

MORGAN COUNTY SCHOOL DISTRICT Re-3



Financial Statements

Fiscal Year Ended June 30, 2016

715 West Platte Ave.
FORT MORGAN, COLORADO 80701



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**MORGAN COUNTY SCHOOL
DISTRICT Re-3
Fort Morgan, Colorado**

Financial Statements

***Fiscal Year Ended
June 30, 2016***

Prepared by the Department of Finance

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Board of Education
Morgan County School District Re-3
Fort Morgan, Colorado

INDEPENDENT AUDITORS' REPORT

Report on the Financial Statements

We have audited the accompanying financial statements of the governmental activities, each major fund, and the aggregate remaining fund information of the Morgan County School District Re-3 as of and for the year ended June 30, 2016, and the related notes to the financial statements, which collectively comprise the basic financial statements of the Morgan County School District Re-3, as listed in the table of contents.

Management's Responsibility for the Financial Statements

Management is responsible for the preparation and fair presentation of these financial statements in accordance with accounting principles generally accepted in the United States of America; this includes the design, implementation, and maintenance of internal control relevant to the preparation and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error.

Auditors' Responsibility

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 the 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 from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditors' judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinions.

Opinions

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, each major fund, and the aggregate remaining fund information of the Morgan County School District Re-3 as of June 30, 2016, and the respective changes in financial position for the year then ended in accordance with accounting principles generally accepted in the United States of America.

Other Matters (Required Supplementary Information)

Accounting principles generally accepted in the United States of America require that the management's discussion and analysis and the required supplementary information listed in the table of contents be presented to supplement the basic financial statements. Such information, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board, who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. We have applied certain limited procedures to the information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements, and other knowledge we obtained during our audit of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

Other Matters (Other Information)

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the Morgan County School District Re-3's basic financial statements. The combining and individual fund financial statements and schedules and the auditors integrity report listed in the table of contents are presented for purposes of additional analysis and are not a required part of the basic financial statements. Such information is the responsibility of management and was derived from and relates directly to the underlying accounting and other records used to prepare the basic financial statements. The information has been subjected to the auditing procedures applied in the audit of the basic financial statements and certain additional procedures, including comparing and reconciling the information directly to the underlying accounting and other records used to prepare the basic financial statements or to the basic financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the information is fairly stated, in all material respects, in relation to the basic financial statements as a whole.

Other Reporting Required by Government Auditing Standards

In accordance with *Government Auditing Standards*, we have also issued our report dated February 22, 2017, on our consideration of the Morgan County School District Re-3'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 internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the Morgan County School District Re-3's internal control over financial reporting and compliance.

Ernst & Young LLP

February 22, 2017

Morgan County School District Re-3
Management's Discussion & Analysis
For the Fiscal Year Ended June 30, 2016

The discussion analysis of Morgan County School District Re-3's financial performance provides an overview of the District financial activities for fiscal year ended June 30, 2016. The intent of this discussion and analysis is to look at the District's financial performance as a whole. Readers should also review the basic financial statements, along with the notes to the financial statements to enhance their understanding of the District's financial performance.

Financial Highlights

Key financial highlights for fiscal year ended June 30, 2016 are as follows:

- The total liabilities and deferred inflows of resources of the Morgan County School District Re-3 exceeded its assets and deferred outflows of resources at the close of the most recent fiscal year by \$1,147,256 (net position).
- The District's total net position increased by \$ 22,069,844 over the previous year net position.
- At the close of the current fiscal year, the District's governmental funds reported combined ending fund balances of \$20,717,096 compared to \$27,994,464 at the close of the prior fiscal year.
- Total ending fund balances for the governmental funds at June 30, 2016 included \$9,745,480 for the General Fund; \$310,142 for the Federal Programs Fund, \$2,687,017 for the Bond Redemption Fund, \$7,354,672 for the Building fund that was created in fiscal year 2013-2014 and \$619,785 in the District's nonmajor governmental fund which represents the District's Food Service Fund. The \$7,354,672 represents temporary unspent bond proceeds and premiums earmarked for construction of the District's new Middle School and ongoing District facility improvements.
- At June 30, 2016, the General Fund had \$135,474 in nonspendable fund balance (inventories and prepaids), \$1,025,000 and \$78,216 in restricted fund balance for emergency reserve (TABOR) and the Colorado Preschool carryover funds respectively and one additional restriction in the amount of \$698,469 for Mill Levy Override funds. The General Fund identified assigned fund balances representing budgetary projects in the amount of \$440,781 and \$620,955 representing capital projects. The remaining balance of \$6,746,585 is reported as unassigned fund balance.

Morgan County School District Re-3
Management's Discussion & Analysis
For the Fiscal Year Ended June 30, 2016

- **Financial Highlights (continued)**

- Governmental Activities general revenues accounted for \$ 26,219,519 in revenue or 48% of the total governmental revenues.
- Program specific revenues in the form of charges for services and operating grants and contributions and capital grants accounted for \$28,758,722 or 52% of total revenues of \$54,978,241. The 2015-2016 grant revenue percentage is higher than 2014-2015 due to the receipt of the \$22,390,099 in BEST Capital Grant funds for the ongoing construction of the new Middle School.

Total revenues were \$22,069,844 more than expenses, which reflect the change in net position from the prior year.

- The District governmental activities had \$32,908,397 in expenses. As noted above, \$6,069,390 of these expenses were offset by program specific charges for services, operating grants and contributions. The balance, \$26,839,007 was almost entirely offset by general revenues. The increase in the net position was attributable to the BEST Grant receipts for the new Middle School construction.
- The District has four governmental major funds - the General Fund, Federal Programs Fund, Bond Redemption Fund and the Building Fund.

At the end of FY 2015-2016, the fund balance of the General Fund was \$9,745,480. Of this total, \$6,746,585 was unassigned.

The Federal Programs Fund balance showed an increase \$26,664 from the prior year resulting in an ending balance of \$310,142.

The Bond Redemption Fund showed expenditures in excess of revenues of \$51,578 for an ending balance of \$2,687,017.

The Building Fund had a third year ending fund balance of \$7,354,672 representing unexpended bond proceeds and premiums from the February 2015 bond issue. Those remaining bond proceeds will be expended on the on ongoing construction of the District's new Middle School and those expenditures will continue into the 2016-2017 fiscal year.

Morgan County School District Re-3
Management's Discussion & Analysis
For the Fiscal Year Ended June 30, 2016

- **Financial Highlights (continued)**

The Food Service Fund is the District's only nonmajor governmental fund. The Food Service Fund showed expenditures in excess of revenues of \$55,498 for an ending balance of \$619,785.

OVERVIEW OF THE FINANCIAL STATEMENTS

This discussion and analysis serves as an introduction to Morgan County School District RE-3's basic financial statements. The District's basic financial statements consist of three components: 1) district-wide financial statements, 2) fund financial statements, and, 3) notes to the financial statements. This report also contains required and other supplementary information in addition to the basic financial statements.

District-Wide Financial Statements

The government-wide financial statements are designed to provide the reader of the District's audited financial statements a broad overview of the financial activities in a manner similar to a private sector business. The government-wide financial statements include the statement of net position and the statement of activities.

The statement of net position presents information about all of the District's assets, deferred outflows of resources and liabilities and deferred inflows of resources. The difference between them is reported as net position. Over time, changes in net position may serve as a useful indicator of whether the financial position of the District is improving or deteriorating.

The statement of activities presents information showing how the net position of the District changed during the current fiscal year. Changes in net position are recorded in the statement of activities when the underlying event occurs, regardless of the timing of related cash flows. Thus, revenues and expenses are reported in this statement even though the resulting cash flow may be recorded in a future period.

The government-wide financial statements include functions of the District that are supported from taxes and intergovernmental revenues (governmental activities). Governmental activities consolidate governmental funds including the General Fund, Building Fund, Debt Service Fund and Special Revenue Funds.

Morgan County School District Re-3
Management's Discussion & Analysis
For the Fiscal Year Ended June 30, 2016

OVERVIEW OF THE FINANCIAL STATEMENTS (continued)

District-Wide Financial Statements (continued)

Notes to the financials, which are included just following the basic financial statements, provide more detailed data and explain some of the information in the statements. The supplementary information sections provide further explanations and additional support for the financial statements, including a comparison of the District budget to actual revenues and expenditures for the year. Additional elements of this report include sections on the Single Audit and State Compliance.

In the Statement of Net Position and the Statement of Activities, the District reports governmental activities. Governmental activities are the activities where all of the District's programs and services are reported including, but not limited to, instruction, support services, operation and maintenance of plant and facilities, pupil transportation and extracurricular activities.

The district wide financial statements can be found on pages 22-23 of this report.

Fund Financial Statements

- The fund financial statements provide more detailed information about the District's funds, focusing on its most significant or "major" funds – not the District as a whole. The District has four major funds - the General Fund, Federal Programs Fund, Bond Redemption Fund and the Building Fund.
- Some funds are required by state law and by bond covenants.
- The District establishes other funds to control and manage money for particular purposes (such as repaying its long-term debts) or to show that it is properly using certain revenues (such as federal grants).

Morgan County School District Re-3
Management's Discussion & Analysis
For the Fiscal Year Ended June 30, 2016

OVERVIEW OF THE FINANCIAL STATEMENTS (continued)

The District has two kinds of funds:

- *Governmental funds:* Most of the District'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) the balances left at year-end that are available for spending. Consequently, the governmental funds statements provide a detailed short-term view that helps you determine whether there are more or fewer financial resources that can be spent in the near future to finance the District's programs. Because this information does not encompass the additional long-term focus of the district-wide statements, additional information at the bottom of the governmental funds statements explains the relationship (or differences) between them.
- *Fiduciary funds:* The District is the agent, or fiduciary, for assets that belong to others, such as the education memorial, scholarship funds and pupil activity funds. The District 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. The District excludes these activities from the district-wide financial statements because it cannot use these assets to finance its operations.
- *Notes to the Basic Financial Statements:* The notes provide additional information that is essential to a full understanding of the data provided in the district wide and fund financial statements. The notes to the financial statements can be found on pages 31-62 of this report.
- *Required Supplementary Information:* In addition to the basic financial statements and accompanying notes, this report also presents certain required supplementary information (RSI) concerning the District. The District adopts an annual budget for all funds. A budgetary comparison schedule has been provided for the General Fund and the Federal Programs Fund.

**Morgan County School District Re-3
Management's Discussion & Analysis
For the Fiscal Year Ended June 30, 2016**

Financial Analysis of the District as a Whole

As stated earlier, that Statement of Net Position and the Statement of Activities provide a financial glimpse of the District as a whole. Table 1 (Net Position Summary) provides a summary of the District net position for fiscal year 2016 as contained in the Statement of Net Position and compares that information to fiscal year 2015.

As the table shows, total net position as of June 30, 2016 were:

**Table 1
Condensed Statement of Net Position**

	Total Government Wide		Total Dollar Change	Total Percentage Change
	2016	2015	2016-2015	2016-2015
Assets				
Current Assets	\$ 26,892,851	\$ 33,136,671	\$ (6,243,820)	(18.84%)
Net Capital Assets	57,050,408	27,838,729	29,211,679	104.93%
Total Assets	83,943,259	60,975,400	22,967,859	37.67%
Total Deferred Outflows of Resources	7,719,041	3,398,763	4,320,278	127.11%
Liabilities				
Other Liabilities	5,932,260	5,019,681	912,579	18.18%
Long-Term Liabilities	85,411,834	82,090,402	3,321,432	4.05%
Total Liabilities	91,344,094	87,110,083	4,234,011	4.86%
Total Deferred Inflows of Resources	1,465,462	481,180	984,282	100.00%
Net Position				
Invested in Capital Assets Net of Related Debt	34,933,237	11,717,494	23,215,743	198.13%
Restricted	4,829,703	4,810,010	19,693	0.41%
Unrestricted	(40,910,196)	(39,744,604)	(1,165,592)	2.93%
Total Net Position	\$ (1,147,256)	\$ (23,217,100)	\$ 22,069,844	(95.06%)

Morgan County School District Re-3
Management's Discussion & Analysis
For the Fiscal Year Ended June 30, 2016

OVERVIEW OF THE FINANCIAL STATEMENTS (continued)

Financial Analysis of the District as a Whole (continued)

The negative balance is due primarily to the adoption of GASB Statement No. 68 in FY 2014-2015. The District's net pension liability increased from \$49,553,333 at June 30, 2015 to \$55,326,248 at June 30, 2016. The net pension liability represents the District's proportionate share of the Public Employees Retirement Association (PERA) of Colorado plan's net pension liability.

Total net position of the District's governmental activities increased by \$22,069,844 for the fiscal year ended June 30, 2016 which was \$18,694,817 higher than the 2014-2015 increase. The 2015-2016 increase was attributable to the receipt of an additional \$20,015,508 in BEST Capital Grant funds in 2015-2016 over what was recorded in 2014-2015 with a portion of that increase offset by additional expenses of \$1,509,308 recorded in 2015-2016 over the total expenses of \$31,399,089 recorded in 2014-2015.

Morgan County School District Re-3
Management's Discussion & Analysis
For the Fiscal Year Ended June 30, 2016

Table 2
Changes in Net Position

	<u>Total</u>		<u>Total</u>	<u>Total</u>
	<u>Governmental Activities</u>		<u>Dollar</u>	<u>Percentage</u>
	<u>2016</u>	<u>2015</u>	<u>Change</u>	<u>Change</u>
			<u>2016-2015</u>	<u>2016-2015</u>
Revenues				
Program Revenues				
Charges for Services	\$ 449,339	\$ 433,032	\$ 16,307	3.77%
Operating Grants & Contributions	5,620,051	5,500,939	119,112	2.17%
Capital Grants & Contributions	22,689,332	2,673,824	20,015,508	748.57%
General Revenues				
Property Taxes	11,406,697	10,721,254	685,443	6.39%
State Revenue	14,735,114	14,460,387	274,727	1.90%
Insurance Proceeds	2,765	863,068	(860,303)	(99.68%)
Miscellaneous	39,646	56,590	(16,944)	(29.94%)
Gain on Sale of Assets	-	27,846	(27,846)	100.00%
Interest Income	35,297	37,176	(1,879)	(5.05%)
Total Revenues	<u>54,978,241</u>	<u>34,774,116</u>	<u>20,204,125</u>	<u>58.10%</u>
Expenses				
Instruction	18,029,576	16,892,192	1,137,384	6.73%
Supporting Services	12,141,173	12,132,826	8,347	0.07%
Food Services	1,725,263	1,551,554	173,709	11.20%
Interest	1,012,385	822,517	189,868	23.08%
Total Expenses	<u>32,908,397</u>	<u>31,399,089</u>	<u>1,509,308</u>	<u>4.81%</u>
Change In Net Position	<u>\$ 22,069,844</u>	<u>\$ 3,375,027</u>	<u>\$ 18,694,817</u>	<u>553.92%</u>

**Morgan County School District Re-3
Management's Discussion & Analysis
For the Fiscal Year Ended June 30, 2016**

OVERVIEW OF THE FINANCIAL STATEMENTS (continued)

Financial Analysis of the District as a Whole (continued)

Governmental Activities

The Statement of Activities on page 23 shows the cost of program services and the charges for services and grants offsetting those services. Table 3 (Net Cost of Services) extracts information from the Statement of Activities and compares the net cost of services from one year to the next. It identifies the cost (surplus) of those services supported by tax revenue and unrestricted state revenue.

**Table 3
Net Cost Of Services**

	2016	2015	Change	Percent Change
Instruction	\$ 14,183,176	\$ 13,167,547	\$ 1,015,629	7.71%
Support Services	(11,175,139)	8,755,634	(19,930,773)	(227.63%)
Food Services	129,253	45,596	83,657	183.47%
Interest on Long-Term Debt	1,012,385	822,517	189,868	23.08%
Total Expenses	\$ 4,149,675	\$ 22,791,294	\$ (18,641,619)	(81.79%)

Changes in Fund Balance 2015 to 2016

The following tables (4 through 9) demonstrate a comparison in the changes in fund balances from the 2015 fiscal year to the current 2016 fiscal year through a side by side combining statement of revenues, expenditures and changes in fund balance. The departments compared compose the Combined General fund which consists of the General, Mill Levy, Daycare, Capital Reserve, Insurance, and Preschool departments. These results are reported on pages 72 and 73.

