

San Miguel County
Financial Statements and
Independent Auditor's Report
as of
December 31, 2008

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Report of Independent Certified Public Accountants

July 16, 2009

Board of County Commissioners
San Miguel County, Colorado

We have audited the accompanying financial statements of the governmental activities, the business-type activities, each major fund and the aggregate remaining fund information of San Miguel County, Colorado, (the County), as of and for the year ended December 31, 2008 which collectively comprise the County's basic financial statements as listed in the table of contents. These financial statements are the responsibility of the County's management. Our responsibility is to express opinions on these financial statements based on our audit.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America and standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinions.

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, the business-type activities, each major fund, and the aggregate remaining fund information of San Miguel County, Colorado as of December 31, 2008, and the respective changes in financial position and cash flows, where applicable, thereof for the year then ended in conformity with accounting principles generally accepted in the United States of America.

In accordance with *Government Auditing Standards*, we have also issued a report on our consideration of the County's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be read in conjunction with this report in considering the results of our audit.

The management's discussion and analysis is not a required part of the basic financial statements but is supplementary information required by accounting principles generally accepted in the United States of America. We have applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of the required supplementary information. However, we did not audit the information and express no opinion on it.

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the County's basic financial statements. The budgetary comparison information for the General Fund and major special revenue funds is not a required part of the basic financial statements, but is supplementary information required by accounting principles generally accepted in the United States of America. The combining and individual nonmajor fund financial statements and schedules, fiduciary funds combining statements, and Local Highway Finance Report, are presented for the purposes of additional analysis and are not required parts of the basic financial statements. The accompanying schedule of expenditures of federal awards is presented for purposes of additional analysis as required by U.S. Office of Management and Budget Circular A-133, Audits of States, Local Governments, and Non-Profit Organizations, and is also not a required part of the basic financial statements of San Miguel County, Colorado. The required supplementary information, other than management's discussion and analysis, and the combining and individual nonmajor fund financial statements and schedules, fiduciary funds combining statements, Local Highway Finance Report and the schedule of expenditures of federal awards have been subjected to the auditing procedures applied in the audit of the basic financial statements and, in our opinion, are fairly stated in all material respects in relation to the basic financial statements taken as a whole.

Blair and Associates, P.C.

San Miguel County
Management's Discussion and Analysis



As San Miguel County Finance Officer, we offer readers of the San Miguel County financial statements this narrative overview and analysis of the financial activities of the County for the year ended December 31, 2008.

Financial Highlights

- San Miguel County's assets, \$ 54.8 million, exceeded liabilities, \$ 15.1 million, by \$39.7 million at the end of 2008. Of this amount, \$ 9.8 million may be used to meet the County's ongoing obligations to citizens. The remaining \$ 25.6 million are invested in capital assets and \$ 4.3 million is restricted for other purposes.
- Governmental funds reported combined ending fund balances of \$14.8 million, an increase of \$ 310,192
- The County's fund balance for the General Fund was \$ 8.8 million, an increase of \$ 556,268.
- Total long-term liabilities increased by \$ 2.8 million during 2008 with new debt issued of \$ 3 million.
- General property, sales and other taxes totaled \$ 12.5 million, or 83% of general revenues.
- It is the goal of the county to maintain an operating reserve in the general fund equal to approximately six months of operating expenditures. At December 31, 2008, the General Fund has over six months of operating reserves.

Overview of the Financial Statements

This discussion and analysis is intended to serve as introduction San Miguel County's basic financial statements, which are comprised of: 1. government-wide financial statements. 2. Fund financial statements. 3. Notes to the financial statements. This report also contains other supplementary information in addition to the basic financial statements themselves.

San Miguel County
Management's Discussion and Analysis

Government-wide financial statements

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

The *statement of net assets* presents information on all of the 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.

The *statement of activities* presents information showing how the County's net assets changed over the past year. All changes in net assets are reported as soon as an "event" causing a change occurs, regardless of when related cash flows actually take place. As a result, revenues and expenses are reported in this statement for some items that will only result in cash flows in future financial periods; for example, grants not yet reimbursed or vacation leave which has been earned but not yet used.

Both of the government-wide financial statements distinguish activities of San Miguel County that are primarily supported by taxes and state/federal monies (intergovernmental activities) from activities that are intended to be funded primarily from user fees and charges (business-type activities). The governmental activities of the County include general government, public safety, public health and welfare, open space & recreation, road & bridge, and agriculture/natural resources. The business-type activities of the County include Lawson Hill real estate and prisoner commissary activities.

The government-wide financial statements include not only San Miguel County government itself (known as the primary government), but also legally separate entities, the San Miguel County Housing Authority, and the San Miguel County Solid Waste Disposal District, which have significant operational and financial relationships with the County.

Fiduciary Funds

Fiduciary funds are used to account for resources held for the benefit of parties outside the government. Fiduciary funds are not included in the government-wide financial statements because the resources of these funds are not available to support the County's operations. San Miguel County has one fiduciary fund the Treasurer's Agency Fund. This fund is used to account for cash held by the County Treasurer for distribution to other governments.

San Miguel County Management's Discussion and Analysis

Fund Financial Statements

A *fund* is a grouping of related accounts that is used to maintain control over resources that have been set aside for specific activities or purposes. San Miguel County uses fund accounting to ensure and demonstrate compliance with finance-related legal requirements. All of the County'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, governmental fund financial statements focus on near-term flows of spendable resources, as well as on balances of spendable resources available at the end of the year. This information is helpful in evaluating the County's near-term financing requirements.

Because the focus of the governmental funds is narrower than that of the government-wide financial statements, it is useful to compare the information presented for *governmental funds* with similar information presented for *governmental activities* in the government-wide financial statements, as readers may better understand the impact of the County's near-term financing decisions. Both the governmental fund balance sheet and the governmental fund statement of revenues, expenditures and changes in fund balances provide a reconciliation to facilitate this comparison.

San Miguel County maintains nine governmental funds. Information is presented separately in the governmental fund balance sheet and the governmental fund statement of revenues, expenditures and changes in fund balance for the General Fund and the Road and Bridge Fund all of which are considered to be major funds. Information from the other seven governmental funds, Public Welfare Fund, Sales Tax Capital Fund, Contingent Fund, Capital Expenditures Fund, Retirement Fund, Conservation Trust Fund, Lodging Tax Tourism and Dependent Districts are combined into a single, aggregated presentation.

The County's financial statements include the accounts of all county operations including general operations (general fund), and special revenue funds, including road & bridge, social services, capital expenditures, contingent, retirement, conservation trust and lodging tax tourism funds. Government resources are allocated to and accounted for in individual funds based upon the purposes for which they are to be spent and the means by which spending activities are controlled.

San Miguel County
Management's Discussion and Analysis

- **GENERAL FUND**-The general fund is the general operating fund of the county. It is used to account for all financial resources except those required to be accounted for as special revenue funds.
- **Road & Bridge Fund**-Receives local property tax revenues of \$ 1,709,150, state highway users tax of \$ 1,600,165, plus revenues from other sources designated for construction, improvements, maintenance and administration of county roads and bridges.
- **Public Welfare Fund**-Receives federal and state funds plus local mill levy revenues \$ 145,645 designated for public welfare programs.
- **Sales Tax Capital Fund**-Revenues deposited to this fund are used for county capital expenditures. The fund accounts for one half of the revenues from the county's 1% sales tax. The remaining one half of the sales tax revenue goes to the general fund for general operations, with the first \$15,000 monthly (\$180,000/yr) of the General Fund portion to be used for Jail operations.
- **Contingent Fund**-A reserve fund to be used for contingencies or emergencies that could not have been reasonably foreseen at the time of adoption of the budget. Included in this fund are the mandatory emergency reserves of 3% of annual Fiscal Year Spending (FYS) as required by Article X, Section 20, part 5, of the Colorado Constitution. In the case of a contingency, the Board of Commissioners is authorized to spend in excess of the appropriations.
- **Capital Expenditures Fund**-The funds used for public transportation. Funding sources include transportation impact fees and interest earnings.
- **Retirement Fund**-After 1 year of employment, county employees are required to participate in a defined contribution retirement savings plan, a 5% payroll deduction matched by the county, with a 5-year vesting provision. Funded by property tax. The plan is administered by the Colorado County Officials and Employees Retirement Association.
- **Conservation Trust Fund**-Receives funds distributed to the county from the Colorado lottery (GOCO), which are designated for the acquisition, development and maintenance of new conservation sites or for capital improvements or maintenance for recreational purposes on any public site.
- **Lodging Tax Tourism Fund**-Approved by voters in 1993, a 2% lodging tax was imposed for advertising and marketing tourism throughout San Miguel County. Currently, by contract, funds collected in the Telluride Region are 'passed through' to for promotion services, funds collected in the Norwood Region are 'passed through' to the Norwood Chamber for promotion services.

