

**Rio Grande County
Management's Discussion and Analysis
For the Year Ended December 31, 2010**

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, 2010. 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, 2010. Total net assets increased 8.6 percent disregarding the adjustments made for GASB 34 infrastructure reporting.
- General revenues, primarily taxes, account for approximately \$4,985,157 or 34.9 percent of all revenues. Program specific revenues in the form of charges for services and sales, grants and contributions, accounted for \$9,276,299 or 65.1 percent of total revenues of \$14,261,456.
- The County had \$10,595,768 in expenses related to governmental activities; only \$9,276,299 of these expenses was offset by program specific charges for services and grants.
- Outlays for capital assets were primarily comprised of two sheriff's department vehicles (used), two pickups, a trailer, and compressor for the Road & Bridge Department, a new runway for the Airport, and two cars 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. 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.

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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 Expenditures Fund, (5) Weed Control District Fund, (6) the Airport Fund, (7) the Conservation Trust Fund, (8) the Tourism Fund, and (9) the Public Health Agency Fund. Data from the Funds (4) and (5) and (7) 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 district's net assets at December 31, 2009, and 2010.

**Table 1
Condensed Statement of Net Assets**

	Governmental Activities 2009	Governmental Activities 2010
Current and Other Assets	\$ 11,803,574	\$ 11,049,033
Noncurrent Assets	<u>39,031,203</u>	<u>41,011,989</u>
Total assets	<u>\$ 50,834,777</u>	<u>\$ 52,061,022</u>
Current liabilities	5,784,335	3,451,219
Noncurrent liabilities	<u>2,286,896</u>	<u>2,180,569</u>
Total liabilities	<u>\$ 8,071,231</u>	<u>\$ 5,631,788</u>
Net assets		
Invested in capital assets, net of related debt	\$ 36,853,133	\$ 38,929,590
Restricted	406,182	520,794
Unrestricted (Deficit)	<u>5,504,231</u>	<u>6,978,850</u>
Total net assets at December 31, 2009 & 2010	<u>\$42,763,546</u>	<u>\$ 46,429,234</u>

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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 2009	Governmental Activities 2010
Revenues		
Program Revenues		
Charges for Services	\$ 818,234	\$ 917,511
Operating grants and contributions	6,066,693	7,972,590
Capital grants/restricted investment earnings	556,900	386,198
General revenues		
Taxes	4,030,775	4,101,661
Payment in Lieu of Taxes	700,568	757,058
Other	<u>114,082</u>	<u>126,438</u>
Total Revenues	<u>12,287,252</u>	<u>14,261,456</u>
Expenses		
General Government	3,037,911	2,583,488
Public Safety	2,377,099	2,097,996
Health and Welfare	4,070,136	3,179,727
Highways and Streets	2,040,905	2,266,935
Judicial	178,000	160,677
Auxiliary Services	60,949	55,850
Culture and recreation	187,635	154,373
Interest on Debt	<u>100,845</u>	<u>96,722</u>
Total Expenses	<u>12,053,480</u>	<u>10,595,768</u>
Increase (decrease) in net assets	<u>\$ 233,772</u>	<u>\$ 3,665,688</u>

Property taxes, Sales Tax, and other taxes account for 34.1 percent (\$4,858,719) of the County's revenue. State Funding and Grants contributes \$8,358,788 or 58.6 percent of the funding. The remainder from fees charged for services and miscellaneous sources equals to \$1,043,949 or 7.3 percent of the funding revenue.

Governmental Activities

The County's expenses are distributed as follows:

General Government	24.5%
Public Safety	19.8%
Health and Welfare	30.0%
Highways and Streets	21.4%
Judicial	1.5%
Auxiliary Services	.5%
Culture and Recreation	1.4%
Interest on Debt	0.9%

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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. Very little change occurred within governmental activities as shown above. The largest increase was in Highways and Streets from 16.9% to 21.4% due to increase in road & bridge expenditures. The largest decrease was in Health and Welfare from 33.8% to 30.0% due to the reductions state funding in the TANF Program. All the other expense remained about the same.

During 2010, Rio Grande County paid \$5,950,335.96 salaries and fringe benefits. The employees received no cost of living raise or salary adjustments. This is down by \$231,566.48 from 2009 due to elimination of several positions were eliminated.

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	\$ 2,583,488	\$ 753,846
Public Safety	2,097,996	(1,557,632)
Health and Welfare	3,179,727	(522,091)
Highways and Streets	2,266,935	345,812
Judicial	160,677	(160,677)
Auxiliary Services	55,850	(54,650)
Culture and Recreation	154,373	(27,355)
Interest on Debt	<u>96,722</u>	<u>(96,722)</u>
 Total	 <u>\$10,595,768</u>	 <u>\$ (1,319,469)</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 2010, \$311,460 was expended down from \$450,438 in 2009.
- \$2,124,670 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. This was a decrease of \$578,738 from 2009.