**Morgan County School District Re-3
Management's Discussion & Analysis
For the Fiscal Year Ended June 30, 2016**

OVERVIEW OF THE FINANCIAL STATEMENTS (continued)

Changes in Fund Balance: 2015 to 2016 (continued)

Table 4: General Fund Department

	<u>2016</u>	<u>2015</u>	<u>Change</u>	<u>Percent Change</u>
Revenues:				
Property Taxes	\$ 6,526,793	\$ 6,033,521	\$ 493,272	8.18%
Specific Ownership Taxes	1,024,958	999,819	25,139	2.51%
Intergovernmental	1,816,650	1,902,073	(85,423)	(4.49%)
State Equalization	14,735,114	14,416,114	319,000	2.21%
Other	168,656	140,878	27,778	19.72%
Total Revenues	24,272,171	23,492,405	779,766	3.32%
Expenditures:				
Salaries	14,246,766	13,969,755	277,011	1.98%
Benefits	5,111,028	4,743,173	367,855	7.76%
Purchased Services	1,342,168	1,206,665	135,503	11.23%
Supplies/Materials	1,544,272	1,348,700	195,572	14.50%
Capital Outlay	137,391	265,275	(127,884)	(48.21%)
Other (net of indirect cost reimbursement)	(301,128)	(108,763)	(192,365)	176.87%
Total Expenditures	22,080,497	21,424,805	655,692	3.06%
Excess of Revenues over Expenditures	2,191,674	2,067,600	124,074	6.00%
Allocations and Transfers	(1,514,080)	(1,465,592)	(48,488)	3.31%
Net Change in Fund Balances	\$ 677,594	\$ 602,008	\$ 75,586	12.56%

**Morgan County School District Re-3
Management's Discussion & Analysis
For the Fiscal Year Ended June 30, 2016**

OVERVIEW OF THE FINANCIAL STATEMENTS (continued)

Changes in Fund Balance: 2015 to 2016 (continued)

Table 5: Mill Levy Department

	2016	2015	Change	Percent Change
Revenues:				
Property Taxes	\$ 549,630	\$ 554,661	\$ (5,031)	(0.91%)
Other	1,881	1,526	355	23.26%
Total Revenues	551,511	556,187	(4,676)	(0.84%)
Expenditures:				
Instruction & Supporting Services	288,396	271,879	16,517	6.08%
Capital Outlay	165,702	111,631	54,071	48.44%
Total Expenditures	454,098	383,510	70,588	18.41%
Net Change in Fund Balances	\$ 97,413	\$ 172,677	\$ (75,264)	(43.59%)

Table 6: Daycare Department

	2016	2015	Change	Percent Change
Revenues:				
Local Sources	\$ 118,335	\$ 106,412	\$ 11,923	11.20%
Other	14,556	9,645	4,911	50.92%
Total Revenues	132,891	116,057	16,834	14.50%
Expenditures:				
Supporting Services	136,493	123,840	12,653	10.22%
Net Change in Fund Balances	\$ (3,602)	\$ (7,783)	\$ 4,181	(53.72%)

**Morgan County School District Re-3
Management's Discussion & Analysis
For the Fiscal Year Ended June 30, 2016**

OVERVIEW OF THE FINANCIAL STATEMENTS (continued)

Changes in Fund Balance: 2015 to 2016 (continued)

Table 7: Capital Reserve Department

	<u>2016</u>	<u>2015</u>	<u>Change</u>	<u>Percent Change</u>
Revenues:				
Intergovernmental	\$ 200,196	\$ 113,578	\$ 86,618	100.00%
Other	10,039	48,280	(38,241)	(79.21%)
Total Revenues	210,235	161,858	48,377	29.89%
Expenditures:				
Supporting Services	1,692	-	1,692	100.00%
Noncapital Outlay	72,898	355,596	(282,698)	(79.50%)
Capital Outlay	319,986	282,815	37,171	13.14%
Total Expenditures	394,576	638,411	(243,835)	(38.19%)
Excess of Expenditures over Revenue	(184,341)	(476,553)	292,212	(61.32%)
Allocations and Transfers	519,000	519,000	-	0.00%
Net Change in Fund Balances	\$ 334,659	\$ 42,447	\$ 292,212	688.42%

Table 8: Insurance Department

	<u>2016</u>	<u>2015</u>	<u>Change</u>	<u>Percent Change</u>
Revenues:				
Other Revenue	\$ 14,952	-	\$ 14,952	100.00%
Investment Earnings	110	\$ 40	70	175.00%
Total Revenues	15,062	40	15,022	37555.00%
Expenditures:				
Supporting Services	380,370	1,129,322	(748,952)	(66.32%)
Total Expenditures	380,370	1,129,322	(748,952)	(66.32%)
Excess of Revenues over Expenditure	(365,308)	(1,129,282)	763,974	(67.65%)
Other Financing Sources				
Insurance Proceeds	2,765	863,068	(860,303)	(99.68%)
Allocations and Transfers	375,000	375,000	-	0.00%
Total Other Financing Sources	377,765	1,238,068	(860,303)	(69.49%)
Net Change in Fund Balances	\$ 12,457	\$ 108,786	\$ (96,329)	(88.55%)

**Morgan County School District Re-3
Management's Discussion & Analysis
For the Fiscal Year Ended June 30, 2016**

OVERVIEW OF THE FINANCIAL STATEMENTS (continued)

Changes in Fund Balance: 2015 to 2016 (continued)

Table 9: Preschool Department

	2016	2015	Change	Percent Change
Revenues:				
Intergovernmental	\$ -	\$ 780	\$ (780)	(100.00%)
Interest Income	14	18	(4)	(22.22%)
Total Revenues	14	798	(784)	(98.25%)
Expenditures:				
Instruction	509,832	374,951	134,881	35.97%
Supporting Services	95,109	110,813	(15,704)	(14.17%)
NonCapital Outlay	9,209	18,220	(9,011)	(49.46%)
Total Expenditures	614,150	503,984	110,166	21.86%
Excess of Expenditures over Revenues	(614,136)	(503,186)	(110,950)	22.05%
Allocations and Transfers	514,156	493,080	21,076	4.27%
Net Change in Fund Balances	\$ (99,980)	\$ (10,106)	\$ (89,874)	889.31%

The overall change in the six departments of the General Fund was a \$1,018,541 increase in fund balance. The General Fund Department (Table 4) reflected an increase in total program funding with consist of property taxes (increase of \$493,272), specific ownership taxes, (increase of \$25,139) and state equalization (increase of \$319,000) for a total program funding increase of \$837,411. This increase funded the increase in total General Fund Department expenditures of \$655,692. The District provided a step increase in compensation to its employees for the 2015-2016 year. The overall revenue increases for the General Fund Department offset partially by expenditure increases resulted in the increase of the General Fund Department fund balance by \$677,594 in 2015-2016.

**Morgan County School District Re-3
Management's Discussion & Analysis
For the Fiscal Year Ended June 30, 2016**

OVERVIEW OF THE FINANCIAL STATEMENTS (continued)

The Preschool Department (Table 9) reflected a higher amount of supervision and instructional salaries attributable to the increased FTE salary allocated to the Program. That increase directly correlates to the increased number of preschool students enrolled under the ECARE Program. The program has also expanded the utilization of certified teachers in the preschool classroom which has also increased the compensation and benefit costs.

Financial Analysis of the District's Funds

Table 10
Governmental Fund Balances

	2016	2015	Dollar Change	Percent Change
General	\$ 9,745,480	\$ 8,726,939	\$ 1,018,541	11.67%
Federal Programs	310,142	283,478	26,664	9.41%
Bond Redemption	2,687,017	2,738,595	(51,578)	(1.88%)
Building Fund	7,354,672	15,570,169	(8,215,497)	(52.76%)
Food Services Fund	619,785	675,283	(55,498)	(8.22%)
Total	<u>\$ 20,717,096</u>	<u>\$ 27,994,464</u>	<u>\$ (7,277,368)</u>	<u>(26.00%)</u>

The material change from above was in the Building Fund. The Building Fund decrease of \$8,215,497 represents the construction expenditures from the remaining bond proceeds issued to finance the construction of a new Middle School.

Morgan County School District Re-3
Management's Discussion & Analysis
For the Fiscal Year Ended June 30, 2016

OVERVIEW OF THE FINANCIAL STATEMENTS (continued)

General Fund Budgetary Highlights

The District's budget is prepared according to Colorado law and is based on accounting for certain transactions on a modified accrual basis. The most significant budgeted fund is the General Fund.

The District's 2015-2016 revenue was \$387,492 higher than the final budgeted projections. The projected revenue was within 1.5% of the final budget. Total General Fund actual expenditures were \$1,666,147 less than the final budgeted expenditures. Of the total expenditures, Instructional expenditures were 2.7% (\$398,477) lower than the final budget. Supporting Services had a greater budget savings which amounted to \$1,267,670. The majority of those savings were in the other support, other expenses which includes the District's indirect cost reimbursements which were higher than estimated and the capital expenditures in the Mill Levy and Capital Reserve Departments were significantly less due to the focus on the completion of the elementary building security and infrastructure improvements and the start of construction on the new Middle School. 65.5% of the District's total program funding comes from State equalization funding.

Over the course of the year, the District revised the annual operating budget by making an increase in appropriations to prevent budget overruns and adjust revenues. The District adopted the following supplemental budgets during the 2015-2016 year:

General Fund	
Insurance Department	\$ 19,089
Colorado Preschool Department	5,000
Food Service Fund	79,499
Private Purpose Trust Fund	15,529

**Morgan County School District Re-3
 Management's Discussion & Analysis
 For the Fiscal Year Ended June 30, 2016**

Capital Assets and Debt Administration

**Table 11
 Capital Assets at June 30
Net of Depreciation**

	<u>Governmental Activities 2016</u>
Land	\$ 322,557
Construction in Progress	30,831,890
Buildings and improvements	50,617,592
Furniture and equipment	5,392,421
Vehicles	<u>3,028,242</u>
 Total	 <u>90,192,702</u>
 Less accumulated depreciation	 (33,142,294)
 Totals	 <u><u>\$ 57,050,408</u></u>

The District completed its secure entryways and electronic security for all District schools and plumbing, sanitary sewer and electrical infrastructure improvements at three of the District's elementary schools during the 2015-2016 year. The total construction costs for 2015-2016 were \$4,668,000.

In addition, the District continued its construction of the new Middle School and the District added \$26,195,987 of costs to the construction in progress account in 2015-2016 for a total cumulative cost of \$30,863,987. The balance of the construction costs will be incurred in 2016-2017

**Morgan County School District Re-3
Management's Discussion & Analysis
For the Fiscal Year Ended June 30, 2016**

OVERVIEW OF THE FINANCIAL STATEMENTS (continued)

Capital Assets and Debt Administration (continued)

Long-Term Debt

At June 30, 2016 the District had \$26,520,000 in long-term debt obligations. The bulk of this total is debt service on general obligation bonds issued by the District to finance its construction and modernization projects on District buildings. There was no change in the funding repayment to CDE from 2013.

The remaining \$422,781 in long-term obligations includes compensated absences and early retirement leave liability recorded by the District at year end, which was a \$131,085 decrease from the prior year.

A summary of the District's long-term debt is as follows:

	<u>Year End</u>			Percent Change
	2016	2015	Change	
General Obligation Bonds	\$ 26,520,000	\$ 28,525,000	\$ (2,005,000)	(7.03%)
Bond Premium	3,090,031	3,405,429	(315,398)	(9.26%)
Funding Repayment to CDE	52,774	52,774	-	0.00%
Compensated Absences and Early Retirement Leave	422,781	553,866	(131,085)	(23.67%)
Total	<u>\$ 30,085,586</u>	<u>\$ 32,537,069</u>	<u>\$ (2,451,483)</u>	<u>(7.53%)</u>

Morgan County School District Re-3
Management's Discussion & Analysis
For the Fiscal Year Ended June 30, 2016

Factors Bearing on the District's Future

The State of Colorado as well as the national economy has seen small continued improvement in economic activity which has resulted in increased revenues to the State's total budget outlook. The Colorado Department of Education has notified the District that there will be some incremental funding for 2016-2017 compared to 2015-2016. The District received a 5% premium increase for the health insurance provided to District employees for 2015-2016. In addition, the District incurred a \$200,000 reduction in its health insurance Claim Fluctuation Reserve during 2015-2016 and made an additional \$100,000 cash contribution to the reserve which restored the reserve to \$500,000 at June 30, 2016.

With level or minimal funding increases from the State and rising costs, the District will continue to address cost containments to ensure that the District maintains adequate General Fund reserves.

Contacting the District's Financial Management

This financial report is designed to provide the District's citizens, taxpayers, parents, investors and creditors with a general overview of the District's finances and to demonstrate the District's accountability for the money it receives. If you have questions about this report or need additional financial information, contact the Finance Department, Morgan County School District Re-3, 715 West Platte Ave., Fort Morgan, CO 80701.

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Morgan County School District Re-3
Statement of Net Position
June 30, 2016

	Governmental Activities
ASSETS	
Cash and Investments	\$12,154,256
Restricted Investments	12,969,410
Receivable from Treasurer	233,261
Property Tax Receivable	511,737
Accounts Receivable	161,441
Intergovernmental Receivable	646,977
Prepaid Expenses	116,979
Inventory	98,790
Capital Assets	
Land	322,557
Construction In Progress	30,831,890
Other Capital Assets - Net of Accumulated Depreciation	25,895,961
Total Assets	83,943,259
Deferred Outflows of Resources	
Deferred Loss on Refunding Bonds	467,097
Pensions, Net of Accumulated Amortization	7,251,944
Total Deferred Outflows of Resources	7,719,041
LIABILITIES	
Accounts Payable	1,990,682
Due to Other Governments	327
Accrued Salaries and Benefits	2,427,894
Accrued Interest Payable	99,221
Hospital Escrow	2,129
Retainage Payable	1,342,597
Unearned Revenue	69,410
Noncurrent Liabilities	
Due Within One Year	2,248,543
Due in More Than One Year	27,837,043
Net Pension Liability	55,326,248
Total Liabilities	91,344,094
Deferred Inflows of Resources	
Pensions, Net of Accumulated Amortization	1,465,462
NET POSITION	
Net Investment in Capital Assets	34,933,237
Restricted for	
Emergency Reserve (TABOR)	1,025,000
Mill Levy - Capital and Maintenance	795,882
Debt Service	2,674,502
Building Fund - Capital Construction	256,103
Preschool	78,216
Unrestricted	(40,910,196)
Total Net Position	(\$1,147,256)

The accompanying notes are an integral part of the basic financial statements.

Morgan County School District Re-3
Statement of Activities
For the Fiscal Year Ended June 30, 2016

	PROGRAM REVENUES			NET (EXPENSE) REVENUE AND CHANGES IN NET POSITION
EXPENSES	CHARGES FOR SERVICES	OPERATING GRANTS AND CONTRIBUTIONS	CAPITAL GRANTS AND CONTRIBUTIONS	PRIMARY GOVERNMENT GOVERNMENTAL ACTIVITIES
<u>FUNCTIONS/PROGRAMS</u>				
PRIMARY GOVERNMENT				
Governmental Activities				
Instruction	\$ 18,029,576	\$ 43,408	\$ 3,802,992	\$ (14,183,176)
Supporting Services	12,141,173	208,481	418,499	11,175,139
Food Services	1,725,263	197,450	1,398,560	(129,253)
Interest on Long-Term Debt	1,012,385			(1,012,385)
Total Governmental Activities	<u>\$ 32,908,397</u>	<u>\$ 449,339</u>	<u>\$ 5,620,051</u>	<u>\$ 22,689,332</u>
		GENERAL REVENUES		
				11,406,697
				14,735,114
				2,765
				39,646
				35,297
		TOTAL GENERAL REVENUES		<u>26,219,519</u>
		CHANGE IN NET POSITION		22,069,844
		NET POSITION - BEGINNING OF YEAR		<u>(23,217,100)</u>
		NET POSITION - END OF YEAR		<u>\$ (1,147,256)</u>

Morgan County School District Re-3
Balance Sheet
Governmental Funds
June 30, 2016

	General Fund	Federal Programs Fund	Bond Redemption Fund	Building Fund
ASSETS				
Cash and Investments	\$ 11,189,804	\$ 233,541		
Restricted Investments			\$ 2,583,700	\$ 10,385,710
Receivable from Treasurer	179,965		53,296	
Property and S.O. Tax Receivable	378,740		132,997	
Accounts Receivable	157,491			
Intergovernmental Receivables	276,503	354,217		
Interfund Receivable	450,968	199,123	3,730	32,000
Prepaid Expenditures	71,284	4,275		40,806
Inventory	64,190			
Total Assets	\$ 12,768,945	\$ 791,156	\$ 2,773,723	\$ 10,458,516
Liabilities:				
Accounts Payable	\$ 260,173	\$ 6,921		\$ 1,718,332
Hospital Escrow	2,129			
Accrued Salaries and Benefits	2,209,400	205,232		2,109
Due to Other Governments		327		
Interfund Payables	358,215	136,662		40,806
Unearned Revenue		69,410		
Retainage Payable	-			1,342,597
Total Liabilities	2,829,917	418,552	-	3,103,844
Deferred Inflows of Resources				
Taxes	193,548		\$ 86,706	
Grants		62,462		
Total Deferred Inflows of Resources	193,548	62,462	86,706	-
Fund Balances:				
Nonspendable				
Prepaid Expenditures	71,284	4,275		40,806
Inventory	64,190			
Restricted				
Emergency Reserve (TABOR)	1,025,000			
Capital Construction				7,313,866
Mill Levy - Capital and Maintenance	698,469			
Debt Service			2,687,017	
Preschool	78,216			
Assigned				
Subsequent Year's Budget	440,781			
Food Service				
Capital Projects/Replacements	620,955			
District Grant Funding Set Aside		305,867		
Unassigned	6,746,585			
Total Fund Balances	9,745,480	310,142	2,687,017	7,354,672
Total Liabilities, Deferred Inflows of Resources and Fund Balances	\$ 12,768,945	\$ 791,156	\$ 2,773,723	\$ 10,458,516

Amounts reported for governmental activities in the statement of net position are different

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

Certain long-term assets, including property taxes and grants receivable, are not available to pay current year expenditures and, therefore, are deferred in the funds.

