

**Rio Grande County
Management's Discussion and Analysis
For the Year Ended December 31, 2007**

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, 2007. 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, 2007. Total net assets increased 2.01 percent disregarding the adjustments made for GASB 34 infrastructure reporting.
- General revenues, primarily taxes, account for approximately \$4,294,365 or 40.1 percent of all revenues. Program specific revenues in the form of charges for services and sales, grants and contributions, accounted for \$6,419,560 or 59.9 percent of total revenues of \$10,713,925.
- The County had \$9,901,217 in expenses related to governmental activities; only \$6,419,560 of these expenses was offset by program specific charges for services and grants.
- Outlays for capital assets were primarily comprise of two sheriff's department vehicles, a pickup for the Building Department, two dump trucks for the Road & Bridge Department, a pickup for the Weed Control Department, and completion of the Social Services addition and remodeling.
- 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.

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- 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.

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.

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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 18, 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, 2006, and 2007.

Table 1
Condensed Statement of Net Assets

Governmental Activities 2007	Governmental Activities 2006
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Current and Other Assets	\$ 10,682,692	\$ 10,012,876
Noncurrent Assets	<u>38,280,826</u>	<u>38,081,159</u>
Total assets	\$ 48,963,518	\$ 48,094,035
Current liabilities	5,192,518	5,085,948
Noncurrent liabilities	<u>2,452,055</u>	<u>2,501,850</u>
Total liabilities	\$ 7,644,573	\$ 7,587,798
Net assets		
Invested in capital assets, net of related debt	\$ 35,923,709	\$ 35,640,280
Restricted	255,130	290,290
Unrestricted (Deficit)	<u>5,140,106</u>	<u>4,575,667</u>
Total net assets at December 31, 2007	<u>\$41,318,945</u>	<u>\$ 40,506,237</u>

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

	Governmental Activities 2007	Governmental Activities 2006
Revenues		
Program Revenues		
Charges for Services	\$ 999,042	\$ 967,492
Operating grants and contributions	4,769,758	4,806,998
Capital grants/restricted investment earnings	650,760	1,171,397
General revenues		
Taxes	3,508,646	3,401,027
Payment in Lieu of Taxes	429,503	431,015
Other	<u>356,216</u>	<u>311,916</u>
Total Revenues	<u>10,713,925</u>	<u>11,089,845</u>
Expenses		
General Government	2,325,160	2,657,506
Public Safety	1,986,268	2,118,060
Health and Welfare	2,925,740	2,504,574
Highways and Streets	2,200,294	2,201,200
Judicial	161,940	158,815
Auxiliary Services	55,729	57,870
Culture and recreation	138,520	153,314
Interest on Debt	<u>107,566</u>	<u>111,097</u>
Total Expenses	<u>9,901,217</u>	<u>9,962,436</u>
Increase (decrease) in net assets	<u>\$ 812,708</u>	<u>\$ 1,127,409</u>

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Property taxes, Sales Tax, and other taxes account for 32.7 percent (\$3,508,646) of the County's revenue. State Funding and Grants contributes \$5,420,518 or 50.6 percent of the funding. The remainder from fees charged for services and miscellaneous sources equals to \$1,355,258 or 12.6 percent of the funding revenue.

Governmental Activities

The County's expenses are distributed as follows:

General Government	23.5%
Public Safety	20.1%
Health and Welfare	29.5%
Highways and Streets	22.2%
Judicial	1.6%
Auxiliary Services	.6%
Culture and Recreation	1.4%
Interest on Debt	1.1%

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. General Government did decreased in 2007 since in 2006 the electronic voting machines and increased security of all equipment and materials used for elections were purchased.

During 2007, Rio Grande County paid \$5,541,328 in salaries and fringe benefits. The employees received a three percent Cost of Living raise increase. This was an increase of \$306,247 (\$261,929 in wages and \$44,318 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	\$ 2,325,160	\$ (1,406,219)
Public Safety	1,986,268	(1,297,661)

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Health and Welfare	2,925,740	360,797
Highways and Streets	2,200,294	(15,777)
Judicial	161,940	(161,940)
Auxiliary Services	55,729	(55,129)
Culture and Recreation	138,520	(76,568)
Interest on Debt	<u>107,566</u>	(107,566)
 Total	 \$9,901,217	 \$ (3,481,657)

- 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 2007, \$518,233 was received.
- \$1,827,772 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.
- A CDBG grant was received for the addition and remodeling of the Social Services Building was received. \$182,460 of CDBG funds were received during 2007.