San Miguel County
Management's Discussion and Analysis

OTHER DISTRICTS/SPENDING AUTHORITIES-The San Miguel County Board of County Commissioners is also the governing board for various spending authorities and special districts. Depending on the statutory authority of generating revenues, these are operated similar to Governmental Funds or operated as enterprise funds. The BOCC is responsible for budgetary control over these funds, districts and authorities.

➤ **San Miguel County Housing Authority**

Created on or about December 11, 1980 and activated in 1991 to facilitate employee housing projects in the Telluride region via bond issues, writing and receiving grants, and administering the County's deed restriction program. Budgets are prepared as an administrative tool, but are not required by State Statute. The governing body of the San Miguel County Housing Authority is the San Miguel County Board of County Commissioners. Most functions of the Authority are contracted to the San Miguel Regional Housing Authority.

➤ **San Miguel County Solid Waste Disposal District**

An entity created in 1991 pursuant to the provisions of 30-20-201 C.R.S. to assist in providing current and long term disposal of solid waste, trash and garbage within San Miguel County. The daily operations are assigned to the County Department of Environmental Health with the Board of County Commissioners acting as the governing board.

BUDGET POLICIES

The Board of Commissioners follows certain procedures in establishing the budgetary data reflected in the financial documents:

- (1) In accordance with statutory requirements, prior to October 15, the budget officer submits to the board (County Administrator) a proposed operating budget for the calendar year commencing the following January 1. The operating budget includes proposed expenditures and means of financing them for the upcoming year, along with estimates for the current year and the actual data from the three preceding years. Detailed line item budgets received from each department and spending agency are included and reviewed for administrative control. The level of control of individual budgets exists with the elected official or department head.
- (2) Work sessions are held with department heads and public hearings are held to obtain public comment. All work sessions as well as public hearings are properly noticed and public comment is accepted.
- (3) Prior to December 15, the budgets are adopted pursuant to state statute by the approval of a resolution and approved in accordance with generally accepted accounting principles (GAAP).

San Miguel County
Management's Discussion and Analysis

- (4) Financial reports are reviewed with the County Administrator throughout the budget year comparing actual revenues and expenditures with the approved budgets. Any significant discrepancies from budgeted receipts or spending are discussed and resolved.
- (5) Appropriations lapse at the end of each fiscal year (statutory provision). If certain programs or projects have been approved for a budget year and not completed during that budget year, consideration is given to carrying unused funds forward to the next budget year for project completion.
- (6) All monies received by the County, its agencies, departments and programs, must be deposited with the County Treasurer and included in the annual budget and appropriations in order to be spent. The Board of Commissioners may authorize supplemental appropriations to the budgets during the budget year.

Budgetary Comparisons

San Miguel County adopts an annual appropriated budget for all of its funds. Budget to actual comparisons for each fund are provided in this report.

Notes to the Financial Statements

These notes provide additional information that is necessary in gaining a full understanding of the data provided in the government-wide and fund financial statements.

Other information

The combining statements referred to earlier in connection with non-major governmental, enterprise and internal service funds are presented immediately following the notes to the financial statements.

San Miguel County
Management's Discussion and Analysis

COUNTY-WIDE FINANCIAL ANALYSIS

Net assets may serve over time as a useful indicator of a government's financial position. As of December 31, 2008, assets exceeded liabilities by \$ 39.7 million.

The following table provides a summary of the County's governmental and business-type net assets for 2008.

	Governmental Activities		Business Type Activities		Total	
	2008	2007	2008	2007	2008	2007
Assets						
Current and other assets	\$ 24,094,374	\$ 25,935,841	\$ 15,486	\$ 15,698	\$ 24,109,860	\$ 25,951,539
Capital assets, net	30,739,769	26,057,851	-	-	30,739,769	26,057,851
Total assets	54,834,143	51,993,692	15,486	15,698	54,849,629	52,009,390
Liabilities						
Current and other liabilities	9,245,410	11,334,072	4,311	3,537	9,249,721	11,337,609
Long-term liabilities	5,859,515	3,087,318	-	-	5,859,515	3,087,318
Total liabilities	15,104,925	14,421,390	4,311	3,537	15,109,236	14,424,927
Net Assets						
Investment in capital assets	25,643,499	23,707,674	-	-	25,643,499	23,707,674
Restricted	4,339,631	3,812,438	-	-	4,339,631	3,812,438
Unrestricted	9,746,088	10,052,190	11,145	12,161	9,757,233	10,064,351
Total net assets	\$ 39,729,218	\$ 37,572,302	\$ 11,145	\$ 12,161	\$ 39,740,363	\$ 37,584,463

San Miguel County
Management's Discussion and Analysis

Changes in Net Assets

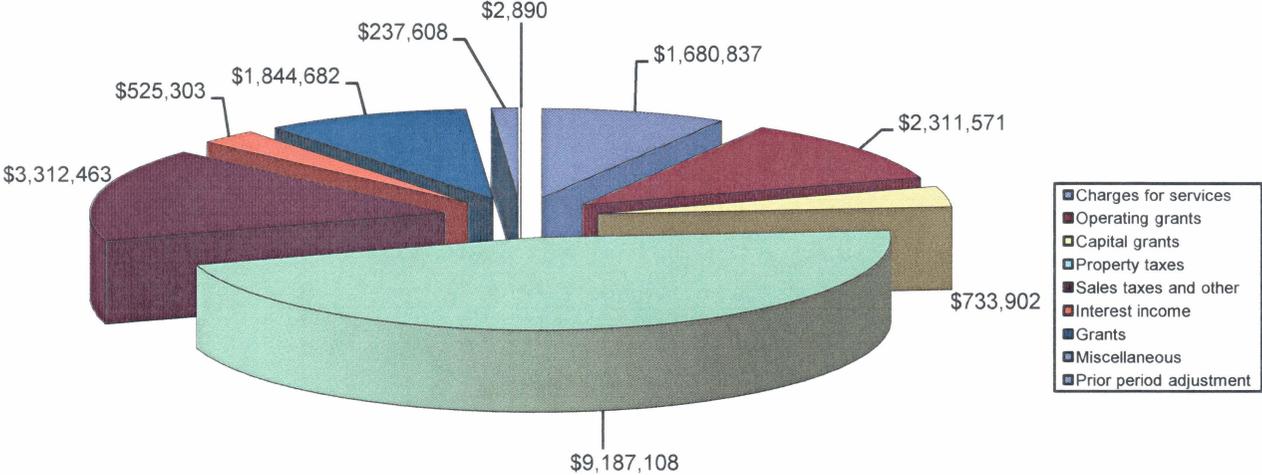
Governmental and business-type activities increased the County's net assets by \$2,155,900 in 2008.