Long-term liabilities and related items including bonds payable (\$26,520,000), bond premium (\$3,090,031), accrued interest payable (\$99,221), deferred loss on bond refunding \$467,097, compensated absences (\$346,355), early retirement (\$76,426), long term liability to the Colorado Department of Education (\$52,774), net pension liability (\$55,326,248), pension-related deferred outflows of resources \$7,251,944, pension-related deferred inflows of resources (\$1,465,462), are not due and payable in the current period and therefore are not reported in the funds.

Total Net position of governmental activities

Nonmajor Food Service Fund	Total Governmental Funds
\$ 730,911	\$ 12,154,256
	12,969,410
	233,261
	511,737
3,950	161,441
16,257	646,977
	685,821
614	116,979
34,600	98,790
<u>\$ 786,332</u>	<u>\$ 27,578,672</u>

\$ 5,256	\$ 1,990,682
	2,129
11,153	2,427,894
	327
150,138	685,821
	69,410
	1,342,597
<u>166,547</u>	<u>6,518,860</u>

	280,254
	62,462
-	<u>342,716</u>

614	116,979
34,600	98,790
	1,025,000
	7,313,866
	698,469
	2,687,017
	78,216
87,747	528,528
496,824	496,824
	620,955
	305,867
	6,746,585
<u>619,785</u>	<u>20,717,096</u>

\$ 786,332

57,050,408

342,716

(79,257,476)

\$ (1,147,256)

Morgan County School District Re-3
Statement of Revenues, Expenditures, and
Changes in Fund Balances
Governmental Funds
For the Fiscal Year Ended June 30, 2016

	<u>General</u>	<u>Federal Programs Fund</u>	<u>Bond Redemption Fund</u>	<u>Building Fund</u>
Revenues:				
Property Taxes	\$ 7,076,423		\$ 3,183,929	
Specific Ownership Taxes	1,024,958			
Intergovernmental	2,031,360	\$ 2,313,959		\$ 22,481,491
State Equalization	14,735,114			
Interest Income	26,126		110	8,168
Other	16,072			12,500
Local Sources	271,831	50,802		
Total Revenues	<u>25,181,884</u>	<u>2,364,761</u>	<u>3,184,039</u>	<u>22,502,159</u>
Expenditures:				
Current				
Instruction	13,870,358	1,089,247		
Supporting Services	9,483,621	1,239,193	2,917	
Food Services				
Debt Service				
Principal			2,005,000	
Interest			1,227,700	
Non Capital Outlay	227,035	115,581		83,694
Capital Outlay	479,170	-		30,633,962
Total Expenditures	<u>24,060,184</u>	<u>2,444,021</u>	<u>3,235,617</u>	<u>30,717,656</u>
Excess (Deficiency) of Revenues over Expenditures	<u>1,121,700</u>	<u>(79,260)</u>	<u>(51,578)</u>	<u>(8,215,497)</u>
Other Financing Sources (Uses):				
Insurance Proceeds	2,765			
Transfers In		105,924		
Transfers Out	(105,924)			
Total Other Financing Sources (Uses)	<u>(103,159)</u>	<u>105,924</u>	<u>-</u>	<u>-</u>
Net Change in Fund Balances	1,018,541	26,664	(51,578)	(8,215,497)
Fund Balances - Beginning of the Year	<u>8,726,939</u>	<u>283,478</u>	<u>2,738,595</u>	<u>15,570,169</u>
Fund Balances - End of the Year	<u>\$ 9,745,480</u>	<u>\$ 310,142</u>	<u>\$ 2,687,017</u>	<u>\$ 7,354,672</u>

Nonmajor Food Service Fund	Total Governmental Funds
	\$ 10,260,352
	1,024,958
\$ 1,398,560	28,225,370
	14,735,114
893	35,297
31,238	59,810
197,148	519,781
<u>1,627,839</u>	<u>54,860,682</u>
	14,959,605
	10,725,731
1,655,365	1,655,365
	2,005,000
	1,227,700
9,300	435,610
18,672	31,131,804
<u>1,683,337</u>	<u>62,140,815</u>
<u>(55,498)</u>	<u>(7,280,133)</u>
	2,765
	105,924
	<u>(105,924)</u>
	2,765
(55,498)	(7,277,368)
<u>675,283</u>	<u>27,994,464</u>
<u>\$ 619,785</u>	<u>20,717,096</u>

Morgan County School District Re-3
Reconciliation of the Statement of Revenues,
Expenditures and Changes in Fund Balances of Governmental Funds
To the Statement of Activities
For the Fiscal Year Ended June 30, 2016

Amounts Reported for Governmental Activities in the Statement of Activities are Different Because:

Net Change in Fund Balances of Governmental Funds. \$ (7,277,368)

Capital outlays to purchase or build capital assets are reported in governmental funds as expenditures. However, for governmental activities those costs capitalized in the statement of net position and allocated over their estimated useful lives as annual depreciation expense in the statement of activities.

Depreciation expense	\$ (1,920,125)	
Net capital outlays	<u>31,131,804</u>	29,211,679

Governmental funds report the effect of premiums, discounts, and similar items when debt is first issued, whereas these amounts are deferred and amortized in the statement of activities. This amount is the net effect of these differences in the treatment of long-term debt and related items other than capital leases as follows:

Amortization of bond premium	315,398	
Amortization of deferred loss on refunding bonds	<u>(106,258)</u>	209,140

Repayments of bond principal are expenditures in the governmental funds, but the repayment reduces long-term liabilities in the statement of net position and does not effect the statement of activities. The following summarizes the District's bond transactions for the fiscal year:

Repayment of bond principal		2,005,000
-----------------------------	--	-----------

Interest on long-term debt in the statement of activities differs from the amount reported in the governmental funds because interest is recognized as an expenditure in the funds when it is due, and thus requires the use of current financial resources. In the statement of activities, however, interest expense is recognized as the interest accrues, regardless of when it is due. This amount represents the change in accrued interest payable.

6,175

In the statement of activities, certain operating expenses - compensated absences (sick leave and early retirement), net pension liability, and pension deferred inflows and outflows are measured by the amounts earned during the year. In the governmental funds, however, expenditures for these items are measured by the amount of financial resources used (essentially, the amounts actually paid). These amounts represent the net effect of compensated absences payable, early retirement, pension liability and pension deferred inflows and outflows reported on the statement of activities.

Compensated absences	(23,549)	
Early retirement	154,634	
Change in the net pension liability	(5,772,915)	
Change in pension related deferred outflows	4,426,536	
Change in pension related deferred inflows	<u>(984,282)</u>	(2,199,576)

Some revenues reported in the statement of activities do not provide current financial resources, and are therefore deferred in governmental funds.

Change in deferred grant revenue		(6,593)
Change in deferred property taxes		<u>121,387</u>

Change in net position of governmental activities. \$ 22,069,844

The accompanying notes are an integral part of the basic financial statements.

Morgan County School District Re-3
Statement of Fiduciary Net Position
June 30, 2016

	Private-Purpose Trust Fund	Agency Funds
ASSETS		
Cash and Investments	\$ 124,761	\$ 620,276
Accounts Receivable	6	2,283
	124,767	622,559
Total Assets	124,767	\$ 622,559
LIABILITIES		
Due To Student/Community Organizations		\$ 331,718
Funds Held for Others		283,811
Accounts Payable		7,030
		622,559
Total Liabilities	-	\$ 622,559
NET POSITION		
Held in Trust for Scholarships/Students	38,944	
Held in Trust for Endowments	85,823	
	124,767	
Total Net Position	\$ 124,767	

Morgan County School District Re-3
Statement of Changes in
Fiduciary Net Position
For the Fiscal Year Ended June 30, 2016

	<u>Private-Purpose Trust Fund</u>
Additions	
Contributions and Donations	\$ 188,456
Interest Income	167
Total Additions	<u>188,623</u>
Deductions:	
Scholarship Awards	<u>196,304</u>
Change in Net Position	(7,681)
Net Position - Beginning of the Year	<u>132,448</u>
Net Position - End of the Year	<u><u>\$ 124,767</u></u>

Morgan County School District Re-3
Notes to Financial Statements
June 30, 2016

NOTE (1) Summary of Significant Accounting Policies

The financial statements of Morgan County School District Re-3 (the District) have been prepared in conformity with accounting principles generally accepted in the United States of America, as applied to government units. The Governmental Accounting Standards Board (GASB) is the accepted standard-setting body for establishing governmental accounting and financial principles. The more significant District accounting policies are described below.

(A) Reporting Entity

The financial reporting entity consists of the District, organizations for which the District is financially accountable and organizations that raise and hold economic resources for the direct benefit of the District. All funds, organizations, institutions, agencies, departments and offices that are not legally separate are part of the District. Legally separate organizations for which the District is financially accountable are considered part of the reporting entity. Financial accountability exists if the District appoints a voting majority of the organization's governing board and is able to impose its will on the organization, or if the organization has the potential to provide benefits to, or impose financial burdens on, the District.

Based upon the application of this criteria, no additional organizations are includable within the District's reporting entity.

(B) Fund Accounting

The District uses funds to report its financial position and results of operations. Fund accounting is designed to demonstrate legal compliance and to aid financial management by segregating transactions related to certain government functions or activities. A fund is a separate accounting entity with a self-balancing set of accounts.

Morgan County School District Re-3
Notes to Financial Statements
June 30, 2016

NOTE (1) **Summary of Significant Accounting Policies (continued)**

(B) Fund Accounting (continued)

Funds are classified into two categories: Governmental and Fiduciary. Each category, in turn, is divided into separate "fund types."

Governmental funds are used to account for all or most of a government's general activities, including the collection and disbursement of earmarked funds (special revenue funds), the servicing of general long-term debt (debt service funds) and the reporting of major capital construction projects, (capital projects funds). The following are the District's major governmental funds:

General Fund – The General Fund is the District's general operating fund and is used to account for all financial transactions except those accounted for in another fund. Major revenue sources include local property taxes, specific ownership taxes, and State of Colorado equalization funding, as determined by the School Finance Act of 1994, as amended. Primary expenditures are for instruction and supporting services (including students, instructional staff, general and school administration, operations and maintenance, student transportation, business supporting services and central supporting services).

Federal Programs Fund – This fund maintains a separate accounting for programs funded by federal, state and local grants.

Bond Redemption Fund – The District has one debt service fund, the Bond Redemption Fund. This fund is used to account for the accumulation of resources for, and the payment of, general long-term debt principal, interest and related costs. The fund's primary revenue source is local property taxes levied specifically for debt service.

Building Fund – This fund was created to account for the proceeds from the District's voter approved 2014 and 2015 bond issues and the related construction expenditures for major infrastructure improvements at three of the District's elementary schools, secure access improvements at all District schools and the construction of a new Middle School.

Morgan County School District Re-3
Notes to Financial Statements
June 30, 2016

NOTE (1) Summary of Significant Accounting Policies (continued)

Fiduciary Funds – Fiduciary fund reporting focuses on net position and changes in net position. These funds account for resources received and held by the District in a fiduciary capacity. The funds included in this category are:

Private-Purpose Trust Fund

This fund accounts for resources held by the District that can be expended as outlined in the original documents creating the Fund. The Fund expenses are used for student scholarships.

Agency Funds

The Agency Fund is custodial in nature and does not present results of operations or a measurement focus. Agency Funds are accounted for using the accrual basis of accounting. These funds are used to account for assets that the District holds for others in an agency capacity. The High School Student Activity Fund and the District's Student Activity Fund are reported in the Agency Fund.

(C) Basis of Presentation

District-wide Financial Statements – The statement of net position and the statement of activities display information about the District as a whole. These statements include the financial activities of the primary government except for fiduciary funds that are fiduciary in nature. For the most part, the effect of interfund activity has been removed from these statements.

Governmental activities are normally supported by taxes and intergovernmental revenues.

The district-wide statements are prepared using the economic resources measurement focus and the accrual basis of accounting. This differs from the manner in which governmental fund financial statements are prepared. Governmental fund financial statements therefore include reconciliations with a brief explanation to better identify the relationship between the district-wide statements and governmental funds.

Morgan County School District Re-3
Notes to Financial Statements
June 30, 2016

NOTE (1) Summary of Significant Accounting Policies (continued)

(C) Basis of Presentation (continued)

Certain eliminations have been made in regards to interfund activities, payables and receivables. All internal balances in the Statement of Net Position and the Statement of Activities have been eliminated.

The district-wide statement of activities presents a comparison between direct expenses and program revenues for each function or program of the District's governmental activities. Direct expenses are those that are specifically associated with a service, program or department and therefore clearly identifiable to a particular function. Program revenues include charges paid by the recipient of the goods or services offered by the program and grants and contributions that are restricted to meeting the operational or capital requirements of a particular program. Revenues which are not classified as program revenues, are presented as general revenues of the District (including all taxes), with certain limited exceptions. The comparison of direct expenses with program revenues identifies the extent to which each governmental function is self-financing or draws from the general revenues of the District.

Fund Financial Statements – Fund financial statements report detailed information about the District. The focus of governmental financial statements is on major funds rather than reporting funds by type. Each major fund is presented in a separate column.

Non-major funds are aggregated and presented in a single column. Fiduciary funds are reported by fund type.

The accounting and financial reporting treatment applied to a fund is determined by its measurement focus. All governmental fund types are accounted for using a flow of current financial resources measurement focus. The financial statements for governmental funds are a balance sheet, which generally includes only current assets and current liabilities, and a statement of revenues, expenditures and changes in fund balances, which reports on the sources (i.e., revenues and other financing sources) and uses (i.e., expenditures and other financing uses) of current financial resources.

Morgan County School District Re-3
Notes to Financial Statements
June 30, 2016

NOTE (1) **Summary of Significant Accounting Policies (continued)**

(C) Basis of Presentation (continued)

Trust funds are reported using the economic resources measurement focus.

When both restricted and unrestricted resources are available for use, it is the District's policy to use restricted resources first, and then unrestricted resources as they are needed.

(D) Basis of Accounting

Basis of accounting determines when transactions are recorded in the financial records and reported on the financial statements. District-wide financial statements are prepared using the accrual basis of accounting. Governmental funds use the modified accrual basis of accounting. Fiduciary funds use the accrual basis of accounting.

Revenues – Exchange and Non-exchange Transactions Revenues resulting from exchange transactions, in which each party gives and receives essentially equal value, are recorded on the accrual basis when the exchange takes place. On a modified accrual basis, revenues are recorded in the fiscal year in which the resources are measurable and become available. Available means soon enough thereafter to be used to pay liabilities of the current fiscal year. For the District, available means expected to be received within sixty days of fiscal year-end except for federal and state grants for which a one hundred twenty day period is used.

Non-exchange transactions, in which the District receives value without directly giving equal value in return, include property taxes, grants, entitlements and donations. On an accrual basis, revenues from Property Taxes are recognized in the fiscal year for which the taxes are levied. See Note 3. State equalization monies are recognized as revenues during the period in which they are appropriated. Revenues from grants, entitlements and donations are recognized in the fiscal year in which all eligibility requirements have been satisfied.

Morgan County School District Re-3
Notes to Financial Statements
June 30, 2016

NOTE (1) **Summary of Significant Accounting Policies (continued)**

(D) Basis of Accounting (continued)

Eligibility requirements include timing requirements, which specify the year when the resources are required to be used or the fiscal year when use is first permitted, matching requirements, in which the District must provide local resources to be used for a specified purpose, and expenditure requirements, in which the resources are provided to the District on a reimbursement basis.

On a modified accrual basis, revenue from non-exchange transactions must also be available before it can be recognized.

Under the modified accrual basis, the following revenue sources are considered to be both measurable and available at fiscal year-end: property taxes, interest, tuition, and student fees collected within sixty days after year-end.

Unearned Revenue - Unearned revenues also arise when resources are received by the District before it has a legal claim to them, as when grant money is received prior to meeting eligibility requirements. In subsequent periods, when both revenue recognition criteria are met, or when the District has a legal claim to the resources, the liability for unearned revenue is removed and revenue is recognized.

Expenses/Expenditures - On the accrual basis of accounting, expenses are recognized at the time they are incurred. The fair value of donated commodities used during the year is reported as an expense/expenditure with a like amount reported as donated commodities revenue.

The measurement focus of governmental fund accounting is on decreases in net financial resources (expenditures) rather than expenses. Expenditures are generally recognized in the accounting period in which the related fund liability is incurred, if measurable. Allocations of cost, such as depreciation, are not recognized in governmental funds.