Financial Analysis of the County's Funds

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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 \$14,279,717 and expenditures of \$12,703,287. The net change in fund balance for the year was most significant in the Road & Bridge Fund with an increase of \$868,833. The County General Fund increased their fund balance by \$427,508. The Social Services Fund increased their fund balance by \$136,736. The Airport Fund decreased by \$2,481 due to the construction of the new runway. The Tourism Fund increased by \$42,725 along with the Weed District Fund of \$9,561. The Public Health Fund increase by \$98,868 and Conservation Trust Fund also increased by \$5,504.

General Fund Budgetary Highlights

The County approved a budget in December, 2009, based on the needs of the various departments and the projected revenue. In December, 2010, 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 a grant for the Best & Brightest Program, receiving and posting the Secure Rural School Fund Pass Through in the General Fund, and operating the Museum for eight months.

The actual expenditures were \$849,720 below the supplementary budget. The total revenues were \$77,588 under estimated. However, the expenditures were still \$773,264 less than the revenues.

The fund balance as of December 31, 2010 was \$3,186,600, compared to \$2,759,092 as of December 31, 2009.

Road & Bridge Fund Highlights

In December, 2010, a Supplementary Budget of \$128,000 was passed to cover the additional expenditure for the replacement of a sand truck, relocation of a road around the airport and additional paving. Road & Bridge Fund ended 2010 with an increase of \$868,833 due to less snow removal. Highway User's Fund Tax (HUFT) provided \$2,126,010 of the total actual revenue of \$2,895,656. The HUFT was up \$163,241 from 2009. The balance was from property tax, specific ownership tax and other fees and services.

The fund balance as of December 31, 2010 was \$3,029,393 compared to \$2,160,560 as of December 31, 2009.

Social Service Fund Highlights

The Social Services Fund ended 2010 with an increase of \$136,736. Expenditures decreased by \$871,129. State funding sources decreased by \$578,738 while local sources increased by \$8,339.

The fund balance as of December 31, 2010, was \$659,169 compared to \$522,433 as of December 31, 2009.

Airport Fund Highlights:

The Airport Fund increased considerably in both the revenues and expenditures due to the receipt of a Colorado State Aviation Grant for \$2,499,221 for the construction of a 6,050 foot runway. The project also included the relocation of a county road around the airport property. The

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contract was awarded in June and the project was completed by October 31, 2010. Total expenditures for the Airport Fund were \$2,509,661.

The fund balance as of December 31, 2010, was \$40,809 compared to \$43,290 as of December 31, 2009.

Non-Major Funds Highlights

Non-Major Funds include the Conservation Trust Fund, Tourism Fund, Capital Expenditure Fund, Public Health Agency Fund, and the Rio Grande County Weed Control District. These funds realized a \$156,658 increase in fund balance during 2010. The Weed Control District Fund had an increase of \$9,561; the Tourism Fund of \$42,725; the Conservation Trust Fund, \$5,504; and \$98,868 in the Public Health Agency Fund.

As of December 31, 2010, the fund balances were as follows: Conservation Trust Fund - \$230,109; Tourism Fund - \$225,388; Capital Expenditure Fund - \$8,180; Public Health Agency Fund - \$190,741; and Rio Grande County Weed Control Fund - \$160,748.

Capital Assets and Debt Administration

By the end of the fiscal year 2010, the County had \$3,666,432 of additional capital assets, which included building improvements, new road construction, two sheriff's vehicles, two pickups and a trailer for Road & Bridge Fund, and the construction of the new runway (See Note 6.) There were deletions of \$227,650 of vehicles and equipment which gave net assets before depreciation of \$64,873,215. The depreciation for 2010 was \$1,674,603, bringing the County's Net Capital Depreciation to \$24,294,527. This brings the Net Capital Assets to \$41,011,989.

**Table 4
Capital Assets**

	Governmental Activities	
	2009	2010
Land	\$ 433,301	\$ 433,301
Construction In Progress	0	0
Building & Site Improvements	5,588,870	5,456,356
Equipment & Vehicles	2,204,426	2,032,370
Infrastructure	<u>30,804,606</u>	<u>33,089,962</u>
Total	<u>\$39,031,203</u>	<u>\$41,011,989</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.

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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 continues to see little increase in assessed value.
- Sales tax increase \$10,727 from 2009 to 2010 or 1.2%. Leakage through internet sales and out-of-Valley shopping continues to be a major concern of the Commissioners.
- Interest on investments increased \$4,932 from 2009 to 2010 (8.4%).
- 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. During 2010, the County received \$723,392 less in state and federal funding or 9.8%. The 2010 County Budget was funded by 64% Intergovernmental Revenues; with 29% from Property Tax, Sales Tax, Lodging Tax, and Specific Ownership Tax; and 7% from Other Local Revenue. With reduced revenue, services and programs have been cut and future cuts might be necessary, especially those funded with Intergovernmental Revenues. The County continues to fight the trend of shifting costs from the State to the County.
- The County is experiencing increased inmate medical costs and has been trying to find ways to contain these costs.
- 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.