The following table indicates the changes in net assets for governmental and business-type activities for 2008.

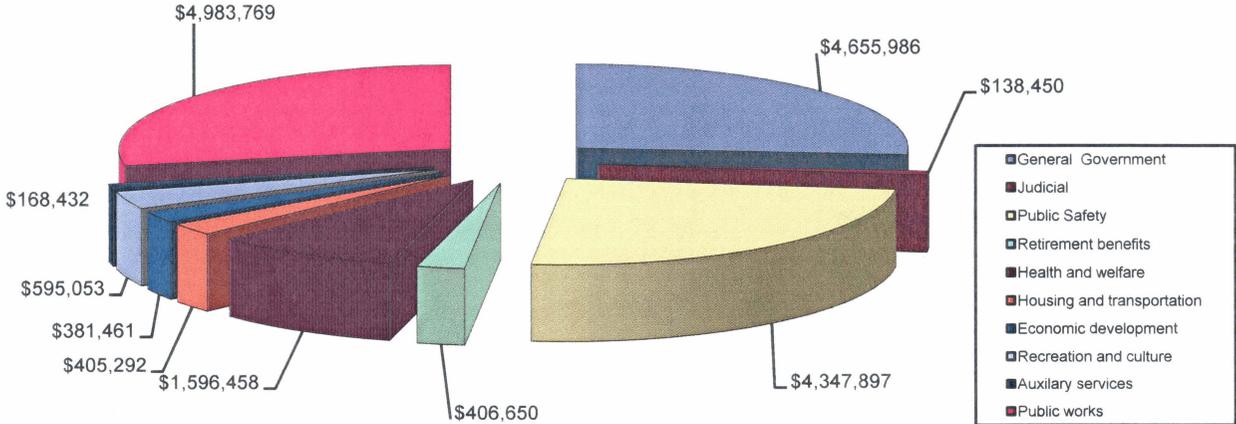
	Governmental Activities		Business Type Activities		Total	
	2008	2007	2008	2007	2008	2007
Revenues						
Program revenues						
Charges for services	\$ 1,680,837	\$ 1,715,445	\$ 54,982	\$ 55,029	\$ 1,735,819	\$ 1,770,474
Operating grants	2,311,571	2,199,368			2,311,571	2,199,368
Capital grants	733,902	2,798,036			733,902	2,798,036
General Revenues						
Property taxes	9,187,108	8,035,723			9,187,108	8,035,723
Sales taxes and other	3,312,463	3,650,374			3,312,463	3,650,374
Interest income	525,303	863,219			525,303	863,219
Federal and state grants	1,844,682	1,139,281			1,844,682	1,139,281
Miscellaneous	237,608	308,394			237,608	308,394
Gain on sale of assets	-	26,898			-	26,898
Total	\$ 19,833,474	\$ 20,736,738	\$ 54,982	\$ 55,029	\$ 19,888,456	\$ 20,791,767
Expenses						
General government	\$ 4,655,986	\$ 3,951,250	\$	\$	\$ 4,655,986	\$ 3,951,250
Judicial	138,450	109,603			138,450	109,603
Public safety	4,347,897	4,261,651	55,998	55,788	4,403,895	4,317,439
Retirement benefits	406,650	373,285			406,650	373,285
Health and welfare	1,596,458	2,062,389			1,596,458	2,062,389
Housing and transportation	405,292	423,452			405,292	423,452
Economic development	381,461	374,903			381,461	374,903
Recreation and culture	595,053	730,480			595,053	730,480
Auxiliary services	168,432	143,279			168,432	143,279
Public works	4,983,769	3,967,924			4,983,769	3,967,924
Total expenses	17,679,448	16,398,216	55,998	55,788	17,735,446	16,454,004
Increase in net assets	2,154,026	4,338,522	(1,016)	(759)	2,153,010	4,337,763
Beginning	37,572,302	33,231,633	12,161	12,920	37,584,463	33,244,553
Prior Period Adjustment	2,890	2,147			2,890	2,147
Ending	\$ 39,729,218	\$ 37,572,302	\$ 11,145	\$ 12,161	\$ 39,740,363	\$ 37,584,463

San Miguel County Management's Discussion and Analysis

Revenues by Source-Governmental Activities



Expenses by Department-Governmental Activities



San Miguel County
Management's Discussion and Analysis

FINANCIAL ANALYSIS OF THE COUNTY'S FUNDS

As mentioned earlier, San Miguel County uses fund accounting to ensure and demonstrate compliance with finance-related legal requirements.

Governmental funds

The focus of the County's governmental funds is to provide information on near-term inflows, outflows, and balances of spendable resources. Such information is useful in assessing the County's financing requirements. In particular, unreserved fund balance may serve as a useful measure of a government's net resources available for spending at the end of the year.

As of the end of 2008, the combined ending fund balances of San Miguel County's governmental funds were \$ 14,848,964. Approximately 71% of this consists of unreserved fund balance which is available as working capital and for current spending in accordance with the purposes of the specific funds.

The County has two major governmental funds. These are the General Fund and the Road and Bridge Fund.

GENERAL FUND-

The general fund is the general operating fund of the county. It is used to account for all financial resources except those required to be accounted for as special revenue funds.

Road & Bridge Fund-

Receives local property tax revenues, state highway users tax, plus revenues from other sources designated for construction, improvements, maintenance and administration of county roads and bridges.

Proprietary Funds

San Miguel County maintains two different types of proprietary funds. *Enterprise funds* are used to report the same functions presented as *business-type activities* in the government-wide financial statements. The remaining proprietary funds are combined into a single aggregate presentation in the enterprise fund financial statements. *Internal Service funds* are an accounting device used to accumulate and allocate costs internally among the County's various functions.

**San Miguel County
Management's Discussion and Analysis**

	Balances 1/1/2007	Additions	Deletions	Balances 12/31/2007
Capital assets not being depreciated				
Land	\$ 3,078,777	\$ 3,962,423	\$ -	\$ 7,041,200
Infrastructure	9,451,803	624,642	-	10,076,445
Total capital assets not being depreciated	12,530,580	4,587,065	-	17,117,645
Capital assets being depreciated				
Buildings and improvements	13,475,163	808,578	-	14,283,741
Equipment and furniture	5,957,345	164,005	(135,109)	5,986,241
Total capital assets being depreciated	19,432,508	972,583	(135,109)	20,269,982
Less accumulated depreciation				
Buildings and improvements	3,008,948	335,682	-	3,344,630
Equipment and furniture	2,896,289	528,537	(121,598)	3,303,228
Total accumulated depreciation	5,905,237	864,219	(121,598)	6,647,858
Total capital assets being depreciated, net	13,527,271	108,364	(13,511)	13,622,124
Governmental activities capital assets	\$ 26,057,851	\$ 4,695,429	\$ (13,511)	\$ 30,739,769

Economic factors and future budget

- San Miguel County is in healthy financial condition.
- The total assessed valuation for budget year 2009 is \$893,064,930; down from \$904,042,430 for budget year 2008. This is a decrease of \$10,977,500 or a 1.22% drop in assessed valuation. The total property tax is estimated at \$9,037,817 for the budget year 2009. San Miguel County's mill levy totals 10.120 for budget year 2009. San Miguel County citizens have approved the removal of the constitutional limitations of TABOR (Taxpayers Bill of Rights).
- San Miguel County's sales tax revenues decreased .74% for the year 2008 compared to 2007. The slowdown in the tourist industry in the fall of 2008 was starting to be reflective as of the December 31, 2008 financial report.
- Building permit fees and use tax on building materials decreased by \$180,332.91 from 2007 to 2008. Year to date for 2009 also indicates a dramatic decline in this revenue source. This revenue projection for 2009 is \$355,000 or a 37% decrease from the 2009 adopted budget figures. There is on-going analysis by staff of the construction industry and potential projects that may increase this revenue.