(E) Estimates

The preparation of financial statements in conformity with accounting principles generally accepted in the United States of America requires management to make estimates and assumptions that affect certain reported amounts and disclosures. Accordingly actual results could differ from those estimates.

Morgan County School District Re-3
Notes to Financial Statements
June 30, 2016

NOTE (1) Summary of Significant Accounting Policies (continued)

(F) Cash and Investments

All investments are reported at fair value.

(G) Interfund Receivables/Payables

During the course of operations, numerous transactions occur between individual funds for goods provided or services rendered. These receivables and payables are as interfund receivables or interfund payables on the fund financial statements.

(H) Inventories

Food Services Fund purchased inventories are stated at cost as determined by the first-in, first-out (FIFO) method. Commodity inventories are stated at the USDA's assigned values, which approximate fair value, at the date of receipt. Expenditures for food items are recorded when used. The federal government donates surplus commodities to supplement the National School Lunch Program. Commodity contributions used by the District are recorded as revenues at the date of their consumption. Inventory in the General Fund, valued at cost as determined by the first-in, first-out (FIFO) method, consists of expendable supplies held for consumption.

(I) Capital Assets

Capital assets generally result from expenditures in the governmental funds. These assets are reported in the governmental activities column of the district-wide statement of net position but are not reported in the fund financial statements.

Morgan County School District Re-3
Notes to Financial Statements
June 30, 2016

NOTE (1) Summary of Significant Accounting Policies (continued)

(I) Capital Assets (continued)

All capital assets are capitalized at cost (or estimated historical cost) and updated for additions and retirements during the year. Donated capital assets are recorded at the acquisition value on the date received. The District maintains a capitalization threshold of five thousand dollars (\$5,000). The District does not possess any infrastructure. Improvements are capitalized; the cost of normal maintenance and repairs that do not add to the value of the asset or materially extend the asset's life are not. Interest accrued during construction is not capitalized in governmental funds.

All reported capital assets are depreciated (excluding land, water rights and construction in progress). Improvements are depreciated over the remaining useful lives of the related capital assets. Depreciation is computed using the straight-line method over the following useful lives:

<u>Description</u>	<u>Governmental Activities Estimated Lives</u>
Buildings and Improvements	7-50 Years
Furniture and Equipment	5-20 Years
Vehicles	8 years

(J) Accrued Liabilities and Long-Term Obligations

All payables, accrued liabilities and long-term obligations are reported in the district-wide financial statements.

In general, payables and accrued liabilities that will be paid from governmental funds are reported on the governmental fund financial statements.

However, claims and judgments that will be paid from governmental funds are reported as a liability in the fund financial statements only to the extent that they will be paid with current, expendable, available financial resources. Bonds and other long-term obligations that will be paid from governmental funds are not recognized as a liability in the fund financial statements until due.

Morgan County School District Re-3
Notes to Financial Statements
June 30, 2016

NOTE (1) **Summary of Significant Accounting Policies (continued)**

(K) Bond Premiums and Issuance Costs

In the government-wide financial statements, bond premiums are amortized over the life of the bonds using the straight line method. Bond issuance costs are reported as current expenses. Losses from bond refunding are deferred and amortized over the term of the related debt. In the fund financial statements, governmental fund types recognize bond premiums and discounts, as well as bond issuance costs, during the current period. The face amount of debt issued is reported as other financing sources. Premiums on debt issuances are reported as other financing sources. Issuance costs, whether or not withheld from the actual debt proceeds received, are reported as debt service expenditures.

(L) Deferred Outflows/Inflows of Resources

In addition to assets, the statement of financial position will sometimes report a separate section for deferred outflows of resources. This separate financial statement element, *deferred outflows of resources*, represents a consumption of net position that applies to a future period(s) and so will *not* be recognized as an outflow of resources (expense/expenditure) until then. The District reports the deferred loss on refunding in the government-wide statement of net position. A deferred loss on refunding results from the difference in the carrying value of the refunded debt and its reacquisition price. This amount is deferred and amortized over the shorter of the life of the refunded or refunding debt.

In addition to liabilities, the statement of financial position and balance sheet will sometimes report a separate section for deferred inflows of resources. This separate financial statement element, *deferred inflows of resources*, represents an acquisition of net position that applies to a future period(s) and so will not be recognized as an inflow of resources (revenue) until that time. The District has two types of items (property taxes and grants) which arise only under a modified accrual basis of accounting that qualifies for reporting in this category.

Accordingly, deferred inflows of resources are reported in the governmental funds balance sheet for property taxes and grants not as available as current financial resources.

Morgan County School District Re-3
Notes to Financial Statements
June 30, 2016

NOTE (1) Summary of Significant Accounting Policies (continued)

(M) Pensions

The District participates in the School Division Trust Fund (SDTF), a cost-sharing multiple-employer defined benefit pension plan administered by the Public Employees' Retirement Association of Colorado (PERA). The net pension liability, deferred outflows of resources and deferred inflows of resources related to pensions, pension expense, information about the fiduciary net position, and additions to and deductions from the SDTF's fiduciary net position have been determined using the economic resources measurement focus and the accrual basis of accounting, the same basis of accounting used by the SDTF. For this purpose, benefit payments (including refunds of employee contributions) are recognized when due and payable in accordance with the benefit terms. Investments are reported at fair value.

(N) Fund Balances

Fund balances are reported in classifications based on the extent to which the District is bound to honor constraints for the specific purposes on which amount in the fund can be spent.

Fund balances are classified into one of five categories: nonspendable, restricted, committed, assigned and unassigned. Nonspendable fund balance represents assets that will never be converted to cash. Restricted fund balances reflect resources that are subject to externally enforceable legal restrictions. The Board of Education, the Superintendent and the Chief Financial Officer have the authority given to them by Board resolution to assign amounts for specific purposes. Assigned fund balance displays the District's intended use of these resources. Unassigned fund balance for the general fund represents the net resources in excess of the prior classifications. It is the District's intent to use restricted amounts first then committed, assigned and unassigned fund balances sequentially.

(O) Net Position

Net position represents the difference between assets and deferred outflows and liabilities and deferred inflows. Net investment in capital assets consists of capital assets, net of accumulated depreciation, reduced by the outstanding balances of any borrowings used for the acquisition, construction or improvement of those assets.

Morgan County School District Re-3
Notes to Financial Statements
June 30, 2016

NOTE (1) Summary of Significant Accounting Policies (continued)

(O) Net Position (continued)

Net position is reported as restricted when there are constraints imposed on its use either through the enabling legislation adopted by the District or through external restrictions imposed by creditors, grantors or laws or regulations of other governments.

(P) Inter fund Transactions

Quasi-external transactions are accounted for as revenue or expenditures. Transactions that constitute reimbursements to a fund for expenditures initially made from it that are properly applicable to another fund, are recorded as expenditures in the reimbursing fund and as reductions of expenditures in the fund that is reimbursed. All other interfund transactions, except quasi-external transactions and reimbursements, are reported as transfers.

(Q) Compensated Absences/Early Retirement Program

Leave for District employees includes both vacation and sick leave. Leave is based on an employee's length of employment and is earned ratably during the span of employment. Upon termination, employees are paid full value for any accrued vacation leave not to exceed 40 days of entitlement as set forth by the agreements. Sick leave is paid to employees who have accumulated sick leave and who have been with the District for more than 20 years or 9 years for Administrators at a rate determined by agreement.

Early retirement is paid to employees meeting specific notification and length of service requirements (see Note 7). The liability is recorded once the benefit is accepted by the employee. The payments are made over a three-year period based on predetermined benefit calculations. The Board of Education has approved an ongoing reduction in the original five year benefit payment plan starting in 2011-2012. The benefit payment term is reduced by one payment per year until the benefit is only one year's payment (five annual payments for retiring in 2011-2012, four annual payments for retiring in 2012-2013, three annual payments for retiring in 2013-2014, etc).

Morgan County School District Re-3
Notes to Financial Statements
June 30, 2016

NOTE (1) **Summary of Significant Accounting Policies (continued)**

(Q) Compensated Absences/Early Retirement Program (continued)

These compensated absences are recognized as expenditures when paid in the governmental funds. A long-term liability has been reported in the government wide financial statements for the accrued compensated absences and early retirement program.

NOTE (2) **Cash and Investments**

(A) Cash and Deposits

Custodial Credit Risk – Deposits Custodial credit risk is the risk that, in the event of a bank failure, the District's deposits might not be recovered. However, the Colorado State statutes govern the District's deposit of cash. The Public Deposit Protection Acts (PDPA) for banks and savings and loans require state regulations to certify eligible depositories for public deposits. The PDPA require eligible depositories with public deposits in excess of federal insurance levels to create a single institution collateral pool of defined eligible assets. The pool is to be maintained by another institution or held in trust for all uninsured public deposits as a group and not held in any individual government's name.

The market value of the assets in the pool must be at least equal to 102% of the uninsured deposits. At June 30, 2016, the District had bank deposits of \$3,836,898 collateralized with securities held by the financial institutions agents but not in the District's name.

(B) Investments

Interest Rate Risk The District has an investment goal that limits investment maturities to five years or less, as a means of managing its exposure to fair value loss resulting from increasing interest rates. The Colorado revised statutes also limit investment maturities to five years or less. All investments are carried at fair value. The District's Policy on investments lists the following objectives:

- Safety of Funds
- Funds are available when needed
- Earn a market rate
- Invest according to state law
- Invest locally if possible

Morgan County School District Re-3
Notes to Financial Statements
June 30, 2016

NOTE (2) Cash and Investments (continued)

Credit Risk Colorado State Statutes authorize the District to invest in obligations of the U. S. Treasury and its agencies. In addition, the District can invest in obligation of instrumentalities, commercial paper, repurchase agreements, money market funds and local government investment pools with specific ratings. State law further limits investments in money market funds to those institutions with over \$1 billion in assets or the highest credit rating from one or more of a nationally recognized rating agency. The COLOTRUST investment is rated AAAM by Standard and Poor's. CSAFE investment is rated AAAM by Standard and Poor's. The Federated Government Obligation Money Market Fund is rated AAAM by Standard and Poor's.

Local government investment pools include the Colorado Local Government Liquid Asset Trust (COLOTRUST) and the Colorado Surplus Asset Fund Trust (CSAFE). The pools operate in conformity with the Securities and Exchange Commission's Rule 2a7, with each share valued at \$1.00. COLOTRUST and CSAFE are regulated by the State of Colorado, Department of Regulatory Agencies, Division of Securities, which establishes polices for and reviews the operation of local government investment pools in the state.

Fair Value Measurements - The District reports its investments using the fair value measurements established by generally accepted accounting principles. As such, a fair value hierarchy categorizes the inputs used to measure the fair value of the investments into three levels. Level 1 inputs are quoted prices in active markets for identical investments; Level 2 inputs include quoted prices in active markets for similar investments, or other observable inputs; and Level 3 inputs are unobservable inputs. At June 30, 2016, the District's investment in (COLOTRUST) was reported at the net asset value per share, measured utilizing quoted prices in active markets for similar investments (Level 2 inputs). CSAFE was reported at the net asset value per share, which was measured using amortized cost. The Federated Government Obligation Money Market Fund was also reported at the net asset value per share, which was measured using amortized cost.

Morgan County School District Re-3
Notes to Financial Statements
June 30, 2016

NOTE (2) Cash and Investments (continued)

The District invested in COLOTRUST and CSAFE throughout the fiscal year. At June 30, 2016 the District had the following investments:

<u>Investments</u>	<u>Maturities</u>	<u>Total Fair Value</u>
COLOTRUST	Less than one year	\$ 5,459,668
CSAFE	Less than one year	4,877,127
Federated Government Obligation Money Market Fund	Less than one year	2,583,700
Total		<u><u>\$ 12,920,495</u></u>

The cash held in the money market account (\$ 2,583,700) is required to be used for the payment of long term Debt (see Note 9) and \$2,001,650 held in CSAFE is required to be used for capital construction. In addition, the District has \$8,384,060 on deposit with the Colorado Department of Education Capital Construction Division that is to be used for the ongoing construction of the new Middle School.

Morgan County School District Re-3
Notes to Financial Statements
June 30, 2016

NOTE (2) Cash and Investments (continued)

The following is a summary of the cash and investments held in each individual fund:

	<u>Investments</u>	<u>Cash</u>	<u>Total Cash & Investments</u>
Combined General Fund			
General Department	\$ 7,277,881	\$ 2,019,544	\$ 9,297,425
Mill Levy Department	608,941	185,510	794,451
Daycare Department	7,594	31,898	39,492
Capital Reserve Department	1,412	554,457	555,869
Insurance Department	31,026	352,052	383,078
Colorado Preschool Department	1,135	118,354	119,489
Total Combined General Fund	<u>7,927,989</u>	<u>3,261,815</u>	<u>11,189,804</u>
Federal Programs Fund	100,604	132,937	233,541
Bond Redemption Fund	2,583,700		2,583,700
Building Fund	2,001,650	8,384,060	10,385,710
Food Services Fund	225,146	505,765	730,911
Private Purpose Trust Fund		124,761	124,761
Agency Fund	81,406	538,870	620,276
Total Cash and Investments	<u>12,920,495</u>	<u>12,948,208</u>	<u>25,868,703</u>
Less Cash Held By Third Parties			
General Fund Department			
BEST Health Trust (See Note 19)		(500,000)	(500,000)
Building Fund			
CDE Capital Construction Division		<u>(8,384,060)</u>	<u>(8,384,060)</u>
Total Cash and Investments Held By District	<u>\$ 12,920,495</u>	<u>\$ 4,064,148</u>	<u>\$ 16,984,643</u>

Morgan County School District Re-3
Notes to Financial Statements
June 30, 2016

NOTE (3) Property Taxes

Property taxes attach as an enforceable lien on January 1, are certified on December 15 and are levied on property the following January 1. They are payable in full by April 30 or are due in two equal installments on February 28 and June 15. Morgan County bills and collects property taxes for all taxing entities within the county. The property tax receipts collected by the county are remitted to the District in the subsequent month.

NOTE (4) Interfund Balances and Transactions

The District reports interfund balances between many of its funds. These balances result from a time lag between the dates interfund goods and services are provided or reimbursable expenditures occur and payments between funds occur. On the fund financial statements, interfund receivables and payables as of June 30, 2016 consist of the following:

General Fund Department	\$ 450,893	\$ 300,545
Capital Reserve Department		32,000
Insurance Department		23,150
Colorado Preschool Department	75	2,520
Total General Fund	450,968	358,215
Federal Programs Fund	199,123	136,662
Bond Redemption Fund	3,730	
Building Fund	32,000	40,806
Food Service Fund		150,138
Total Governmental Funds	\$ 685,821	\$ 685,821

The interfund transfers for the fiscal year ended June 30, 2016 are as follows:

	In	Out
<u>Governmental Funds:</u>		
General Fund		\$ 105,924
Federal Programs	\$ 105,924	

The General Fund transferred funds to the Federal Programs Fund for the benefit of the Gifted and Talented Program and the Teen Parent Center Program.

Morgan County School District Re-3
Notes to Financial Statements
June 30, 2016

NOTE (5) Capital Assets

For the year ended June 30, 2016, the District charged \$1,415,771 and \$504,354 in depreciation expense to Instruction and Supporting Services respectively. Beginning balances have been reclassified for capital assets previously reported in the enterprise fund.

Activity of depreciated capital assets for the fiscal year ended June 30, 2016, is as follows:

Governmental Activities

	Balance 6/30/2015	Additions	Deletions	Balance 6/30/2016
Non-depreciable capital assets:				
Land and Water Rights	\$ 322,557	\$ -	\$ -	\$ 322,557
Construction in Progress	4,635,903	28,266,043	(2,070,056)	30,831,890
Total Non-depreciable Assets	4,958,460	28,266,043	(2,070,056)	31,154,447
Capital Assets Being Depreciated				
Buildings and improvements	45,949,592	4,668,000	-	50,617,592
Furniture and Equipment	5,191,817	200,604	-	5,392,421
Vehicles	2,961,029	67,213	-	3,028,242
Total Capital Assets Being Depreciated	54,102,438	4,935,817	-	59,038,255
Less accumulated depreciation for:				
Buildings and improvements	(26,050,555)	(1,436,612)	-	(27,487,167)
Furniture and Equipment	(2,741,163)	(366,141)	-	(3,107,304)
Vehicles	(2,430,451)	(117,372)	-	(2,547,823)
Total Accumulated Depreciation	(31,222,169)	(1,920,125)	-	(33,142,294)
Total Capital Assets Being Depreciated	22,880,269	3,015,692	-	25,895,961
Net Capital Assets Governmental Activities	\$ 27,838,729	\$ 31,281,735	\$ (2,070,056)	\$ 57,050,408

Morgan County School District Re-3
Notes to Financial Statements
June 30, 2016

NOTE (6) Accrued Salaries and Benefits

Salaries and benefits of certain contractually employed personnel are paid over a twelve-month period from September to August, but are earned during a school year of approximately ten months. Accordingly, this accrued compensation is reflected as a liability in the accompanying financial statements. At June 30, 2016, accrued salaries and benefits were as follows:

General Fund	
General Fund Department	\$ 2,159,335
Daycare Department	12,079
Colorado Preschool Department	<u>37,986</u>
Total General Fund	2,209,400
Building Fund	2,109
Federal Programs Fund	205,232
Food Service Fund	<u>11,153</u>
Total Governmental Activities	<u>\$ 2,427,894</u>

NOTE (7) Early Retirement Leave

The District offers an Early Retirement Incentive Program to all staff who have more than 20 years of service in the District. The District will make payments on this program on January 1 as follows:

	Total Payments	Net Present Value of Payments
January 1, 2017	76,534	76,426
Total	<u>\$ 76,534</u>	<u>\$ 76,426</u>

The District calculates the early retirement payment based on the net present value of the annual payments listed above. The net present value of the early retirement payment to be paid in January 2017 is \$76,426, which is reflected in the Statement of Net Position as due within one year. The long-term portion of the early retirement benefit, as reflected in the Statement of Net Position at June 30, 2016, is \$76,426. The District uses a present value discount rate of .59%.

