programs with the exception of Interest on Debt which decline slightly. The largest increase was in Health and Welfare from 28.3% to 53.3% due to accounting of the state funding provided for the Social Services.

During 2012, Rio Grande County paid \$5,576,161.19 salaries and fringe benefits. The employees received a two-percent cost of living raise. Even with the cost of living raise, total wages and benefits were down by \$8,532.98 from 2011 due to elimination of several positions through grant completion, and various open positions.

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	\$ 2,856,431	\$ (1,368,479)
Public Safety	2,203,738	(1,754,383)
Health and Welfare	9,080,161	(481,968)
Highways and Streets	2,436,794	150,120
Judicial	161,000	(161,000)
Auxiliary Services	58,225	(56,625)
Culture and Recreation	148,601	(94,961)
Interest on Debt	<u>88,016</u>	<u>(88,016)</u>
 Total	 <u>\$17,032,966</u>	 <u>\$ (3,855,312)</u>

- Rio Grande County is the financial agent for the Homeland Security Grant for the San Luis Valley. These grants provide DTR communication equipment, training and exercises for all law enforcement, emergency medical and fire protection districts. During 2012, \$290,932 was expended down from \$311,460 in 2011. Federal funding for these grants are declining.

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- \$8,188,969 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 \$17,950,953 and expenditures of \$17,210,300. The net change in fund balance for the year was most significant in the Road & Bridge Fund with an increase of \$619,270. The General Fund decreased its fund balance by \$34,999. The following funds also increased their fund balances: Social Services Fund, \$88,426; Airport Fund, \$83,308; Public Health Fund, \$70,301; Tourism Fund, \$10,515; Weed District Fund, \$6,334; Conservation Trust Fund, \$14,386.

General Fund Budgetary Highlights

The County approved a budget in December, 2011, based on the needs of the various departments and the projected revenue. In December, 2012, 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 receipt of various grants, the need for additional attorney time for the gas and oil regulations, and the increased expenditures for tourism promotion.

The actual expenditures were \$786,379 below the supplementary budget. The total revenues were \$373,164 under estimated. The net result was the expenditures were \$34,999 more than the revenues.

The fund balance as of December 31, 2012 was \$3,846,582, compared to \$3,881,581 as of December 31, 2011.

Road & Bridge Fund Highlights

Road & Bridge Fund ended 2012 with an increase of \$619,270 due to less snow removal, personnel savings and increased HUFT. Highway User's Fund Tax (HUFT) provided \$2,178,332 of the total actual revenue of \$2,743,547. The HUFT was up \$217,222 from 2011.

The fund balance as of December 31, 2012 was \$4,346,831 compared to \$3,727,561 as of December 31, 2011.

Social Service Fund Highlights

The Social Services Fund ended 2012 with an increase of \$88,426. Expenditures were \$1,853,678 less than projected. State funding sources were \$8,674, 459 which resulted in increasing the fund balance to \$740,891.

The fund balance as of December 31, 2012, was \$740,891 compared to \$652,465 as of December 31, 2011.

Non-Major Funds Highlights

Non-Major Funds include the Airport Fund, Conservation Trust Fund, Tourism Fund, Capital Projects Fund, Public Health Agency Fund, and the Rio Grande County Weed Control District. These funds

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realized a \$184,844 increase in fund balance during 2012. The Weed Control District Fund had an increase of \$6,334; the Tourism Fund of \$10,515; the Conservation Trust Fund, \$14,386; \$70,301 in the Public Health Agency Fund; and the Airport Fund, \$83,308.

As of December 31, 2012, the fund balances were as follows: Conservation Trust Fund - \$276,346; Tourism Fund - \$259,153; Capital Projects Fund - \$8,180; Public Health Agency Fund - \$261,222; Rio Grande County Weed Control Fund - \$195,489; and Airport Fund, \$139,827.

Capital Assets and Debt Administration

By the end of the fiscal year 2012, the County had \$1,771,920 of additional capital assets, which included building improvements, new road construction, one sheriff's vehicle, an utility truck and tractor for the Road & Bridge Fund, and an ATV for the building and maintenance department and a new pickup for the Weed Control District. There were deletions of \$69,615 of vehicles and equipment which gave net position before depreciation of \$67,189,277. The depreciation for 2012 was \$1,691,961, bringing the County's Net Capital Depreciation to \$27,446,848. This brings the Net Capital Assets to \$40,738,135.

**Table 4
Capital Assets**

	Governmental Activities	
	2011	2012
Land	\$ 433,301	\$ 433,301
Construction In Progress	0	562,405
Building & Site Improvements	5,323,843	5,191,330
Equipment & Vehicles	1,950,569	1,862,087
Infrastructure	<u>32,973,010</u>	<u>32,689,012</u>
Total	<u>\$40,680,723</u>	<u>\$40,738,135</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. The outstanding balance at December 31, 2012 and 2011 was \$1,857,108 and \$1,960,420 respectfully.

Through an energy audit, the County entered into a Lease Purchase Agreement on November 20, 2012 with All American Investment Group, LLC in the amount of \$376,062 for the purchase and installation of energy efficient components in various county buildings. The outstanding balance as of December 31, 2012 was \$116,888. The remaining funds will be drawn down and expended during 2013. This is a ten year agreement with the first payment being made in 2013.

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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 has seen a slight increase in assessed value.
- Sales tax decreased \$73,163 from 2011 to 2012 or 8.3%.
- Interest on investments increased \$36,018 from 2011 to 2012 (49.2%).
- With the economic climate in the State of Colorado and the United States, the County is continuing to watch closely the intergovernmental funding. During 2012, the County received \$6,433,742 more in state and federal funding. This is somewhat misleading since the total 2012 funding for Rio Grande County's Department of Social Services reflected the state's funding that was paid directly to the client. In 2011, only the funds paid to the County for direct county services were reported. The 2012 County Budget was funded by 73% Intergovernmental Revenues; with 22% from Property Tax, Sales Tax, Lodging Tax, and Specific Ownership Tax; and 5% from Other Local Revenue. Over the past three years, the county has continued to monitor closely the expenditures and revenues in order to respond timely to any shortfalls. 2012 ended in surplus funds due in part to increased HUFT and PILT, along with the State funding a larger percentage of the Social Services needs. The county continues to fight the trend of shifting costs from the State to the County.
- 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.

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 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 6th Street, Room 207, Del Norte, CO 81132.