**San Miguel County
Management's Discussion and Analysis**

- The County continues to grant annually for various community support projects and non-profit organizations. This appropriation will be reduced by approximately \$75,000 for budget year 2010.
- Public transportation continues to be a very important alternative for the many commuters traveling from Montrose, Ridgway, Norwood, and west Montrose County to the Telluride area. In 2008 San Miguel County spent \$226,360 for transit services (Galloping Goose) to Norwood; \$14,164 for Gondola operations to the Mountain Village; and \$34,685 for the van pool to Ridgway. Revenues to fund this function come primarily from real estate transfer taxes. With the slowdown in the real estate market, revenues are decreasing. Staff continues to monitor the real estate market to see if any increases are to be expected from real estate sales.
- San Miguel County's Open Space and Recreation Department has been instrumental in constructing a pedestrian recreation underpass under CO Hwy 145 connecting the Telluride bike path to the Lawson Hill subdivision and Galloping Goose trail. Total project cost is estimated to be \$1,200,000 with approximately \$550,000 being received in grant funds from GOCO, CDOT, and DOLA.
- The Land Heritage Program/Purchase of Development Rights program continues to fund the purchase of development rights on parcels of land in San Miguel County. The total program has secured 10,520 acres of open space. Thru 2008 San Miguel County has contributed \$1,100,000 towards this program and \$3,500,000 has come from GOCO funds. This program began in 2000.

REQUESTS FOR INFORMATION

This financial report is designed to provide a general overview of San Miguel County's finances for all those with an interest in the government's finances. Questions concerning any of the information provided in this report or requests for additional information should be addressed to San Miguel County Finance Department, P.O. Box 486, Norwood, CO 81423.

SAN MIGUEL COUNTY, COLORADO
STATEMENT OF NET ASSETS
December 31, 2008

	Primary Government		
	Governmental Activities	Business-Type Activities	Total
Assets			
Cash and cash equivalents	\$ 15,701,139	\$ 15,486	\$ 15,716,625
Restricted cash	35,489	-	35,489
Property taxes receivable	7,698,220	-	7,698,220
Accrued interest receivable	101,903	-	101,903
Accounts receivable	475,340	-	475,340
Due from other governmental units	18,042	-	18,042
Due from other funds	6,141	-	6,141
Prepaid expenses	-	-	-
Inventories	58,100	-	58,100
Capital assets, net	30,739,769	-	30,739,769
Total assets	<u>54,834,143</u>	<u>15,486</u>	<u>54,849,629</u>
Liabilities			
Accounts payable	474,895	-	474,895
Accrued vacation and sick leave	1,033,656	-	1,033,656
Due to other funds	1,800	4,341	6,141
Deposit-bond payable	29,000	-	29,000
Deferred revenue	7,706,059	-	7,706,059
Long-term liabilities			
Due more than one year:			
Leases payable	5,096,270	-	5,096,270
Compensated absences	763,245	-	763,245
Total liabilities	<u>15,104,925</u>	<u>4,341</u>	<u>15,109,266</u>
Net assets			
Invested in capital assets	25,643,499	-	25,643,499
Restricted for:			
Open Space	1,025,530	-	1,025,530
Idarado	34,489	-	34,489
Air quality	102,827	-	102,827
Seizure funds	1,385	-	1,385
Health Insurance	64,369	-	64,369
Emergencies	627,834	-	627,834
Transportation	875,384	-	875,384
Housing	1,301,178	-	1,301,178
Solid waste	306,635	-	306,635
Self insurance	-	-	-
Unrestricted:	9,746,088	11,145	9,757,233
Total Net Assets	<u>\$ 39,729,218</u>	<u>\$ 11,145</u>	<u>\$ 39,740,363</u>

See accompanying notes to the basic financial statements

SAN MIGUEL COUNTY, COLORADO
STATEMENT OF ACTIVITIES
Year Ended December 31, 2008

Functions/Programs	Expenses	Program Revenues		
		Charges for Services & Fees	Operating and Contributions	Capital Grants and Contributions
Primary government:				
Governmental activities:				
General government	\$ 4,655,986	\$ 1,129,225	\$ -	\$ -
Judicial	138,450	-	-	-
Public safety	4,347,897	98,104	-	-
Retirement Benefits	406,650	-	-	-
Health and welfare	1,596,458	120,940	598,767	-
Housing and transportation	405,292	230,677	-	-
Economic development	381,461	-	-	-
Recreation and culture	595,053	82,894	32,157	526,500
Auxiliary services	168,432	-	80,482	-
Public works	4,983,769	18,997	1,600,165	207,402
Total governmental activities	<u>17,679,448</u>	<u>1,680,837</u>	<u>2,311,571</u>	<u>733,902</u>
Business Activities:				
Other	\$ 55,998	\$ 54,982	\$ -	\$ -

General Revenues

Taxes:

Property taxes

Sales taxes and other

Unrestricted investment earnings

Federal and state grants

Other general revenues

Total General Revenues

Changes in Net Assets

Net Assets-January 1

Prior Period Adjustment

Net Assets-December 31

See accompanying notes to the basic financial statements

Net (Expense) Revenue and Changes in Net Assets
Primary Government

<u>Governmental Activities</u>	<u>Business-Type Activities</u>	<u>Total</u>
\$ (3,526,761)	\$ -	\$ (3,526,761)
(138,450)	-	(138,450)
(4,249,793)	-	(4,249,793)
(406,650)	-	(406,650)
(876,751)	-	(876,751)
(174,615)	-	(174,615)
(381,461)	-	(381,461)
46,498	-	46,498
(87,950)	-	(87,950)
<u>(3,157,205)</u>	<u>-</u>	<u>(3,157,205)</u>
<u>(12,953,138)</u>	<u>-</u>	<u>(12,953,138)</u>
-	(1,016)	(1,016)
9,187,108	-	9,187,108
3,312,463	-	3,312,463
525,303	-	525,303
1,844,682	-	1,844,682
237,608	-	237,608
<u>15,107,164</u>	<u>-</u>	<u>15,107,164</u>
2,154,026	(1,016)	2,153,010
37,572,302	12,161	37,584,463
2,890	-	2,890
<u>\$ 39,729,218</u>	<u>\$ 11,145</u>	<u>\$ 39,740,363</u>

**SAN MIGUEL COUNTY, COLORADO
BALANCE SHEET
GOVERNMENTAL FUNDS
December 31, 2008**

	<u>General Fund</u>	<u>Road and Bridge</u>	<u>Other Governmental Funds</u>	<u>Total Governmental Funds</u>
Assets				
Cash and cash equivalents	\$ 9,397,595	\$ 2,062,334	\$ 4,241,210	\$ 15,701,139
Restricted Cash	35,489	-	-	35,489
Property taxes receivable	5,729,012	1,696,823	272,385	7,698,220
Accrued interest receivable	101,903	-	-	101,903
Accounts receivable	361,393	38,949	74,998	475,340
Due from other governmental units	-	-	18,042	18,042
Due from other funds	4,341	-	1,800	6,141
Inventories	-	58,100	-	58,100
Total assets	<u>\$ 15,629,733</u>	<u>\$ 3,856,206</u>	<u>\$ 4,608,435</u>	<u>\$ 24,094,374</u>
Liabilities and fund balance				
Liabilities				
Accounts payable	\$ 339,283	\$ 86,378	\$ 49,234	\$ 474,895
Accrued Vacation and Sick Leave	767,830	265,826	-	1,033,656
Due to other funds	-	-	1,800	1,800
Deposit-bond payable	-	29,000	-	29,000
Deferred revenue	5,733,012	1,696,823	276,224	7,706,059
Total liabilities	<u>6,840,125</u>	<u>2,078,027</u>	<u>327,258</u>	<u>9,245,410</u>
Fund balances				
Reserved for:				
Open Space	1,025,530	-	-	1,025,530
Idarado	34,489	-	-	34,489
Air quality	102,827	-	-	102,827
Seizure funds	1,385	-	-	1,385
Health Insurance	64,369	-	-	64,369
Emergencies	-	-	627,834	627,834
Transportation	-	-	875,384	875,384
Housing	-	-	1,301,178	1,301,178
Solid waste	-	-	306,635	306,635
Unreserved:				
Designated	692,554	1,240,746	682,849	2,616,149
Undesignated	6,868,454	537,433	487,297	7,893,184
Total fund balances	<u>8,789,608</u>	<u>1,778,179</u>	<u>4,281,177</u>	<u>14,848,964</u>
Total liabilities and fund balance	<u>\$ 15,629,733</u>	<u>\$ 3,856,206</u>	<u>\$ 4,608,435</u>	<u>\$ 24,094,374</u>