Morgan County School District Re-3
Notes to Financial Statements
June 30, 2016

NOTE (8) Changes in Long – Term Debt

The changes in governmental activities long-term debt for the year ended June 30, 2016, are as follows:

	Balance at June 30, 2015	Additions	Deletions	Balance at June 30, 2016	Due Within One Year
Bonds Payable	\$ 28,525,000		\$ 2,005,000	\$ 26,520,000	\$ 1,985,000
Bond Premium	3,405,429		315,398	3,090,031	
Colorado Dept. of Education Funding Repayment	52,774			52,774	52,774
Early Retirement Program	231,060	24,868	179,502	76,426	76,426
Compensated Absences	322,806	172,563	149,014	346,355	134,343
Totals	\$ 32,537,069	\$ 197,431	\$ 2,648,914	30,085,586	\$ 2,248,543
Less Amount Due Within One Year				<u>(2,248,543)</u>	
Due in More Than One Year				<u>\$ 27,837,043</u>	

Compensated absences and early retirement will be liquidated by the General Fund. The District has recorded a \$52,774 long-term liability to The Colorado Department of Education for multi-year funding adjustments related to pupil count and transportation audits. The liability is due to the State on June 12, 2017.

NOTE (9) Bonds Payable

Bonds Payable, 2007 Series

In December 2007, the District issued \$9,100,000 of general obligation refunding bonds. The bonds were used to provide funds to establish an irrevocable trust escrow to advance refund \$9,345,000 of the District's outstanding 1999 general obligation bonds

The bonds mature on December 1, commencing December 1, 2010, with interest payable semi-annually on June 1 and December 1 commencing December 1, 2007. The bonds are not subject to early redemption and the final bond matures on December 1, 2018.

Morgan County School District Re-3
Notes to Financial Statements
June 30, 2016

NOTE (9) Bonds Payable (continued)

Bonds Payable, 2007 Series (continued)

The General Obligation Refunding Bonds are summarized as follows:

<u>Maturity</u>	<u>Interest Rate</u>	<u>Principal Maturing For Year</u>	<u>Interest Requirement</u>	<u>Total</u>
2016-2017	5.00%	\$ 1,080,000	\$ 149,325	\$ 1,229,325
2017-2018	5.25%	1,135,000	92,531	1,227,531
2018-2019	5.25%	1,195,000	31,369	1,226,369
		<u>\$ 3,410,000</u>	<u>\$ 273,225</u>	<u>\$ 3,683,225</u>

Bonds Payable, 2011 Series

In October 2011, the District issued \$6,020,000 (Series 2011) of general obligation refunding bonds. The bonds were used to provide funds to establish an irrevocable trust escrow to advance refund \$6,120,000 of the District's outstanding 2004 general obligation bonds.

The bonds mature on December 1 commencing December 1, 2015, with interest payable semiannually on June 1 and December 1 commencing December 1, 2011. The bonds are not subject to early redemption and the final bond matures on December 1, 2021. The General Obligation Refunding Bonds are summarized as follows:

<u>Maturity</u>	<u>Interest Rate</u>	<u>Principal Maturing For Year</u>	<u>Interest Requirement</u>	<u>Total</u>
2016-2017	4.00%	\$ 370,000	\$ 250,000	\$ 620,000
2017-2018	4.00%	380,000	235,000	615,000
2018-2019	4.00%	395,000	219,500	614,500
2019-2020	4.00%	1,440,000	182,800	1,622,800
2020-2021	5.00%	1,500,000	116,500	1,616,500
2021-2022	5.00%	1,580,000	39,500	1,619,500
		<u>\$ 5,665,000</u>	<u>\$ 1,043,300</u>	<u>\$ 6,708,300</u>

Morgan County School District Re-3
Notes to Financial Statements
June 30, 2016

NOTE (9) Bonds Payable (continued)

Bonds Payable, 2014 Series

In March 2014, the District issued \$7,180,000 in general obligation bonds for the purpose of providing secure entrances at all District schools and infrastructure improvements at three of the District's elementary schools.

The general obligation bonds, series 2014, dated March 5, 2014, mature on December 1 with interest payable semi-annually on June 1 and December 1 commencing June 1, 2014. The bonds mature on December 1, 2026 and are subject to optional call on December 1, 2023 at par plus accrued interest.

The General Obligation Bonds are summarized as follows:

<u>Maturity</u>	<u>Interest Rate</u>	<u>Principal Maturing For Year</u>	<u>Interest Requirement</u>	<u>Total</u>
2016-2017	3.00%	\$ 160,000	\$ 254,326	\$ 414,326
2017-2018	3.00%	165,000	249,450	414,450
2018-2019	3.00%	170,000	244,424	414,424
2019-2020	3.50%	405,000	234,787	639,787
2020-2021	4.00%	415,000	220,437	635,437
2021-2026	4.00%	4,405,000	704,587	5,109,587
2026-2027	4.00%	1,095,000	21,900	1,116,900
		<u>\$ 6,815,000</u>	<u>\$ 1,929,911</u>	<u>\$ 8,744,911</u>

Morgan County School District Re-3
Notes to Financial Statements
June 30, 2016

NOTE (9) Bonds Payable (continued)

Bonds Payable, 2015 Series

In February 2015, the District issued \$11,090,000 in general obligation bonds for the purpose of building a new Middle School. The bond proceeds represented the District's required matching funds for the Colorado Department of Education BEST Capital Construction Grant that the District was awarded in 2014.

The general obligation bonds, series 2015, dated February 12, 2015, mature on December 1 with interest payable semi-annually on June 1 and December 1 commencing June 1, 2014. The bonds mature on December 1, 2034 and are subject to optional call on December 1, 2024 at par plus accrued interest.

The General Obligation Bonds are summarized as follows:

<u>Maturity</u>	<u>Interest Rate</u>	<u>Principal Maturing For Year</u>	<u>Interest Requirement</u>	<u>Total</u>
2016-2017	3.00%	\$ 375,000	\$ 494,575	\$ 869,575
2017-2018	3.00%	385,000	483,175	868,175
2018-2019	3.00%	395,000	471,475	866,475
2019-2020	3.50%	410,000	459,400	869,400
2020-2021	3.50%	420,000	442,750	862,750
2021-2026	5.00%	2,435,000	1,868,625	4,303,625
2026-2031	5.00%	3,110,000	1,178,750	4,288,750
2031-2035	5.00%	3,100,000	319,250	3,419,250
		<u>\$ 10,630,000</u>	<u>\$ 5,718,000</u>	<u>\$ 16,348,000</u>

Morgan County School District Re-3
Notes to Financial Statements
June 30, 2016

NOTE (10) Defined Benefit Pension Plan

General Information

Plan Description - The District contributes to the School Division Trust Fund (SDTF), a cost sharing multiple-employer defined benefit pension plan administered by the Public Employees' Retirement Association of Colorado (PERA). All employees of the District participate in the SDTF. Title 24, Article 51 of the Colorado Revised Statutes (CRS) assigns the authority to establish and amend plan provisions to the State Legislature. PERA issues a publicly available financial report that includes information on the SDTF. That report may be obtained at www.copera.org/investments/pera-financial-reports.

Benefits Provided - The SDTF provides retirement, disability, and survivor benefits to plan participants or their beneficiaries. Retirement benefits are determined by the amount of service credit earned or purchased, highest average salary, the benefit structure in place, the benefit option selected at retirement, and age at retirement. The retirement benefit is the greater of the a) highest average salary multiplied by 2.5% and then multiplied by years of service credit, or b) the value of the participant's contribution account plus an equal match on the retirement date, annualized into a monthly amount based on life expectancy and other actuarial factors. In no case can the benefit amount exceed the highest average salary or the amount allowed by applicable federal regulations.

Retirees who elect to receive a lifetime retirement benefit are generally eligible to receive post-retirement cost-of-living adjustments (COLAs) as established by State statutes. Retirees who began employment before January 1, 2007, receive an annual increase of 2%, unless PERA has a negative investment year, in which case the annual increase for the next three years is the lesser of 2% or the average consumer price index for the prior calendar year.

Retirees that began employment after January 1, 2007, receive an annual increase of the lesser of 2% or the average consumer price index for the prior calendar year, with certain limitations.

Disability benefits are available for plan participants once they reach five years of earned service credit and meet the definition of a disability. The disability benefit amount is based on the retirement benefit formula described previously, considering a minimum of twenty years of service credit.

Morgan County School District Re-3
Notes to Financial Statements
June 30, 2016

NOTE (10) Defined Benefit Pension Plan (continued)

General Information (continued)

Survivor benefits are determined by several factors, which include the amount of earned service credit, highest average salary of the deceased, the benefit structure in place, and the qualified survivor receiving the benefits.

Contributions - The District and eligible employees are required to contribute to the SDTF at rates established by Title 24, Article 51, Part 4 of the CRS. These contribution requirements are established and may be amended by the State Legislature. The contribution rate for employees is 8% of covered salaries. The District's contribution rate for calendar years 2015 and 2016 was 18.35% and 19.15% of covered salaries, respectively. However, a portion of the District's contribution (1.02% of covered salaries) is allocated to the Health Care Trust Fund (See Note 11). The District's contributions to the SDTF for the year ended June 30, 2016, were \$2,993,603, equal to the required contributions.

Pension Liabilities, Pension Expense, and Deferred Outflows of Resources and Deferred Inflows of Resources Related to Pensions

At June 30, 2016, the District reported a net pension liability of \$55,326,248, representing its proportionate share of the net pension liability of the SDTF. The net pension liability was measured at December 31, 2015, and the total pension liability used to calculate the net pension liability was determined by an actuarial valuation as of December 31, 2014. Changes in assumptions and other inputs since the prior measurement date did not significantly affect the total pension liability. Standard update procedures were used to roll forward the total pension liability to December 31, 2015. The District's proportion of the net pension liability was based on the District's contributions to the SDTF for the calendar year ended December 31, 2015, relative to the contributions of all participating employers. At December 31, 2015, the District's proportion was .3617443754%, which was a decrease of .0038722423% from its proportion measured at December 31, 2014.

Morgan County School District Re-3
Notes to Financial Statements
June 30, 2016

NOTE (10) Defined Benefit Pension Plan (continued)

Pension Liabilities, Pension Expense, and Deferred Outflows of Resources and Deferred Inflows of Resources Related to Pensions (continued)

For the year ended June 30, 2016, the District recognized pension expense of \$5,184,866. At June 30, 2016, the District reported deferred outflows of resources and deferred inflows of resources related to pensions from the following sources:

	<u>Outflows of Resources</u>	<u>Inflows of Resources</u>
Differences between expected and actual experience	\$ 730,589	\$ 2,330
Changes of Assumptions and other inputs		
Net difference between projected and actual earnings on plan investments	\$ 4,713,335	781,858
Changes in proportion		681,274
Contributions subsequent to the measurement date	<u>1,808,020</u>	
Total	<u>\$ 7,251,944</u>	<u>\$ 1,465,462</u>

District contributions subsequent to the measurement date of \$1,808,020 will be recognized as a reduction of the net pension liability in the subsequent fiscal year. Other amounts reported as deferred outflows of resources and deferred inflows of resources related to pensions will be recognized as pension expense as follows:

<u>Year Ended June 30,</u>	
2017	\$ 907,740
2018	961,205
2019	1,144,852
2020	<u>964,665</u>
Total	<u>\$ 3,978,462</u>

Morgan County School District Re-3
Notes to Financial Statements
June 30, 2016

NOTE (10) Defined Benefit Pension Plan (continued)

Pension Liabilities, Pension Expense, and Deferred Outflows of Resources and Deferred Inflows of Resources Related to Pensions (Continued)

Actuarial Assumptions - The actuarial valuation as of December 31, 2014 determined the total pension liability using the following actuarial assumptions and other inputs, applied to all periods included in the measurement:

Price inflation	2.8%
Real wage growth	1.1%
Wage inflation	3.9%
Salary increases, including wage inflation	3.9% - 10.1%
Long-term investment rate of return, net of plan investment expenses, including price inflation	7.5%
Future post-retirement benefit increases:	
Hired prior to 1/1/07	2%
Hired after 12/31/06	ad hoc

Mortality rates were based on the RP-2000 Combined Mortality Table for Males and Females, as appropriate, with adjustments for mortality improvements based on a projection of Scale AA to 2020 with males set back one year, and females set back two years.

The actuarial assumptions used in the December 31, 2014, valuation were based on the results of an actuarial experience study for the period January 1, 2008 through December 31, 2011, adopted by PERA's governing board on November 13, 2012, and an economic assumption study, adopted by PERA's governing board on November 15, 2013 and January 17, 2014.

The long-term expected rate of return on plan investments was determined using a log-normal distribution analysis in which best estimate ranges of expected future real rates of return (expected return, net of investment expense and inflation) were developed for each major asset class. These ranges were combined to produce the long-term expected rate of return by weighting the expected future real rates of return by the target asset allocation percentage and then adding expected inflation.

Morgan County School District Re-3
Notes to Financial Statements
June 30, 2016

NOTE (10) Defined Benefit Pension Plan (continued)

Pension Liabilities, Pension Expense, and Deferred Outflows of Resources and Deferred Inflows of Resources Related to Pensions (Continued)

The most recent analysis of the long-term expected rate of return was presented to the PERA governing board on November 15, 2013, and included the target allocation and best estimates of geometric real rates of return for each major asset class, as follows:

<u>Asset Class</u>	<u>Target Allocation</u>	<u>10 Year Expected Geometric Real Rate of Return</u>
U.S. Equity - Large Cap	26.76%	5.00%
U.S. Equity - Small Cap	4.40%	5.19%
Non U.S. Equity - Developed	22.06%	5.29%
Non U.S. Equity - Emerging	6.24%	6.76%
Core Fixed Income	24.05%	0.98%
High Yield	1.53%	2.64%
Long Duration Gov't/Credit	0.53%	1.57%
Emerging Market Bonds	0.43%	3.04%
Real Estate	7.00%	5.09%
Private Equity	7.00%	7.15%
Total	<u>100.00%</u>	

Discount Rate - The discount rate used to measure the total pension liability was 7.5%. The projection of cash flows used to determine the discount rate assumed that employee contributions will be made at the current contribution rate and the employer contributions will be made at the rates specified in State statutes, which currently require annual increases, to a total of 20.15% of covered salaries for the year ended December 31, 2018. When the actuarially determined funding ratio reaches 103%, the employer contribution rate will decrease .5% each year, to a minimum of 10.15%. Based on those assumptions, the SDTF's fiduciary net position was projected to be available to make all projected future benefit payments to current participants. Therefore, the long-term expected rate of return on plan investments was applied to all periods of projected benefit payments to determine the total pension liability. In addition, the discount rate did not change from the prior measurement date.

Morgan County School District Re-3
Notes to Financial Statements
June 30, 2016

NOTE (10) Defined Benefit Pension Plan (continued)

Pension Liabilities, Pension Expense, and Deferred Outflows of Resources and Deferred Inflows of Resources Related to Pensions (Continued)

Sensitivity of the Net Pension Liability to Changes in the Discount Rate - The following presents the District's proportionate share of the net pension liability calculated using the discount rate of 7.5%, as well as the District's proportionate share of the net pension liability if it were calculated using a discount that is 1 percentage point lower (6.5%) or 1 percentage point higher (8.5%) than the current rate, as follows:

	1% Decrease (6.5%)	Discount Rate (7.5%)	1% Increase (8.5%)
Proportionate share of net pension liability	\$ 71,718,988	\$ 55,326,248	\$ 41,690,547

Pension Plan Fiduciary Net Position - Detailed information about the SDTF's fiduciary net position is available in PERA's separately issued financial report, which may be obtained at www.copera.org/investments/pera-financial-reports.