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 \$10,713,925 and expenditures of \$9,901,217. The net change in fund balance for the year was most significant in the Road & Bridge Fund with an increase of \$316,601 and the County General Fund with an increase of \$192,002. The Social Services Fund increased their fund balance by \$59,882. Airport Fund used \$39,353 of unappropriated fund balance to meet all the needs in 2007.

General Fund Budgetary Highlights

The County approved a budget in December, 2006, based on the needs of the various departments and the projected revenue. In December, 2007, 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 grant funds for the Revolving Loan Program for the San Luis Valley, a Cardiovascular Disease Prevention Grant, the completion of the Department of Social Services addition and remodeling project. The increase for the Road & Bridge Fund was for the purpose of a snow/sander truck. The Airport Fund was increased to complete the civil engineering and master plan for the new runway. The Capital Expenditure Fund was increase for the replacement of the annex roof and the Tourism Fund was increased for additional advertising.

The actual expenditures were \$724,702 below the supplementary budget. The total revenues were \$554,371 over estimated. However, the expenditures were still \$192,002 less that the revenues. The County still has not replaced two open positions in the Financial and Land Use

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Offices and one in the Clerk and Recorder's Office. Two additional positions were filled in the Jail and the Assessor's and Clerk's Office went from a 35 hour work week to a 40 hour work week. The new statutory salaries for the elected officials also were effective January 1, 2007.

The fund balance as of December 31, 2007 was \$2,331,135, compared to \$2,139,133 as of December 31, 2006.

Road & Bridge Fund Highlights

The Road & Bridge Fund ended 2007 with an increase \$316,376 due to receipt of more in Highway User's Tax than expected and increased impact fees. In addition, the County did budget for and purchased two new dump trucks. Highway User's Fund Tax (HUFT) provided \$1,898,161 of the total actual expenditures of \$2,287,509. The HUFT was down \$99,175 from 2006. The balance was from property tax, specific ownership tax and other fees and services.

The fund balance as of December 31, 2007 was \$2,323,151 compared to \$2,006,550 as of December 31, 2006.

Social Service Fund Highlights

The Social Services Fund ended 2007 with an increase of \$59,882. Expenditures decreased \$30,854. State funding sources increased by \$29,999 while local sources increased by \$15,548.

The fund balance as of December 31, 2007, was \$432,495 compared to \$372,613 as of December 31, 2006.

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 \$3,162 decrease in fund balance during 2007. The Weed Control District Fund had a decrease of \$2,207, the Capital Expenditure Fund of \$33,960, and the Airport Fund of \$39,353. The other funds increased with \$33,732 increase in the Tourism Fund and an increase in the Conservation Trust Fund of \$38,626.

As of December 31, 2007, the fund balances were as follows: Airport Fund - \$16,516; Conservation Trust Fund - \$201,745; Tourism Fund - \$169,045; Capital Expenditure Fund - \$7,300; and Rio Grande County Weed Control Fund - \$123,144.

Capital Assets and Debt Administration

By the end of the fiscal year 2007, the County had \$2,191,683 of additional capital assets, which included building improvements, new road construction, two sheriff's vehicles, and two pickups. (See Note 7.) Deletions of vehicles and equipment of \$18,349 gave a net change in Assets before depreciation of \$57,758,890 Depreciation for 2007 was \$1,558,786, bringing the

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County's Net Capital Depreciation to \$19,911,365. This brings Net Capital Assets to \$38,280,826.

**Table 4
Capital Assets**

	Governmental Activities	
	2007	2006
Land	\$ 433,301	\$ 433,301
Construction In Progress	0	433,230
Building & Site Improvements	5,855,640	5,287,060
Equipment & Vehicles	2,080,211	2,117,705
Infrastructure	<u>29,911,674</u>	<u>29,809,863</u>
Total	<u>\$38,280,826</u>	<u>\$38,0813,159</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 increased 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. Additional equipment needs that might be required by the State could add another \$100,000 in 2008.
- With a new state law requiring additional Courthouse and Courtroom security, additional funds will be necessary to meet this unfunded mandate. We anticipate the need for additional officers hired in the Sheriff's Department and security equipment.
- 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

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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.