See accompanying notes to the basic financial statements

SAN MIGUEL COUNTY, COLORADO
RECONCILIATION OF TOTAL GOVERNMENTAL FUND BALANCES TO THE STATEMENT OF NET ASSETS
December 31, 2008

Total governmental fund balances **\$ 14,848,964**

Amounts reported for governmental activities in the statement of activities
are different because:

Capital assets used in governmental activities are not financial resources
and therefore are not reported in the funds. 30,739,769

Long-term liabilities, including bonds payable and compensated absences,
are not due and payable in the current period and therefore are not reported
in the funds.

Leases Payable (5,096,270)
Compensated absences (763,245)

Internal service funds are used by management to charge the costs of
insurance and other services to individual funds. The assets and liabilities
of the internal service funds are included in governmental activities in the
statement of net assets. "Look-back adjustments" are shown here:
Net assets per Statement of Net Assets Proprietary Funds:

Net assets of governmental activities **\$ 39,729,218**

See accompanying notes to the basic financial statements

SAN MIGUEL COUNTY, COLORADO
STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCES
GOVERNMENTAL FUNDS
Year Ended December 31, 2008

	General Fund	Road and Bridge	Other Governmental Funds	Total Governmental Funds
Revenues				
Taxes	\$ 8,815,209	\$ 1,782,480	\$ 1,879,320	\$ 12,477,009
Intergovernmental	1,555,554	2,253,658	1,124,633	4,933,845
Licenses and permits	209,366	4,380	-	213,746
Charges for services	1,221,797	-	244,294	1,466,091
Miscellaneous	497,032	37,019	202,853	736,904
Total revenues	<u>12,298,958</u>	<u>4,077,537</u>	<u>3,451,100</u>	<u>19,827,595</u>
Expenditures				
Current:				
General government	4,377,063	-	288	4,377,351
Judicial	138,450	-	-	138,450
Public safety	3,834,340	-	73,034	3,907,374
Retirement benefits	-	-	406,650	406,650
Health and welfare	846,051	-	727,648	1,573,699
Housing and transportation	-	-	405,292	405,292
Economic development	-	-	381,461	381,461
Recreation and culture	554,162	-	-	554,162
Auxiliary services	167,285	-	-	167,285
Public Works	-	3,832,435	-	3,832,435
Debt Service	-	-	381,880	381,880
Capital outlay	1,143,071	56,711	5,052,311	6,252,093
Total expenditures	<u>11,060,422</u>	<u>3,889,146</u>	<u>7,428,564</u>	<u>22,378,132</u>
Excess (deficiency) of revenues over expenditures	<u>1,238,536</u>	<u>188,391</u>	<u>(3,977,464)</u>	<u>(2,550,537)</u>
Other financing sources (uses)				
Transfers in (out)	(750,000)	-	750,000	-
Sale of assets	3,363	1,144	3,000,000	3,004,507
Total other financing sources (uses)	<u>(746,637)</u>	<u>1,144</u>	<u>3,750,000</u>	<u>3,004,507</u>
Net change to fund balance	491,899	189,535	(227,464)	453,970
Fund balance, January 1	8,233,340	1,799,681	4,505,751	14,538,772
Prior period adjustment	-	-	2,890	2,890
Residual Transfer	64,369	-	-	64,369
Increase an inventory	-	(211,037)	-	(211,037)
Fund balance, December 31	<u>\$ 8,789,608</u>	<u>\$ 1,778,179</u>	<u>\$ 4,281,177</u>	<u>\$ 14,848,964</u>

See accompanying notes to the basic financial statements

SAN MIGUEL COUNTY, COLORADO
RECONCILIATION OF THE STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES
IN FUND BALANCES OF GOVERNMENTAL FUNDS TO THE STATEMENT OF ACTIVITIES
Year Ended December 31, 2008

Net change in fund balances - total governmental funds **\$ 453,970**

Amounts reported for governmental activities in the statement of activities are different because:

Governmental funds report capital outlays as expenditures. However, in the statement of activities the cost of those assets is allocated over their estimated useful lives and reported as depreciation expense. This is the amount by which capital outlays exceeded depreciation in the current period.

Fixed assets current additions	\$ 5,559,648	
Depreciation expense	<u>(864,219)</u>	
Excess of capital outlay over depreciation		4,695,429

In the Statement of Activities, the proceeds of long-term capital leases is recognized as an increase in long term debt. The fund financial statements recognize proceeds as revenue	(3,000,000)
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Some expenses not reported in the Statement of Activities that do require the use of current financial resources and therefore are reported as expenditures in governmental funds.

Principal payments on debt service	253,907	
Compensated absences	(26,104)	
Inventory Increase	(211,037)	
The net effect of various transactions involving capital assets (sales, trade ins and contributions) is to decrease net assets		(13,511)

Some revenues reported in the Statement of Activities that are not reported in the governmental funds. Interest income from Self Insurance Fund.	1,372
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Change in net assets of governmental funds	<u>\$ 2,154,026</u>
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See accompanying notes to the basic financial statements

SAN MIGUEL COUNTY, COLORADO
STATEMENT OF NET ASSETS
PROPRIETARY FUNDS
December 31, 2008

	<u>Business Type Activities</u>	<u>Governmental Activities</u>	<u>Totals</u>
	<u>Prisoner Commissary Fund</u>	<u>Self Insurance Fund</u>	
Assets			
Cash and cash equivalents	\$ 15,486	\$ -	\$ 15,486
Total assets	<u>\$ 15,486</u>	<u>\$ -</u>	<u>\$ 15,486</u>
 Liabilities			
Inmate funds held	\$ -	\$ -	\$ -
Due to other County funds	4,341	-	4,341
Total Liabilities	<u>4,341</u>	<u>-</u>	<u>4,341</u>
 Net assets			
Unrestricted	11,145	-	11,145
Total net assets	<u>\$ 11,145</u>	<u>\$ -</u>	<u>\$ 11,145</u>

See accompanying notes to the basic financial statements

SAN MIGUEL COUNTY, COLORADO
STATEMENT OF REVENUES, EXPENSES, AND CHANGES IN NET ASSETS
PROPRIETARY FUNDS
Year Ended December 31, 2008

	<u>Business Type Activities</u> <u>Prisoner Commissary Fund</u>	<u>Governmental Activities</u> <u>Self Insurance Fund</u>	<u>Totals</u>
Operating Revenues			
Commissary sales	\$ 54,982	\$ -	\$ 54,982
Total operating revenues	<u>54,982</u>	<u>-</u>	<u>54,982</u>
Operating expenses:	<u>55,998</u>	<u>-</u>	<u>55,998</u>
Operating income (loss)	(1,016)	-	(1,016)
Income (loss) before non operating revenues			
Earnings on investments	<u>-</u>	<u>1,372</u>	<u>1,372</u>
Change in net assets	(1,016)	1,372	356
Total net assets, January 1	12,161	62,997	75,158
Residual transfer	<u>-</u>	<u>(64,369)</u>	<u>(64,369)</u>
Total net assets, December 31	<u>\$ 11,145</u>	<u>\$ -</u>	<u>\$ 11,145</u>