NOTE (11) Post Retirement Health Care and Life Insurance Benefits

Plan Description

The District contributes to the Health Care Trust Fund (HCTF), a cost-sharing multiple-employer post-employment health care plan administered by PERA. The HCTF provides a health care premium subsidy to PERA participating benefit recipients and their eligible beneficiaries. Title 24, Article 51, Part 12 of the CRS, as amended, assigns the authority to establish the HCTF benefit provisions to the State Legislature. PERA issues a publicly available annual financial report that includes financial statements and required supplementary information for the HCTF. That report may be obtained as described previously.

Morgan County School District Re-3
Notes to Financial Statements
June 30, 2016

NOTE (11) **Post Retirement Health Care and Life Insurance Benefits**
(continued)

Funding Policy

The District is required to contribute at a rate of 1.02% of covered salary for all PERA members as set by statute. No member contributions are required. The contribution requirements for the District are established under Title 24, Article 51, Part 4 of the CRS, as amended. The apportionment of the contribution to the Health Care Trust Fund is established under Title 24, Article 51, Section 208 of the Colorado Revised Statutes, as amended. The District's apportionment to HCTF for the years ended June 30, 2016, 2015, and 2014 was \$162,789, \$157,866 and respectively \$154,457, equal to the required amounts for each year.

NOTE (12) **Jointly Governed Organization**

The District participates in Centennial Board of Cooperative Education Services. Membership allows the District to provide special and extended services to the students of the District that previously were not economically possible. Centennial BOCES receives funding from local, state, and federal sources to provide a portion of the direct costs of each program, as well as billing the member districts for services provided. For the year ended June 30, 2016, the District paid \$184,604 for those services which included \$40,583 paid for administrative services. Separate financial statements for the BOCES are available at 2020 Clubhouse Drive, Greeley, CO, 80634.

NOTE (13) **Tax, Spending and Debt Limitations**

Colorado voters passed an amendment to the State Constitution, Article X, Section 20, which has several limitations including revenue raising, spending abilities and other specific requirements of state and local governments.

Fiscal year spending and revenue limits are determined based on the prior years' spending adjusted for inflation and student growth. Revenue in excess of the limit must be refunded unless the voters approve retention of such revenue. Fiscal year spending is generally defined as expenditures plus reserve increases with certain exceptions. In effect, it has been generally interpreted that fiscal year spending approximates nonexempt revenue or receipts.

Spending excludes spending from certain revenue and financial sources such as federal funds, gifts, property sales, fund transfers, damage awards and fund reserves.

Morgan County School District Re-3
Notes to Financial Statements
June 30, 2016

NOTE (13) Tax, Spending and Debt Limitations (continued)

The Amendment requires, with certain exceptions, voter approval prior to imposing new taxes, increasing tax rates, increasing a mill levy above that for the prior year, extending an expiring tax, or implementing a tax policy change directly causing a net tax revenue gain to any local government.

In November, 1997, the District's electorate approved a resolution to permit the District to collect, keep, and expend as a voter approved revenue change and exception to the limits which would otherwise apply under Article X, Section 20 of the Colorado Constitution, beginning with the fiscal year 1996 and each fiscal year thereafter, provided however, that there is no increasing of tax rates or new taxes imposed.

Except for bond refinancing at lower interest rates or by adding employees to existing pension plans, the Amendment specifically prohibits the creation of multiple-fiscal year debt or other financial obligations without voter approval or irrevocably pledging present cash reserves for all future payments.

The Amendment requires Emergency Reserves to be established. These reserves must be at least 3% of Fiscal Year Spending (excluding bonded debt service). The District is not allowed to use the emergency reserves to compensate for economic conditions, revenue shortfalls or salary or benefit increases. As of June 30, 2016, the District has restricted fund balance of \$1,025,000 in the General Fund for this reserve.

The Amendment is complex and subject to judicial interpretation. The District believes it is in compliance with the requirements of the amendment. However, the District has made certain interpretations of the amendment's language in order to determine its compliance.

NOTE (14) Contingencies/Commitments

Grants

The District receives financial assistance from federal and state governmental agencies in the form of grants. The disbursement of funds received under these programs generally requires compliance with terms and conditions specified in the grant agreements and are subject to audit by the grantor agencies.

Any disallowed claims resulting from such audits could become a liability of the General Fund or other applicable funds.

Morgan County School District Re-3
Notes to Financial Statements
June 30, 2016

NOTE (14) Contingencies/Commitments (continued)

Grants (continued)

However, in the opinion of the District, any such disallowed claims will not have a material effect on any of the financial statements of the individual fund types included herein or on the overall financial position of the District at June 30, 2016.

Construction

The District received a \$24,939,140 Colorado Department of Education BEST Capital Construction Grant, along with the \$11,090,000 in proceeds from the 2015 Bond issue, will be used for the construction of a new Middle School for a total construction budget of \$36,029,140. The District has entered into an agreement with a general contractor for the construction of the school.

At June 20, 2016, the District had expended the entire amount of the BEST grant and had begun utilizing its matching bond proceeds to cover the final construction costs for the new Middle School.

NOTE (15) Risk Management

The District is exposed to various risks of loss related to torts; theft of, damage to and destruction of assets; errors and omissions; injuries to employees; and natural disasters. The District has transferred the risk of loss for workers compensation through the participation within the state sponsored workers compensation fund. The amounts of settlements have not exceeded insurance coverage in any of the past three years. The District also participates in two insurance pools which provide insurance coverage for the District's general liability and property and casualty insurance and for the District's employees medical insurance.

Colorado School Districts Self-Insurance Pool

The Colorado School Districts Self-Insurance Pool (CSDSIP), sponsored by the Colorado Association of School Boards (CASB), operates as a self-insurance pool comprised of various school districts and other related public educational entities within the State of Colorado. The CSDSIP is administered by a board of directors. The District pays an annual premium to the CSDSIP for various types of property and liability insurance coverage.

Morgan County School District Re-3
Notes to Financial Statements
June 30, 2016

NOTE (15) Risk Management (continued)

Colorado School Districts Self-Insurance Pool (continued)

The CSDSIP will be self-sustaining through member premiums and will reinsure through a duly authorized insurer. The reinsurance covers claims against the CSDSIP in excess of specific claim amounts and in the aggregate in an amount and at limits determined by the CSDSIP to be adequate to protect the solvency of the CSDSIP. Settled claims have not exceeded this coverage in any of the past three fiscal periods.

BEST Health Plan

The District joined The Colorado Boards of Education Self-Funded Trust (BEST) in 2010. This partially self-funded trust was established in 2004 to offer a stable, long term, statewide medical program designed to meet the business objective and challenges of school districts. Medical coverage for District employees is purchased through the trust.

The District pays a monthly premium to BEST to provide health insurance coverage and services for its plan members. Employees are responsible for paying a deductible amount before the plan begins to pay. The individual deductible amount for fiscal year 2016 was \$3,500. There is no lifetime maximum benefit for our plan members.

Because there is the potential to incur high cost medical claims, BEST purchases stop-loss coverage to cover claims that exceed its deductible limit, which is currently \$150,000. Each year, the deductible limit is reviewed based on actuarial analysis to determine if paying an additional premium would increase or reduce the ultimate cost of risk to the District. As members of the BEST Health Plan, the District also purchases prescription coverage through the pool. In 2012, the District deposited \$600,000 with BEST as a deposit to establish its claims fluctuation reserve (CFR). During 2015-2016, the District experienced a deterioration in its CFR of approximately \$200,000. In February 2016, the District made an additional deposit to its CFR in the amount of \$100,000. The deposit increased the CFR from the reduced level of \$400,000 to its June 30, 2016 balance of \$500,000.

NOTE (16) Litigation

The District from time to time is involved in various legal matters. In the opinion of the District's counsel, there are no pending legal issues that would have a material adverse effect on the financial condition of the District.

Morgan County School District Re-3
 Required Supplementary Information
 Schedule of Proportionate Share of the Net Pension Liability and Contributions
 Public Employees' Retirement Association of Colorado School Division Trust Fund
 June 30, 2016

PROPORTIONATE SHARE OF THE NET PENSION LIABILITY

	<u>12/31/15</u>	<u>12/31/14</u>	<u>12/31/13</u>
District's Proportion of the Net Pension Liability	<u>0.36174438%</u>	<u>0.3656166177%</u>	<u>0.3707465781%</u>
District's Proportionate Share of the Net Pension Liability	\$ 55,326,248	\$ 49,553,333	\$ 47,288,626
District's Covered-Employee Payroll	\$ 15,764,734	\$ 15,316,707	\$ 14,945,964
District's Proportionate Share of the Net Pension Liability as a Percentage of Covered-Employee Payroll	351%	324%	316%
Plan Fiduciary Net Position as a Percentage of the Total Pension Liability	59%	63%	64%

DISTRICT CONTRIBUTIONS

	<u>6/30/16</u>	<u>6/30/15</u>	<u>6/30/14</u>
Statutorily Required Contribution	\$ 2,830,814	\$ 2,614,912	\$ 2,422,215
Contributions in Relation to the Statutorily Required Contribution	<u>(2,830,814)</u>	<u>(2,614,912)</u>	<u>(2,422,215)</u>
Contribution Deficiency (Excess)	<u>\$</u>	<u>\$</u>	<u>\$</u>
District's Covered-Employee Payroll	\$ 15,959,719	\$ 15,481,355	\$ 15,147,263
Contributions as a Percentage of Covered-Employee Payroll	17.74%	16.89%	15.99%

This schedule is presented to show information for 10 years. Until information for the full 10-year period is available, information will be presented for the years it is available.

See Accompanying Independent Auditor's Report

Morgan County School District Re-3
Budgetary Comparison Schedule - General Fund
For The Year Fiscal Ended June 30, 2016

	Original Budgeted Amounts	Final Budgeted Amounts	Actual Amounts	Variance with Final Budget Positive (Negative)
Revenues:				
Local Sources:				
Property Taxes	\$ 6,652,202	\$ 6,657,202	\$ 7,066,665	\$ 409,463
Delinquent Taxes	10,000	10,000	172	(9,828)
Specific Ownership Taxes	625,075	625,075	641,785	16,710
Specific Ownership - Bond Redemption and Mill Levy	343,000	350,000	383,173	33,173
Tuition	29,270	31,000	37,156	6,156
Interest Income	17,870	21,585	35,712	14,127
Other	202,500	224,000	441,470	217,470
Federal Sources - Grants	611,441	626,333	626,274	(59)
State Sources				
State Equalization	14,981,934	14,983,954	14,688,840	(295,114)
ESL	342,629	318,615	324,267	5,652
Vocational Education	102,280	102,280	84,620	(17,660)
Transportation	142,000	131,143	136,460	5,317
Special Education	648,525	624,847	625,255	408
BEST Construction	9,520	9,520	9,520	-
Other State Sources	78,838	78,838	80,515	1,677
Total Revenues	24,797,084	24,794,392	25,181,884	387,492
Expenditures (See Schedules)				
Instruction	14,395,200	14,394,006	13,995,529	398,477
Supporting Services	11,550,775	11,332,325	10,064,655	1,267,670
Total Expenditures	25,945,975	25,726,331	24,060,184	1,666,147
Excess (Deficiency) of Revenue Over Expenditures	(1,148,891)	(931,939)	1,121,700	2,053,639
Other Financing Sources (Uses)				
Insurance Proceeds	-	10,000	2,765	(7,235)
Transfers Out	(90,658)	(79,390)	(105,924)	(26,534)
Total Other Financing Sources (Uses)	(90,658)	(69,390)	(103,159)	(33,769)
Net Change in Fund Balance	(1,239,549)	(1,001,329)	1,018,541	2,019,870
Beginning Fund Balance	6,973,794	7,862,435	8,726,939	864,504
Ending Fund Balance	\$ 5,734,245	\$ 6,861,106	\$ 9,745,480	\$ 2,884,374

Morgan County School District Re-3
Budgetary Comparison Schedule - General Fund
For The Fiscal Year Ended June 30, 2016

	Original Budgeted Amounts	Final Budgeted Amounts	Actual Amounts	Variance with Final Budget Positive (Negative)
Instruction				
Salaries	\$ 9,754,815	\$ 9,618,448	\$ 9,544,619	\$ 73,829
Employee Benefits	3,512,625	3,624,117	3,531,855	92,262
Purchased Services	535,562	535,562	475,971	59,591
Supplies and Materials	235,646	247,646	207,342	40,304
Capital Outlay	229,076	240,757	125,171	115,586
Other Expenses	127,476	127,476	110,571	16,905
Total Instruction	<u>\$ 14,395,200</u>	<u>\$ 14,394,006</u>	<u>\$ 13,995,529</u>	<u>\$ 398,477</u>
Total Instructional Services	\$ 14,395,200	\$ 14,394,006	\$ 13,995,529	398,477
Less Capital Outlay	(229,076)	(240,757)	(125,171)	(115,586)
Net Instructional Services	<u>\$ 14,166,124</u>	<u>\$ 14,153,249</u>	<u>\$ 13,870,358</u>	<u>\$ 282,891</u>
Supporting Services				
Students				
Salaries	\$ 683,259	\$ 710,332	\$ 691,609	\$ 18,723
Employee Benefits	234,384	248,232	235,501	12,731
Purchased Services	255,451	160,451	113,143	47,308
Supplies and Materials	6,290	6,290	5,274	1,016
Capital Outlay			1,772	(1,772)
Other Expenses	1,100	1,100	1,172	(72)
Total Students	<u>1,180,484</u>	<u>1,126,405</u>	<u>1,048,471</u>	<u>77,934</u>
Instructional Staff				
Salaries	394,771	358,704	342,927	15,777
Employee Benefits	118,032	113,938	119,553	(5,615)
Purchased Services	36,981	36,981	27,579	9,402
Supplies and Materials	283,306	280,938	457,855	(176,917)
Capital Outlay	29,180	29,180	20,655	8,525
Other Expenses	27,225	32,225	30,249	1,976
Total Instructional Staff	<u>889,495</u>	<u>851,966</u>	<u>998,818</u>	<u>(146,852)</u>
General Administration				
Salaries	166,730	166,730	167,405	(675)
Employee Benefits	47,395	48,277	47,192	1,085
Purchased Services	80,808	80,808	41,698	39,110
Supplies and Materials	5,400	5,400	3,770	1,630
Capital Outlay	7,000	7,000	2,621	4,379
Other Expenses	22,500	22,500	17,778	4,722
Total General Administration	<u>329,833</u>	<u>330,715</u>	<u>280,464</u>	<u>50,251</u>
School Administration				
Salaries	1,429,962	1,446,839	1,450,388	(3,549)
Employee Benefits	504,090	524,741	485,610	39,131
Purchased Services	24,683	24,683	17,702	6,981
Supplies and Materials	19,829	19,829	8,046	11,783
Capital Outlay	2,000	2,000	1,669	331
Other Expenses	(91,332)	(210,871)	(260,592)	49,721
Total School Administration	<u>1,889,232</u>	<u>1,807,221</u>	<u>1,702,823</u>	<u>104,398</u>

Morgan County School District Re-3
Budgetary Comparison Schedule - General Fund
For The Fiscal Year Ended June 30, 2016

	Original Budgeted Amounts	Final Budgeted Amounts	Actual Amounts	Variance with Final Budget Positive (Negative)
Business Services				
Salaries	335,670	329,875	335,468	(5,593)
Employee Benefits	109,457	111,867	112,093	(226)
Purchased Services	165,400	130,401	123,589	6,812
Supplies and Materials	(9,488)	51,670	36,669	15,001
Capital Outlay	5,264	5,264	1,254	4,010
Other Expenses	(48,400)	(48,400)	(51,824)	3,424
Total Business Services	\$ 557,903	\$ 580,677	\$ 557,249	\$ 23,428
Operations and Maintenance				
Salaries	\$ 1,068,964	\$ 1,084,912	\$ 1,061,874	\$ 23,038
Employee Benefits	458,989	484,556	466,875	17,681
Purchased Services	536,890	548,890	524,741	24,149
Supplies and Materials	749,900	749,900	734,173	15,727
Capital Outlay	86,500	97,500	104,836	(7,336)
Other Expenses	650	650	614	36
Total Operations and Maintenance	2,901,893	2,966,408	2,893,113	73,295
Student Transportation				
Salaries	419,479	355,863	372,934	(17,071)
Employee Benefits	146,595	139,463	147,068	(7,605)
Purchased Services	69,910	99,110	103,200	(4,090)
Supplies and Materials	175,800	175,800	118,654	57,146
Capital Outlay	78,000	78,000	68,360	9,640
Other Expenses	(148,450)	(148,450)	(131,772)	(16,678)
Total Student Transportation	741,334	699,786	678,444	21,342
Central Support				
Salaries	579,301	586,696	630,987	(44,291)
Employee Benefits	122,010	127,900	128,089	(189)
Purchased Services	598,634	598,634	586,275	12,359
Supplies and Materials	18,753	18,753	16,693	2,060
Capital Outlay	250,500	250,500	99,783	150,717
Other Expenses	2,050	2,050	2,914	(864)
Total Central Support	1,571,248	1,584,533	1,464,741	119,792
Other Support				
Salaries	95,046	105,046	105,805	(759)
Employee Benefits	28,303	28,303	30,399	(2,096)
Purchased Services	1,085	1,085	1,758	(673)
Supplies and Materials	8,800	8,800	5,206	3,594
Capital Outlay	50,134	226,135	280,084	(53,949)
Other Expenses	1,305,985	1,015,245	17,280	997,965
Total Other Support	1,489,353	1,384,614	440,532	944,082
Total Supporting Services	\$ 11,550,775	\$ 11,332,325	\$ 10,064,655	\$ 1,267,670
Total Support Services	\$ 11,550,775	\$ 11,332,325	\$ 10,064,655	1,267,670
Less Capital Outlay	(508,578)	(695,579)	(581,034)	(114,545)
Net Support Services	\$ 11,042,197	\$ 10,636,746	\$ 9,483,621	\$ 1,153,125