See accompanying notes to the basic financial statements

SAN MIGUEL COUNTY, COLORADO
STATEMENT OF CASH FLOWS
PROPRIETARY FUNDS
Year Ended December 31, 2008

	<u>Business Type Activities</u> Prisoner Commissary Fund	<u>Governmental Activities</u> Self Insurance Fund	<u>Totals</u>
Cash flows from operating activities:			
Charges for sales and services	\$ 54,982	\$ -	\$ 54,982
Payments to suppliers and others	(55,194)	-	(55,194)
Net cash provided by operating activities	<u>(212)</u>	<u>-</u>	<u>(212)</u>
Cash flows from capital and related financing activities:			
Transfers to other funds	-	(64,369)	(64,369)
Cash flows from investing activities			
Earning on investments	-	1,372	1,372
Net increase or (decrease) in cash and cash equivalents	(212)	(62,997)	(63,209)
Cash and cash equivalents-January 1	<u>15,698</u>	<u>62,997</u>	<u>78,695</u>
Cash and cash equivalents-December 31	<u>\$ 15,486</u>	<u>\$ -</u>	<u>\$ 15,486</u>
Reconciliation of Operating Income (loss) to Net cash provided by (used for) operating activities			
Operating income (loss)	\$ (1,016)	\$ -	\$ (1,016)
Adjustments to reconcile operating income (loss) to net cash provided by (used for) operating activities			
Increase (decrease) in due to other county funds	804	-	804
Net cash provided by (used for) operating activities	<u>\$ (212)</u>	<u>\$ -</u>	<u>\$ (212)</u>

See accompanying notes to the basic financial statements

**SAN MIGUEL COUNTY, COLORADO
STATEMENT OF FIDUCIARY NET ASSETS
FIDUCIARY FUNDS
December 31, 2008**

Treasurer's Agency Fund

Cash and investments	<u>\$ 531,718</u>
Due to other governments	<u>\$ 531,718</u>

San Miguel County, Colorado
Notes to General Purpose Financial Statements
December 31, 2008

Note 1 – Summary of Significant Accounting Policies

The accounting and reporting policies of San Miguel County, Colorado conform to generally accepted accounting principles (GAAP) as applicable to government units. The Governmental Accounting Standards Board (GASB) is the accepted standard-setting body for establishing governmental accounting and financial reporting principles. The following summary of significant accounting policies is presented to assist the reader in evaluating the County's financial statements.

In June 1999 the GASB approved Statement No. 34, *Basic Financial Statements- and Management's Discussion and Analysis- for State and Local Governments*. These statements are prepared in compliance with the requirements of the Statement. Some of the significant reporting changes required by the Statement and are reflected in these financial statements include the following:

- Management's Discussion and Analysis (MD & A) which provides an analysis of the County's overall financial position and results of operations.
- Financial statements prepared using full accrual accounting for all of the County's activities.
- A change in the presentation of the fund financial statements to focus on the County's major funds.

A. Reporting Entity

San Miguel County is located in western Colorado with a population of approximately 7100. The principal towns are Telluride, Mountain Village and Norwood. San Miguel County is a political subdivision of the State of Colorado, governed by an elected three-member Board of County Commissioners. The County has six other elected officials; the Assessor, the Clerk and Recorder, the Coroner, the Sheriff, the Surveyor and the Treasurer. San Miguel County is included in the Seventh Judicial District. An elected District Attorney for the District serves Montrose, Delta, Gunnison, Hinsdale San Miguel and Ouray Counties. The County's General Fund accounts for all financial operating transactions of the offices of the elected officials and all San Miguel County contributions to the Seventh Judicial District Attorney's office.

Blended presented component unit. San Miguel Housing Authority and San Miguel County Disposal District.

San Miguel County, Colorado
Notes to General Purpose Financial Statements
December 31, 2008

Note 1 – Summary of Significant Accounting Policies (continued)

B. Government-wide and Fund Financial Statements (continued)

The government-wide financial statements (i.e., the statement of net assets and the statement of activities) report information on all of the nonfiduciary activities of the primary government and its component units. For the most part, the effect of interfund activity has been removed from these statements. *Governmental activities*, which normally are supported by taxes and intergovernmental revenues, are reported separately from *business-type activities*, which rely to a significant extent on fees and user charges for support. Likewise, the *primary government* is reported separately from certain legally separate *component units* for which the primary government is financially accountable.

The statement of activities demonstrates the degree to which the direct expenses of a given function or segments are offset by program revenues. *Direct expenses* are those that are clearly identifiable with a specific function or segment. *Program revenues* include 1) charges to customers or applicants who purchase, use, or directly benefit from goods, services or privileges provided by a given function or segment and 2) grants and contributions that are restricted to meeting the operational or capital requirements of a particular function or segment. Taxes and other items not properly included among program revenues are reported as *general revenues*.

Separate financial statements are provided for governmental funds, proprietary funds and fiduciary funds, even though the latter are excluded from the government-wide financial statements. Major individual governmental funds and major individual enterprise funds are reported as separate columns in the fund financial statements.

C. Measurement Focus, Basis of Accounting, and Financial Statement Presentation

The government-wide financial statements are reported using the *economic resources measurement focus* and the *accrual basis of accounting* as are the proprietary fund and fiduciary fund financial statements. Revenues are recorded when earned and expenses are recorded when a liability is incurred, regardless of the timing of the related cash flows. Property taxes are recognized as revenues in the year for which they are levied. Grants and similar items are recognized as revenues as soon as eligibility requirements imposed by the provider have been met.

Governmental fund financial statements are reported using the *current financial resources measurement focus* and the *modified accrual basis of accounting*. Revenues are recognized as soon as they are both measurable and available. The County considers revenues to be available if they are collectible within 180 days except for property taxes which are considered available if they are collectible within sixty days after year-end. Property taxes, sales taxes, licenses, and interest

San Miguel County, Colorado
Notes to General Purpose Financial Statements
December 31, 2008

Note 1 – Summary of Significant Accounting Policies (continued)

C. Measurement Focus, Basis of Accounting, and Financial Statement Presentation (continued)

associated with the current year are considered to be susceptible to accrual and so have been recognized as revenues of the current year. Expenditures generally are recorded when a liability is incurred, as under accrual accounting. However, debt service expenditures, as well as expenditures related to compensated absences and claims and judgments, are recorded when payment is due.

Under the terms of grant agreements, the County funds certain programs by a combination of specific cost-reimbursement grants, categorical block grants, and general revenues. Thus, when program expenses are incurred, there are both restricted and unrestricted net assets available to finance the program. It is the County's policy to first apply cost-reimbursement grant resources to such programs, followed by categorical block grants, and then by general revenues.

The government reports the following major governmental funds:

The *General Fund* is the County's primary operating fund. It accounts for all financial resources of the general government, except those required to be accounted for in another fund.

The *Road and Bridge Fund* records costs related to County road and bridge construction and maintenance. By State law, Colorado counties are required to maintain a road and bridge fund. A portion of road and bridge taxes is allocated to cities and towns for use in their road and street activities.

The government reports the following non-major governmental funds:

The *Public Welfare Fund* accounts for the administration and operations of the County's public health and welfare system.

Sales Tax Fund - to account for revenues derived from sales tax. One half of the sales tax revenue collected annually is designated for capital expenditures or debt service.

Capital Expenditures Fund - to account for the sale of County property and other sources designated for capital improvements

Retirement Fund - to account for revenues from property taxes designated for a county employee retirement program.

San Miguel County, Colorado
Notes to General Purpose Financial Statements
December 31, 2008

Note 1 – Summary of Significant Accounting Policies (continued)

C. Measurement Focus, Basis of Accounting, and Financial Statement Presentation (continued)

Conservation Trust Fund - Conservation Trust Fund reflects the receipt of the County's share of Colorado Lottery funds and money from other sources to be used for recreation purposes within the County.

Contingent Fund - The Contingent Fund reflects the accumulation and disbursement of funds set aside to be used as needed for unforeseen contingencies.

Lodging Tax Fund - to account for revenues derived from lodging tax to be used for economic development.

Dependent District Funds - special revenue funds used to account for the revenue from property taxes and other revenues designated for specific purposes. The San Miguel County Housing Authority's general fund has been blended as a dependent district.

The government reports the following major Proprietary funds:

The Prisoner Commissary Fund is used to account for the revenues and expenditures associated with providing commissary items to prisoners at the San Miguel County Jail.

Private-sector standards of accounting and financial reporting issued prior to December 1, 1989, generally are followed in both the government-wide and proprietary fund financial statements to the extent that those standards do not conflict with or contradict guidance of the Governmental Accounting Standards Board. Governments also have the *option* of following subsequent private-sector guidance for their business-type activities and enterprise funds, subject to this same limitation. The County has elected not to follow subsequent private-sector guidance.

As a general rule the effect of interfund activity has been eliminated from the government-wide financial statements. Exceptions to this general rule are certain charges between the County's enterprise funds and various other functions of the government. Elimination of these charges would distort the direct costs and program revenues reported for the various functions concerned.

Amounts reported as *program revenues* include 1) charges to customers or applicants for goods, services or privileges provided, 2) operating grants and contributions, and 3) capital grants and contributions, including special assessments.

San Miguel County, Colorado
Notes to General Purpose Financial Statements
December 31, 2008

Note 1 – Summary of Significant Accounting Policies (continued)

C. Measurement Focus, Basis of Accounting, and Financial Statement Presentation (continued)

Internally dedicated resources are reported as *general revenues* rather than as program revenues. Likewise, general revenues included all taxes.

Proprietary funds distinguish operating revenues and expenses from nonoperating items. Operating revenues and expenses generally result from providing services and producing and delivering goods in connection with a proprietary fund's principal ongoing operations. The principal operating revenues of the County's enterprise funds and internal service funds are charges to customers for sales and services. Operating expenses for enterprise funds and internal service funds include cost of sales and services, administrative expenses, and depreciation on capital assets. All revenues and expenses not meeting this definition are reported as nonoperating revenues and expenses.

D. Assets, Liabilities, and Net Assets or Equity

1. Cash and Investments

The County considers cash and cash equivalents in proprietary funds to be cash on hand and demand deposits. In addition, because the treasury pool is sufficiently liquid to permit withdrawal of cash at any time without prior notice or penalty, equity in the pool is also deemed to be a cash equivalent.

For purposes of the statement of cash flows, the proprietary fund types consider all highly liquid investments with an original maturity of one year or less to be cash equivalents.

2. Receivable and Payable Balances

Significant components of receivables and payables are disaggregated in the financial statements. All receivables are expected to be collected within one year. All material payables are expected to be paid within one year with the exception of the amounts for the accrual for compensated absences and capital leases.

3. Property Taxes

Property taxes are levied in December and attach as an enforceable lien on property as of January 1 of the following year. Taxes are payable either in two installments due on February 28 and June 15 or in full on April 30. The County, through the San Miguel County Treasurer, bills and collects its own property taxes as well as property taxes of all other taxing authorities within the County. Taxes

San Miguel County, Colorado
Notes to General Purpose Financial Statements
December 31, 2008

Note 1 – Summary of Significant Accounting Policies (continued)

D. Assets, Liabilities, and Net Assets or Equity (continued)

levied in 2008 for collection in 2009 are recorded in governmental funds as taxes receivable and deferred revenue as of December 31, 2008 since the amount is measurable but not available until 2009. An allowance for uncollectible taxes is not provided as the uncollectible amounts were determined to be negligible based upon an analysis of historical trends.

4. Interfund Transactions

Transactions between funds that would be treated as revenues, expenditures, or expenses if they involved organizations external to the County are accounted for as revenues, expenditures, or expenses in the funds involved. Transactions which constitute reimbursements of a fund for expenditures or expenses initially made from that fund which are properly applicable to another fund are recorded as expenditures or expenses in the reimbursing fund and as reductions of the expenditure or expense in the fund that is reimbursed. At year end, outstanding balances between funds are reported as "due to/from other funds." Any residual balances outstanding between the governmental activities and business-type activities are reported in the government-wide financial statements as "internal balances." These amounts are eliminated in the Total Column on the "statement of net assets" column. Any residual balances outstanding between "discrete presented component units" and the "primary government" are reported on a separate line.

5. Inventories

Inventories are valued at cost which is determined using the first-in, first-out method. Inventories in most Governmental funds are recorded as expenditures when purchased. Inventories in the Road and Bridge Fund and are recorded as expenditures when consumed rather than when purchased.

San Miguel County, Colorado
Notes to General Purpose Financial Statements
December 31, 2008

Note 1 – Summary of Significant Accounting Policies (continued)

D. Assets, Liabilities, and Net Assets or Equity (continued)

6. Capital Assets

Capital assets, which include property, plant equipment, and infrastructure assets (e.g., roads, bridges and similar items), are reported in the applicable governmental or business-type activities columns in the government-wide financial statements. Capital assets are defined by the County as assets with an initial, individual cost of more than \$5,000 and a useful life of more than one year. All capital assets are valued at historical cost or estimated historical cost if actual historical cost is not available. Donated capital assets are recorded at fair market value at the date of donation. The costs of normal maintenance and repairs that do not add to the value of the asset or materially extend assets lives are not capitalized.

Depreciation on capital assets, with the exception of infrastructure, is provided on the straight-line basis over the following estimated useful lives:

Buildings and improvements	20 to 40 Years
Equipment and Furniture	5 to 10 Years

For reporting infrastructure assets, a modified approach is allowed by GASB 34. This approach is in lieu of the depreciation of infrastructure assets. The County has elected to use this method of reporting infrastructure assets. The County must maintain two requirements in order to qualify to use this approach:

1. The County must manage the eligible infrastructure assets using an asset management system with specific characteristics.
2. The County must document that the eligible infrastructure assets are being preserved approximately at (or above) a condition level established and disclosed by the County.

The County has developed and will implement an asset management system to measure, at least every third year by class of infrastructure asset, if the minimum standards are being maintained. Additional required disclosures are included as part of the Required Supplementary Information.

San Miguel County, Colorado
Notes to General Purpose Financial Statements
December 31, 2008

Note 1 – Summary of Significant Accounting Policies (continued)

D. Assets, Liabilities, and Net Assets or Equity (continued)

San Miguel qualifies as a Phase II county as per GASB Statement 34 and has elected to report all infrastructure assets as of December 31, 2008. The following is a detailed list of those infrastructure assets.

Roads	\$ 4,130,371
Bridges	5,288,416
Culverts	<u>657,658</u>
Total	<u>\$ 10,076,445</u>

1. The San Miguel County Commissioners have made the commitment to preserve and maintain this eligible infrastructure asset at a level of five (5) on a maintenance scale of one (1) to ten (10).
2. The San Miguel County Commissioners are responsible for determining the appropriate condition level at which this asset is to be maintained.
3. No depreciation expense is reported for this asset, nor is amounts capitalized in connection with improvements that lengthen the life of the asset, unless the improvement also increases the service potential of this asset.
4. San Miguel County maintains an inventory of this asset and will perform periodic condition assessments to establish that the specified condition level (1 above) is maintained.
5. The County's estimate of the amount to be expended to preserve and maintain this asset, at the stated condition level, for the subsequent year (2008) is zero dollars. For all subsequent years, this cost will be estimated in the County's annual budget.