Morgan County School District Re-3
Budgetary Comparison Schedule - Federal Programs Fund
For The Fiscal Year Ended June 30, 2016

	June 30, 2016				June 30, 2015
	Original Budgeted Amounts	Final Budgeted Amounts	Actual Amounts	Variance with Final Budget Positive (Negative)	Actual Amounts
Revenues:					
Local Sources	\$ 44,259	\$ 43,308	\$ 50,446	\$ 7,138	\$ 175,354
State Sources	530,935	657,537	526,316	(131,221)	510,719
Federal Sources	1,852,758	1,905,448	1,787,643	(117,805)	1,736,385
Interest Income	140	140	356	216	147
Total Revenues	<u>2,428,092</u>	<u>2,606,433</u>	<u>2,364,761</u>	<u>(241,672)</u>	<u>2,422,605</u>
Expenditures:					
Salaries	1,319,434	1,374,717	1,334,123	40,594	1,286,004
Benefits	548,663	537,279	518,256	19,023	484,433
Purchased Services	236,955	275,331	160,587	114,744	209,401
Supplies	154,610	210,199	133,107	77,092	128,593
Capital Outlay	33,416	33,416	115,581	(82,165)	58,000
Non Capital Outlay	36,140	109,323	-	109,323	41,863
Other	54,300	15,014	49,394	(34,380)	47,652
Indirect Costs	136,082	142,662	132,973	9,689	140,131
Total Expenditures	<u>2,519,600</u>	<u>2,697,941</u>	<u>2,444,021</u>	<u>253,920</u>	<u>2,396,077</u>
Excess (Deficiency) of Revenues over Expenditures	(91,508)	(91,508)	(79,260)	12,248	26,528
Other Financing Sources:					
Transfers In	91,508	91,508	105,924	14,416	78,512
Net Change in Fund Balance	-	-	26,664	26,664	105,040
Beginning Fund Balance	178,438	283,478	283,478	-	178,438
Ending Fund Balance	<u>\$ 178,438</u>	<u>\$ 283,478</u>	<u>\$ 310,142</u>	<u>\$ 26,664</u>	<u>\$ 283,478</u>

Morgan County School District Re-3
Notes to Required Supplementary Information
June 30, 2016

Note (1) Schedule of Proportionate Share of the Net Pension Liability and Contributions

The Public Employees' Retirement Association of Colorado School Division Trust Fund's net pension liability and associated amounts are measured annually at December 31, based on an actuarial valuation as of the previous December 31. The District's contributions and related ratios represent cash contributions and any related accruals that coincide with the District's fiscal year ending on June 30.

Changes in Assumptions and Other Inputs

For the year ended June 30, 2016, the total pension liability was determined by an actuarial valuation as of December 31, 2014. The following programming and methodology changes were made since the prior actuarial valuation as of December 31, 2013.

- Valuation of the full survivor benefit without any reduction for possible remarriage.
- Reflection of the employer match on separation benefits for all eligible years.
- Reflection of one year of service eligibility for survivor annuity benefit.
- Refinement of the 18 month annual increase timing.
- Refinements to directly value certain and life, modified cash refund and pop-up benefit forms.
- Recognition of merit salary increases in the first projection year.
- Elimination of the assumption that 35% of future disabled members elect to receive a refund.
- Removal of the negative value adjustment for liabilities associated with refunds of future terminating members.
- Adjustments to the timing of the normal cost and unfunded actuarial accrued liability payment calculations to reflect contributions throughout the year.

Morgan County School District Re-3
Notes to Required Supplementary Information
June 30, 2016

Note (2) Budgets and Budgetary Accounting

The District adheres to the following procedures in compliance with Colorado Revised Statutes, establishing the budgetary data reflected in the financial statements:

- 1) Budgets are required by state law for all funds. Prior to May 31, the Superintendent of Schools submits to the Board of Education a proposed budget for the fiscal year commencing the following July 1. The budget includes proposed expenditures and the means of financing them.
- 2) Public hearings are conducted by the Board of Education to obtain taxpayer comments.
- 3) Prior to June 30, the budget is adopted by formal resolution.
- 4) Expenditures may not legally exceed appropriations at the fund level. Authorization to transfer budget line items within any department in the General Fund rests with the Superintendent of Schools, or department directors. Revisions that alter the total expenditures of any fund must be approved by the Board of Education.
- 5) Budgets for all funds are adopted on a basis consistent with generally accepted accounting principles. All annual appropriations lapse at fiscal year-end.

Morgan County School District Re-3
Combining Balance Sheet
General Fund
June 30, 2016

	<u>General Fund Department</u>	<u>Mill Levy Department</u>	<u>Daycare Department</u>
ASSETS			
Cash and Investments	\$ 9,297,425	\$ 794,451	\$ 39,492
Receivable from Treasurer	170,784	9,181	
Property and S.O. Tax Receivable	355,400	23,340	
Accounts Receivable	27,622		15,881
Intergovernmental Receivable	275,499		1,004
Interfund Receivables	450,893	-	
Prepaid Expenditures	47,457		677
Inventory	64,190		
Total Assets	<u>\$ 10,689,270</u>	<u>\$ 826,972</u>	<u>\$ 57,054</u>
Liabilities:			
Accounts Payable	\$ 126,304	\$ 113,529	\$ 1,611
Hospital Escrow	2,129		
Accrued Salaries and Benefits	2,159,335		12,079
Interfund Payables	300,545		
Retainage Payable			
Total Liabilities	<u>2,588,313</u>	<u>113,529</u>	<u>13,690</u>
Deferred Inflows of Resources			
Taxes	<u>178,574</u>	<u>14,974</u>	
Fund Balances:			
Non-Spendable			
Prepaid Expenditures	47,457		677
Inventory	64,190		
Restricted			
Emergency Reserve (TABOR)	1,025,000		
Mill Levy - Capital and Maintenance		698,469	
Preschool			
Assigned			
Subsequent Year's Budget	361,163		16,101
Capital Projects/Replacements			
Unassigned	6,424,573		26,586
Total Fund Balances	<u>7,922,383</u>	<u>698,469</u>	<u>43,364</u>
Total Liabilities, Deferred Inflows of Resources and Fund Balances	<u>\$ 10,689,270</u>	<u>\$ 826,972</u>	<u>\$ 57,054</u>

June 30, 2016

June 30, 2015

<u>Capital Reserve Department</u>	<u>Insurance Department</u>	<u>Colorado Preschool Department</u>	<u>Total General Fund</u>	<u>Total General Fund</u>
\$ 555,869	\$ 383,078	\$ 119,489	\$ 11,189,804	\$ 10,323,113
			179,965	94,721
113,988			378,740	274,514
			157,491	31,423
		75	276,503	288,857
	23,150		450,968	295,472
			71,284	59,553
			64,190	71,514
<u>\$ 669,857</u>	<u>\$ 406,228</u>	<u>\$ 119,564</u>	<u>\$ 12,768,945</u>	<u>\$ 11,439,167</u>
\$ 16,902	\$ 985	\$ 842	\$ 260,173	\$ 353,631
			2,129	-
		37,986	2,209,400	2,148,710
32,000	23,150	2,520	358,215	99,351
-			-	3,532
<u>48,902</u>	<u>24,135</u>	<u>41,348</u>	<u>2,829,917</u>	<u>2,605,224</u>
			193,548	107,004
	23,150		71,284	59,553
			64,190	71,514
			1,025,000	975,000
			698,469	601,056
		78,216	78,216	178,196
	63,517		440,781	242,880
620,955			620,955	479,592
	295,426		6,746,585	6,119,148
<u>620,955</u>	<u>382,093</u>	<u>78,216</u>	<u>9,745,480</u>	<u>8,726,939</u>
<u>\$ 669,857</u>	<u>\$ 406,228</u>	<u>\$ 119,564</u>	<u>\$ 12,768,945</u>	<u>\$ 11,439,167</u>

Morgan County School District Re-3
Combining Statement of Revenues, Expenditures, and
Changes in Fund Balances
General Fund
For the Fiscal Year Ended June 30, 2016

	For the Fiscal		
	<u>General Department</u>	<u>Mill Levy Department</u>	<u>Daycare Department</u>
Property Taxes	\$ 6,526,793	\$ 549,630	
Specific Ownership Taxes	1,024,958		
Intergovernmental	1,816,650		\$ 14,514
State Equalization	14,735,114		
Interest Income	24,213	1,755	29
Other		126	13
Local Sources	144,443		118,335
Total Revenues	<u>24,272,171</u>	<u>551,511</u>	<u>132,891</u>
Expenditures:			
Current			
Instruction	13,355,352	5,174	
Supporting Services	8,587,754	283,222	135,474
Debt Service			
Principal			
Interest			
NonCapital Outlay	137,391	6,518	1,019
Capital Outlay		159,184	
Total Expenditures	<u>22,080,497</u>	<u>454,098</u>	<u>136,493</u>
Excess (Deficiency) of Revenues over Expenditures	<u>2,191,674</u>	<u>97,413</u>	<u>(3,602)</u>
Other Financing Sources (Uses):			
Insurance Proceeds			
Allocations In			
Allocations Out	(1,408,156)		
Transfers Out	(105,924)		
Total Other Financing Sources (Uses)	<u>(1,514,080)</u>	<u>-</u>	<u>-</u>
Net Change in Fund Balances	677,594	97,413	(3,602)
Fund Balances - Beginning of the Year	<u>7,244,789</u>	<u>601,056</u>	<u>46,966</u>
Fund Balances - End of the Year	<u>\$ 7,922,383</u>	<u>\$ 698,469</u>	<u>\$ 43,364</u>

Year Ended June 30, 2016			For the Fiscal Year Ended June 30, 2015	
Capital Reserve Department	Insurance Department	Colorado Preschool Department	Total General Fund	Total General Fund
			\$ 7,076,423	\$ 6,588,182
\$ 200,196			1,024,958	999,819
			2,031,360	2,025,281
			14,735,114	14,416,114
5	\$ 110	\$ 14	26,126	24,745
981	14,952		16,072	48,337
9,053			271,831	224,867
<u>210,235</u>	<u>15,062</u>	<u>14</u>	<u>25,181,884</u>	<u>24,327,345</u>
		509,832	13,870,358	13,269,401
1,692	380,370	95,109	9,483,621	9,760,459
			-	137,970
			-	2,505
72,898		9,209	227,035	507,566
319,986			479,170	525,971
<u>394,576</u>	<u>380,370</u>	<u>614,150</u>	<u>24,060,184</u>	<u>24,203,872</u>
(184,341)	(365,308)	(614,136)	1,121,700	123,473
	2,765		2,765	863,068
519,000	375,000	514,156	1,408,156	1,387,080
			(1,408,156)	(1,387,080)
			(105,924)	(78,512)
<u>519,000</u>	<u>377,765</u>	<u>514,156</u>	<u>(103,159)</u>	<u>784,556</u>
334,659	12,457	(99,980)	1,018,541	908,029
<u>286,296</u>	<u>369,636</u>	<u>178,196</u>	<u>8,726,939</u>	<u>7,818,910</u>
<u>\$ 620,955</u>	<u>\$ 382,093</u>	<u>\$ 78,216</u>	<u>\$ 9,745,480</u>	<u>\$ 8,726,939</u>

Morgan County School District Re-3
Budgetary Comparison Schedule - Bond Redemption Fund
For The Fiscal Year Ended June 30, 2016

	June 30, 2016			June 30, 2015	
	Original Budgeted Amounts	Final Budgeted Amounts	Actual Amounts	Variance with Final Budget Positive (Negative)	Actual Amounts
Revenue:					
Local Property Tax	\$ 3,225,651	\$ 3,184,364	\$ 3,183,929	\$ (435)	\$ 3,180,051
Interest Income	4,500	4,800	110	(4,690)	4,806
Other				-	32
Total Revenue	<u>3,230,151</u>	<u>3,189,164</u>	<u>3,184,039</u>	<u>(5,125)</u>	<u>3,184,889</u>
Expenditures:					
Paying Agent Fees	4,250	5,250	2,917	2,333	4,500
Debt Service:					
Principal on Debt	2,005,000	2,005,000	2,005,000	-	1,570,000
Interest on Debt	1,227,702	1,227,702	1,227,700	2	936,703
Total Expenditures	<u>3,236,952</u>	<u>3,237,952</u>	<u>3,235,617</u>	<u>2,335</u>	<u>2,511,203</u>
Net Change in Fund Balance	(6,801)	(48,788)	(51,578)	(2,790)	673,686
Beginning Fund Balance	<u>2,733,676</u>	<u>2,738,595</u>	<u>2,738,595</u>	<u>-</u>	<u>2,064,909</u>
Ending Fund Balance	<u>\$ 2,726,875</u>	<u>\$ 2,689,807</u>	<u>\$ 2,687,017</u>	<u>\$ (2,790)</u>	<u>\$ 2,738,595</u>

**Morgan County School District Re-3
Budgetary Comparison Schedule - Building Fund
For The Fiscal Year Ended June 30, 2016**

					June 30, 2015
	Original Budgeted Amounts	Final Budgeted Amounts	Actual Amounts	Variance with Final Budget Positive (Negative)	Actual Amounts
Revenues:					
Intergovernmental - BEST Grant	\$ 19,900,551	\$ 19,900,551	\$ 22,390,099	\$ 2,489,548	\$ 2,560,246.00
Intergovernmental - Erate			91,392	91,392	
Other Revenue			12,500	12,500	
Interest Income	5,000	5,000	8,168	3,168	7,023
	<u>19,905,551</u>	<u>19,905,551</u>	<u>22,502,159</u>	<u>2,596,608</u>	<u>2,567,269</u>
Expenditures:					
Capital Outlay - Building Improvements	33,348,536	33,348,536	30,633,962	2,714,574	6,286,851
Capital Outlay	-	-		-	63,255
Non Capital Outlay			83,694	(83,694)	
Bond Issuance Costs				-	159,154
Total Expenditures	<u>33,348,536</u>	<u>33,348,536</u>	<u>30,717,656</u>	<u>2,630,880</u>	<u>6,509,260</u>
Excess (Deficiency) of Revenues over Expenditures	<u>(13,442,985)</u>	<u>(13,442,985)</u>	<u>(8,215,497)</u>	<u>5,227,488</u>	<u>(3,941,991)</u>
Other Financing Sources:					
Proceeds From Land Exchange				-	256,312
Proceeds From Bonds Issued				-	11,090,000
Premium on Bonds Issued				-	1,960,191
Total Other Financing Sources	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>13,306,503</u>
Net Change in Fund Balance	<u>(13,442,985)</u>	<u>(13,442,985)</u>	<u>(8,215,497)</u>	<u>5,227,488</u>	<u>9,364,512</u>
Beginning Fund Balance	<u>15,151,668</u>	<u>15,570,169</u>	<u>15,570,169</u>	<u>-</u>	<u>6,205,657</u>
Ending Fund Balance	<u>\$ 1,708,683</u>	<u>\$ 2,127,184</u>	<u>\$ 7,354,672</u>	<u>\$ 5,227,488</u>	<u>\$ 15,570,169</u>

Morgan County School District Re-3
Budgetary Comparison Schedule - Food Service Fund
For The Fiscal Year Ended June 30, 2016