7. Future Compensated Absences

A maximum of 24 to 48 days vacation per year may be accumulated by each employee. Employees will be paid for up to the maximum accumulation of unused vacation days upon separation from County service after six months continuous service. The County accrues a liability for compensated absences which meet the following criteria:

San Miguel County, Colorado
Notes to General Purpose Financial Statements
December 31, 2008

Note 1 – Summary of Significant Accounting Policies (continued)

D. Assets, Liabilities, and Net Assets or Equity (continued)

- The County's obligation relating to employee rights to receive compensation for future absences is attributable to employee services already rendered.
- The obligation relates to rights that vest or accumulate.
- Payment of the compensation is probable.
- The amount can be reasonably estimated.

In accordance with the above criteria the County has accrued a liability for vacation pay which has been earned, but not taken by County employees. For governmental funds the liability for the noncurrent portion of compensated absences is reflected in the general long-term debt account group since it is anticipated that none of that portion of the liability will be liquidated with expendable available financial resources. The liability for compensated absences is recorded in proprietary fund types as an accrued liability in accordance with FASB Statement 43.

8. Long-term Obligations

In the government-wide financial statements and proprietary fund types in the fund financial statements. Long-term debt and other long-term obligations are reported as liabilities in the applicable governmental activities, business-type activities, or proprietary fund type statement of net assets. At December 31, 2007 the only long term debt that San Miguel County had was from the accrual of compensated absences and capital leases.

9. Fund Equity

In the fund financial statements, governmental funds report reservations of fund balance for amounts that are not available for appropriation or are legally restricted by outside parties for use for a specific purpose.

10. Net Assets

Net assets represent the difference between assets and liabilities. Net assets invested in capital assets, consists of capital assets, net of accumulated depreciation. Net assets are reported as restricted when there are constraints placed on their use either by law through constitutional provisions or enabling legislation or through restrictions externally imposed by creditors, grantors, laws, or regulations of other governments.

San Miguel County, Colorado
Notes to General Purpose Financial Statements
December 31, 2008

Note 1 – Summary of Significant Accounting Policies (continued)

D. Assets, Liabilities, and Net Assets or Equity (continued)

The reserve for emergencies as required by Section 20 to Article X of the Colorado Constitution, also known as the Taxpayer's Bill of Rights (TABOR) is classified as restricted net assets on the entity-wide statements.

As provided for in the amendment the voters of San Miguel County approved in November 1994, for the 1995 budget year and subsequent budget years, that the San Miguel County mill levy may remain at the 1994 level of 8.120 mills; and, authorized the County to increase its revenues and expenditure limitations beyond those authorized by Article X, Section 20 as amended, for 1995 and each subsequent year thereafter, in the amount of \$750,000 per year.

The Amendment is complex and subject to judicial interpretation. The Town believes it is in compliance with the requirements of the amendment.

11. Estimates

The preparation of financial statements in conformity with generally accepted accounting principles requires management to make estimates and assumptions that affect the amounts reported in the financial statements and accompanying notes. Actual results may differ from those estimates.

12. Contraband Proceeds

The Colorado Contraband Forfeiture Act requires the proceeds from the seizure of contraband be audited although they are not subject to the appropriations process. During 2007, the County had no proceeds from the seizures of contraband.

Note 2 – Stewardship, Compliance, and Accountability

A. Budgetary Information

Annual budgets are adopted for all funds, except agency funds, of the County. The Budget Office submits a proposed operating budget for the following calendar year to the County Commissioners prior to October 15 of each year. The budget is prepared using the modified accrual basis of accounting. The operating budget includes proposed expenditures/expenses and the anticipated revenues. As required by statute, public hearings are conducted to obtain citizen's comments. Prior to the levy of property tax, the budget is legally adopted through the passage of a budget adoption and appropriation resolution.

San Miguel County, Colorado
Notes to General Purpose Financial Statements
December 31, 2008

Note 2 – Stewardship, Compliance, and Accountability (continued)

B. Budgeted Level of Expenditures

The budgetary control is maintained at the department level for the general fund and at specific fund level for all other funds. Although the budget shows various classifications by object and by function, the department directors are authorized to transfer budgeted amounts within each of the object classifications. All annual appropriations lapse at year end. During 2008, three supplemental appropriations were adopted by the County Commissioners.

For the budget to actual reporting required by state statutes the proprietary funds present the adjustments necessary to reconcile ending net income (loss) on the budgetary basis to the GAAP basis net change in fund equity.

All budget amounts presented in the accompanying supplementary information reflect the original budget and the final amended budget. No budget is shown or required for San Miguel Regional Housing Authority.

Note 3 – Deposits and Investments

The Colorado Public Deposit Protection Act (PDPA) requires that all units of local government deposit cash in eligible public depositories; eligibility is determined by state regulators. Amounts on deposit in excess of federal insurance levels must be collateralized. The eligible collateral is determined by the PDPA. PDPA allows the institution to create a single collateral pool for all public funds. The pool is to be maintained by another institution or held in trust for all the uninsured public deposits as a group. The market value of the collateral must be at least equal to the aggregate uninsured deposits. Collateral in the pool is considered to be equal to depository insurance pursuant to definitions listed in GASB Statement No. 40. At December 31, 2008, the bank balance of the County's deposits was \$ 8,460,318 of which \$ 750,000 was covered by federal depository insurance and \$ 7,710,318 was collateralized under PDPA.

Colorado statutes specify investment instruments meeting defined rating and risk criteria in which local government entities may invest. Authorized investments include obligations of the United States and certain U.S. government agency securities; certain international agency securities; general obligation and revenue bonds of U.S. local government entities; bankers' acceptances of certain banks; commercial paper; local government investment pools; written repurchase agreements collateralized by certain authorized securities; certain money market funds; and, guaranteed investment contracts. The County's investment policy follows Colorado statutes. At December 31, 2008 the County's investments included certificates of deposit and funds held in Colotrust.

San Miguel County, Colorado
Notes to General Purpose Financial Statements
December 31, 2008

Note 3 – Deposits and Investments (continued)

The County had invested \$ 3,647,158 in the Colorado Government Liquid Asset Trust (COLOTRUST), an investment vehicle established for local government entities in Colorado to pool surplus funds. COLOTRUST operates similarly to a money market fund and each share is equal in value to \$1.00. Investments of COLOTRUST consist of U.S. Treasury bills, notes and note strips and repurchase agreements collateralized by U.S. Treasury securities. A designated custodial bank provides safekeeping and depository services to COLOTRUST in connection with the direct investment and withdrawal functions of COLOTRUST. Substantially all securities owned by COLOTRUST are held by the Federal Reserve Bank in the account maintained for the custodial bank. The custodian's internal records identify the investments owned by COLOTRUST. These pools are not required to and are not registered with the SEC. COLOTRUST's funds are rated AAA by Standard and Poor's, Fitch's and Moody's rating services.

The County's investments carried at fair market value as of December 31, 2008 is:

	<u>Fair Value</u>	<u>Credit Risk</u>
Sweep Account-Government Bonds	\$ 3,575,197	AAAm
Federal Home Loan Bank	1,096,636	AAAm
ColoTrust (Governmental Pool)	<u>3,647,158</u>	AAA
	<u>\$ 8,318,991</u>	

Summary of Combined Cash and Investments Held By Primary Government and Dependent Districts.

<u>Description</u>	<u>Cost</u>
Cash on hand	\$ 2,775
Demand deposits	3,888,848
ColoTrust	3,647,158
Sweep Account	3,575,197
Federal Home Loan Bank	1,096,636
Certificates of deposits and savings	3,218,685
San Miguel Housing Authority demand deposits	<u>956,436</u>
	<u>\$ 16,385,735</u>