June 30, 2016

	<u>Original Budgeted Amounts</u>	<u>Final Budgeted Amounts</u>	<u>Actual Amounts</u>	<u>Variance with Final Budget Positive (Negative)</u>
Revenues				
School Meals	\$ 187,100	\$ 190,000	\$ 179,640	\$ (190,000)
Lunch Reimbursements	10,000	15,000	17,508	(15,000)
Federal Aid:				
School Lunch Program	840,000	840,000	862,500	(840,000)
Donated Commodities	100,000	105,000	109,685	(105,000)
School Breakfast Program	250,500	250,500	350,135	(250,500)
Other Food Service Grants	34,200	39,200	44,327	(39,200)
State Aid:				
Child Nutrition Match	14,200	14,200	13,707	(14,200)
Start Smart	4,000	4,000	7,294	(4,000)
K-12 Reduced	11,700	11,700	10,912	(11,700)
Interest Income	-	600	893	(600)
Inter Fund Reimbursements	25,000	25,000	30,936	(25,000)
Other Revenue	-	-	302	-
Total Revenues	<u>1,476,700</u>	<u>1,495,200</u>	<u>1,627,839</u>	<u>132,639</u>
Expenditures				
Salaries	422,282	422,282	421,391	891
Employee Benefits	178,534	178,534	175,130	3,404
Repairs & Maintenance	1,500	1,500	510	990
Purchased Services	2,675	2,675	3,169	(494)
Travel	2,700	2,700	1,819	881
Supplies & Materials	83,000	84,500	59,210	25,290
Food Costs:				
Food and Milk	678,000	707,499	732,982	(25,483)
Commodities	100,000	105,000	109,685	(4,685)
Commodities Fees	10,000	1,000	371	629
Capital Equipment	20,000	30,000	18,672	11,328
Non Capital Equipment			9,300	(9,300)
Other	1,400	1,400	1,098	302
Indirect Cost		150,000	150,000	-
Total Expenditures	<u>1,500,091</u>	<u>1,687,090</u>	<u>1,683,337</u>	<u>3,753</u>
Net Change in Fund Balance	(23,391)	(191,890)	(55,498)	136,392
Beginning Fund Balance	<u>938,970</u>	<u>675,284</u>	<u>675,283</u>	<u>(1)</u>
Ending Fund Balance	<u>\$ 915,579</u>	<u>\$ 483,394</u>	<u>\$ 619,785</u>	<u>\$ 136,391</u>

Morgan County School District Re-3
Budgetary Comparison Schedule - Private-Purpose Trust Fund
For The Fiscal Year Ended June 30, 2016

	<u>Original Budgeted Amounts</u>	<u>Final Budgeted Amounts</u>	<u>Actual Amounts</u>	<u>Variance with Final Budget Positive (Negative)</u>
Additions:				
Contributions and Donations	\$ 165,000	\$ 200,529	\$ 188,456	\$ (12,073)
Interest Income	250	200	167	(33)
Total Additions	<u>165,250</u>	<u>200,729</u>	<u>188,623</u>	<u>(12,106)</u>
Deductions:				
Scholarship Awards	<u>165,250</u>	<u>200,729</u>	<u>196,304</u>	<u>4,425</u>
Change in Net Position	-	-	(7,681)	(7,681)
Beginning Net Position	<u>132,449</u>	<u>132,449</u>	<u>132,448</u>	<u>(1)</u>
Ending Net Position	<u>\$ 132,449</u>	<u>\$ 132,449</u>	<u>\$ 124,767</u>	<u>\$ (7,682)</u>

Morgan County School District Re-3
Statement of Changes in
Assets and Liabilities
Agency Fund
For the Fiscal Year Ended June 30, 2016

	Balance July 1, 2015	Additions	Deletions	Balance June 30, 2016
Assets				
Cash and Investments	\$ 476,318	\$ 736,488	\$ 592,530	\$ 620,276
Accounts Receivable	126	2,283	126	2,283
Total Assets	<u><u>\$ 476,444</u></u>	<u><u>\$ 738,771</u></u>	<u><u>\$ 592,656</u></u>	<u><u>\$ 622,559</u></u>
Liabilities				
Due to Student/Community Organizations	\$ 338,044	\$ 565,939	\$ 572,265	\$ 331,718
Funds Held for Others	125,509	165,802	7,500	283,811
Total Funds Held For Others	<u>463,553</u>	<u>731,741</u>	<u>579,765</u>	<u>615,529</u>
Interfund Payable	6,929		6,929	-
Accounts Payable	5,962	7,030	5,962	7,030
Total Liabilities	<u><u>\$ 476,444</u></u>	<u><u>\$ 738,771</u></u>	<u><u>\$ 592,656</u></u>	<u><u>\$ 622,559</u></u>



Board of Education
Morgan County School District Re-3
Fort Morgan, Colorado

**INDEPENDENT AUDITORS' REPORT ON INTERNAL CONTROL OVER
FINANCIAL REPORTING AND ON COMPLIANCE AND OTHER MATTERS
BASED ON AN AUDIT OF FINANCIAL STATEMENTS PERFORMED
IN ACCORDANCE WITH *GOVERNMENT AUDITING STANDARDS***

We have audited, in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States, the financial statements of the governmental activities, each major fund, and the aggregate remaining fund information of the Morgan County School District Re-3 as of and for the year ended June 30, 2016, and the related notes to the financial statements, which collectively comprise the basic financial statements of the Morgan County School District Re-3, and have issued our report thereon dated February 22, 2017.

Internal Control Over Financial Reporting

In planning and performing our audit of the financial statements, we considered the Morgan County School District Re-3's internal control over financial reporting to determine the audit procedures that are appropriate in the circumstances for the purpose of expressing our opinions on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the Morgan County School District Re-3's internal control. Accordingly, we do not express an opinion on the effectiveness of the Morgan County School District Re-3's internal control over financial reporting.

A deficiency in internal control exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct, misstatements on a timely basis. A material weakness is a deficiency, or combination of deficiencies, in internal control, such that there is a reasonable possibility that a material misstatement of the Morgan County School District Re-3's financial statements will not be prevented, or detected and corrected, on a timely basis. A significant deficiency is a deficiency, or combination of deficiencies, in internal control that is less severe than a material weakness, yet important enough to merit attention by those charged with governance.

Our consideration of the Morgan County School District Re-3's internal control over financial reporting was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control over financial reporting that might be material weaknesses or significant deficiencies. Given these limitations, during our audit we did not identify any deficiencies in internal control over financial reporting that we consider to be material weaknesses. However, material weaknesses may exist that have not been identified.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether the Morgan County School District Re-3's financial statements are free from material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit and, accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards*.

Purpose of this Report

The purpose of this report is solely to describe the scope of our testing of internal control and compliance and the results of that testing, and not to provide an opinion on the effectiveness of the Morgan County School District Re-3's internal control or on compliance. This report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the Morgan County School District Re-3's internal control and compliance. Accordingly, this report is not suitable for any other purpose.

Ernst & Young LLP

February 22, 2017



Board of Education
Morgan County School District Re-3
Fort Morgan, Colorado

**INDEPENDENT AUDITORS' REPORT ON COMPLIANCE FOR EACH
MAJOR FEDERAL PROGRAM, INTERNAL CONTROL OVER COMPLIANCE,
AND THE SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
REQUIRED BY THE UNIFORM GUIDANCE**

Report on Compliance for Each Major Federal Program

We have audited the Morgan County School District Re-3's compliance with the types of compliance requirements described in the U.S. Office of Management and Budget (OMB) *Compliance Supplement* that could have a direct and material effect on each of the Morgan County School District Re-3's major federal programs for the year ended June 30, 2016. The Morgan County School District Re-3's major federal programs are identified in the summary of auditors' results section of the accompanying schedule of findings and questioned costs.

Management's Responsibility

Management is responsible for compliance with federal statutes, regulations, and the terms and conditions of the federal awards applicable to its federal programs.

Auditors' Responsibility

Our responsibility is to express an opinion on compliance for each of the Morgan County School District Re-3's major federal programs based on our audit of the types of compliance requirements referred to above. We conducted our audit of compliance in accordance with auditing standards generally accepted in the United States of America; the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States; and the audit requirements of OMB's *Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards* (Uniform Guidance). Those standards and the Uniform Guidance require that we plan and perform the audit to obtain reasonable assurance about whether noncompliance with the types of compliance requirements referred to above that could have a direct and material effect on a major federal program occurred. An audit includes examining, on a test basis, evidence about the Morgan County School District Re-3's compliance with those requirements and performing such other procedures as we considered necessary in the circumstances.

We believe that our audit provides a reasonable basis for our opinion on compliance for each major federal program. However, our audit does not provide a legal determination of the Morgan County School District Re-3's compliance.

Opinion on Each Major Federal Program

In our opinion, the Morgan County School District Re-3 complied, in all material respects, with the types of compliance requirements referred to above that could have a direct and material effect on each of its major federal programs for the year ended June 30, 2016.

Report on Internal Control Over Compliance

Management of the Morgan County School District Re-3 is responsible for establishing and maintaining effective internal control over compliance with the types of compliance requirements referred to above. In planning and performing our audit of compliance, we considered the Morgan County School District Re-3's internal control over compliance with the types of compliance requirements that could have a direct and material effect on each major federal program to determine the auditing procedures that are appropriate in the circumstances for the purpose of expressing an opinion on compliance for each major federal program and to test and report on internal control over compliance in accordance with the Uniform Guidance, but not for the purpose of expressing an opinion on the effectiveness of internal control over compliance. Accordingly, we do not express an opinion on the effectiveness of the Morgan County School District Re-3's internal control over compliance.

A deficiency in internal control over compliance exists when the design or operation of a control over compliance does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct, noncompliance with a type of compliance requirement of a federal program on a timely basis. A material weakness in internal control over compliance is a deficiency, or combination of deficiencies, in internal control over compliance such that there is a reasonable possibility that material noncompliance with a type of compliance requirement of a federal program will not be prevented, or detected and corrected, on a timely basis. A significant deficiency in internal control over compliance is a deficiency, or combination of deficiencies, in internal control over compliance with a type of compliance requirement of a federal program that is less severe than a material weakness in internal control over compliance, yet important enough to merit attention by those charged with governance.

Our consideration of the Morgan County School District Re-3's internal control over compliance was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control over compliance that might be material weaknesses or significant deficiencies. We did not identify any deficiencies in internal control over compliance that we consider to be material weaknesses. However, material weaknesses may exist that have not been identified.

The purpose of this report on internal control over compliance is solely to describe the scope of our testing of internal control over compliance and the results of that testing based on the requirements of the Uniform Guidance. Accordingly, this report is not suitable for any other purpose.

Report on Schedule of Expenditures of Federal Awards Required by the Uniform Guidance

We have audited the financial statements of the governmental activities, each major fund, and the aggregate remaining fund information of the Morgan County School District Re-3 as of and for the year ended June 30, 2016, and the related notes to the financial statements, which collectively comprise the basic financial statements of the Morgan County School District Re-3. We issued our report thereon dated February 22, 2017, which contained unmodified opinions on those financial statements. Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the Morgan County School District Re-3's basic financial statements. The accompanying schedule of expenditures of federal awards is presented for purposes of additional analysis as required by the Uniform Guidance and is not a required part of the basic financial statements. Such information is the responsibility of management and was derived from and relates directly to the underlying accounting and other records used to prepare the basic financial statements. The information has been subjected to the auditing procedures applied in the audit of the basic financial statements and certain additional procedures, including comparing and reconciling the information directly to the underlying accounting and other records used to prepare the basic financial statements or to the basic financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the schedule of expenditures of federal awards is fairly stated, in all material respects, in relation to the basic financial statements as a whole.

Ernst & Young LLP

February 22, 2017

**MORGAN COUNTY SCHOOL DISTRICT RE-3
SCHEDULE OF FINDINGS AND QUESTIONED COSTS
For the Year Ended June 30, 2016**

Summary of Auditors' Results

Financial Statements

Type of auditors' report issued: unmodified

Internal control over financial reporting:

- Material weaknesses identified? _____ yes x no
- Significant deficiencies identified that are not considered to be material weaknesses? _____ yes x none reported

Noncompliance material to financial statements noted?

_____ yes x no

Federal Awards

Internal control over major federal programs:

- Material weaknesses identified? _____ yes x no
- Significant deficiencies identified that are not considered to be material weaknesses? _____ yes x none reported

Type of auditors' report issued on compliance for major federal programs: unmodified

Any audit findings disclosed that are required to be reported in accordance with Section 200.516(a) of OMB's Uniform Guidance?

_____ yes x no

Identification of major federal programs:

- 84.010 Title I
- 84.027 Special Education
- 84.173 Special Education Preschool

Dollar threshold used to distinguish between type A and type B programs: \$750,000

Auditee qualified as low-risk auditee? _____ x yes _____ no

Financial Statement Findings

The audit of the financial statements did not disclose significant deficiencies in internal control that would be considered material weaknesses, and did not disclose fraud, noncompliance, or abuse that were material to those financial statements.

Federal Awards Findings and Questioned Costs

The audit of federal awards did not disclose significant deficiencies in internal control that would be considered material weaknesses, and did not disclose instances of noncompliance or abuse that were material to those federal awards.

MORGAN COUNTY SCHOOL DISTRICT Re-3

SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
For the Fiscal Year Ended June 30, 2016

Federal Grantor/Pass-Through Grantor/Program Title	Federal CFDA Number	Pass-through Entity Grant Code	Expenditures
U.S. Department of Health and Human Services			
Direct Program			
Head Start	93.600	N/A	\$ 653,249
TOTAL U.S. DEPARTMENT OF HEALTH AND HUMAN SERVICES			653,249
U.S. Department of Agriculture			
Child Nutrition Cluster			
Passed Through State Department of Human Services			
Food Donation	10.555	N/A	109,685
Passed Through State Department of Education			
School Breakfast Program	10.553	4553	350,135
National School Lunch Program	10.555	4555	862,500
Summer Food Service Program for Children	10.559	4559	30,502
Passed Through State Department of Education			
Fresh Fruit and Vegetable Program	10.582	4582	13,825
Passed Through State Department of Public Health and Environment			
Child and Adult Care Food Program	10.558	N/A	18,536
TOTAL U.S. DEPARTMENT OF AGRICULTURE			1,385,183
U.S. Department of Education			
Passed Through State Department of Education			
Title I	84.010	4010	609,394
Special Education Cluster			
Special Education	84.027	4027	585,631
Special Education - Preschool	84.173	4173	27,720
Rural Education	84.358	7358	70,100
English Language Acquisition	84.365	4365/6365/7365	77,005
Improving Teacher Quality	84.367	4367	164,467
High School Graduation Initiative	84.360	5360	13,966
Javits Gifted and Talented Students Education	84.206	5206	4,629
Race To The Top Early Learning Challenge	84.412	5412	2,229
Passed Through State Community College System			
Career and Technical Education	84.048	N/A	31,486
TOTAL U.S. DEPARTMENT OF EDUCATION			1,586,627
TOTAL FEDERAL FINANCIAL ASSISTANCE			\$ 3,625,059

See the accompanying independent auditors' report.

MORGAN COUNTY SCHOOL DISTRICT Re-3

NOTES TO SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
For the Fiscal Year Ended June 30, 2016

NOTE (1) **Basis of Presentation**

The accompanying Schedule of Expenditures of Federal Awards includes all Federal grants to the District that had expenditures during the fiscal year ended June 30, 2016. The information in this schedule is presented in accordance with the requirements of the Office of Management and Budget Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards. This schedule has been prepared on the full accrual basis of accounting. Grant revenues are recorded when the District has met the qualifications for the respective grants.

The District does not charge a de minimis indirect cost rate.



Colorado Department of Education
Auditors Integrity Report
 District: 2405 - FORT MORGAN RE-3
 Fiscal Year 2015-16
 Colorado School District/BOCES

Revenues, Expenditures, & Fund Balance by Fund

Fund Type & Number	Beg Fund Balance & Prior Per Adj (6880*)	1000 - 5999 Total Revenues & Other Sources	0001-0999 Total Expenditures & Other Uses	6700-6799 & Prior Per Adj (6880*) Ending Fund Balance
Governmental	+		-	=
10 General Fund	8,179,107	24,171,729	23,065,666	9,285,169
18 Risk Mgmt Sub-Fund of General Fund	369,627	392,827	380,370	382,094
19 Colorado Preschool Program Fund	178,196	514,170	614,150	78,216
Sub-Total	8,726,940	25,078,726	24,060,186	9,745,479
11 Charter School Fund	0	0	0	0
20,26-29 Special Revenue Fund	0	0	0	0
21 Food Service Spec Revenue Fund	675,284	1,596,903	1,652,401	619,785
22 Govt Designated-Purpose Grants Fund	283,477	2,470,685	2,444,020	310,142
23 Pupil Activity Special Revenue Fund	0	0	0	0
24 Full Day Kindergarten Mill Levy Override	0	0	0	0
25 Transportation Fund	0	0	0	0
31 Bond Redemption Fund	2,738,595	3,184,039	3,235,617	2,687,018
39 Certificate of Participation (COP) Debt Service Fund	0	0	0	0
41 Building Fund	15,570,169	22,502,159	30,717,657	7,354,672
42 Special Building Fund	0	0	0	0
43 Capital Reserve Capital Projects Fund	0	0	0	0
Totals	27,994,465	54,832,513	62,109,881	20,717,096
Proprietary				
50 Other Enterprise Funds	0	0	0	0
64 (63) Risk-Related Activity Fund	0	0	0	0
60,65-69 Other Internal Service Funds	0	0	0	0
Totals	0	0	0	0
Fiduciary				
70 Other Trust and Agency Funds	0	0	0	0
72 Private Purpose Trust Fund	132,449	188,623	196,304	124,768
73 Agency Fund	0	0	0	0
74 Pupil Activity Agency Fund	463,553	731,741	579,765	615,528
79 GASB 34 Permanent Fund	0	0	0	0
85 Foundations	0	0	0	0
Totals	596,001	920,364	776,069	740,296

FINAL

*If you have a prior period adjustment in any fund (Balance Sheet 6880), the amount of your prior period adjustment is added into both your ending and beginning fund balances on this report.