

MORGAN COUNTY SCHOOL DISTRICT Re-3



Financial Statements

Fiscal Year Ended June 30, 2017

715 West Platte Ave
FORT MORGAN, COLORADO

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Office of the State Auditor

March 1, 2018

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

Financial Statements

***Fiscal Year Ended
June 30, 2017***

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, 2017, 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, 2017, 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 26, 2018, 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.



February 26, 2018

Morgan County School District Re-3
Management's Discussion & Analysis
For the Fiscal Year Ended June 30, 2017

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, 2017. 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, 2017 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 \$17,276,451 (net position).
- The District's total net position decreased by \$ 16,129,195 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 \$15,283,210 compared to \$20,717,096 at the close of the prior fiscal year.
- Total ending fund balances for the governmental funds at June 30, 2017 included \$9,586,628 for the General Fund; \$278,872 for the Federal Programs Fund, \$2,715,081 for the Bond Redemption Fund, \$2,008,791 for the Building fund that was created in fiscal year 2013-2014 and \$693,838 in the District's nonmajor governmental fund which represents the District's Food Service Fund. The \$2,008,791 in the Building Fund 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, 2017, the General Fund had \$167,190 in nonspendable fund balance (inventories and prepaids), \$1,050,000 and \$57,687 in restricted fund balance for emergency reserve (TABOR) and the Colorado Preschool carryover funds respectively and one additional restriction in the amount of \$725,245 for Mill Levy Override funds. The General Fund identified assigned fund balances representing budgetary projects in the amount of \$1,110,573 and \$1,016,430 representing capital projects. The remaining balance of \$5,459,503 is reported as unassigned fund balance.

Morgan County School District Re-3
Management's Discussion & Analysis
For the Fiscal Year Ended June 30, 2017

Financial Highlights (continued)

- Governmental Activities general revenues accounted for \$ 27,068,357 in revenue or 81% 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 \$6,012,359 or 19% of total revenues of \$33,080,716. The 2016-2017 grant revenue percentage is lower than 2015-2016 due to the exhaustion of BEST Capital Grant funds for the ongoing construction of the new Middle School and the remaining construction funding coming from the District's match for the grant funded by the issuance of general obligation bonds in 2015.

Total revenues were \$16,129,195 less than expenses, which reflected the reduction in net position from the prior year.

- The District governmental activities had \$49,209,911 in expenses. As noted above, \$6,012,359 of these expenses were offset by program specific charges for services, operating grants and contributions. The balance, \$43,197,552 was partially entirely offset by \$27,068,357 in general revenues but the remaining portion resulted in a reduction in net position for the District. The decrease in the net position was partially attributable to the final construction expenditures for the middle school that were funded from the bond proceeds received and recognized as revenue in 2015.
- 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 2016-2017, the fund balance of the General Fund was \$9,586,626. Of this total, \$5,459,503 was unassigned.

The Federal Programs Fund balance showed a decrease of \$31,270 from the prior year resulting in an ending balance of \$278,872.

The Bond Redemption Fund showed revenues in excess of expenditures of \$28,064 for an ending balance of \$2,715,081.

The Building Fund had a fourth year ending fund balance of \$2,008,791 representing unexpended bond proceeds and premiums from the February 2015 bond issue.

Morgan County School District Re-3
Management's Discussion & Analysis
For the Fiscal Year Ended June 30, 2017

- **Financial Highlights (continued)**

Those remaining bond proceeds will be expended on the final construction expenditures for the District's new Middle School and those expenditures will continue into the 2017-2018 fiscal year.

The Food Service Fund is the District's only nonmajor governmental fund. The Food Service Fund showed revenues in excess of expenditures by \$74,053 for an ending balance of \$693,838.

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.

Morgan County School District Re-3
Management's Discussion & Analysis
For the Fiscal Year Ended June 30, 2017

OVERVIEW OF THE FINANCIAL STATEMENTS (continued)

District-Wide Financial Statements (continued)

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.

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, 2017

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, 2017

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 2017 as contained in the Statement of Net Position and compares that information to fiscal year 2016.

As the table shows, total net position as of June 30, 2017 were:

Table 1
Condensed Statement of Net Position

	Total Government Wide		Total Dollar Change	Total Percentage Change
	2017	2016	2017-2016	2017-2016
Assets				
Current Assets	\$ 18,848,088	\$ 26,892,851	\$ (8,044,763)	(29.91%)
Net Capital Assets	60,979,592	57,050,408	3,929,184	6.89%
Total Assets	79,827,680	83,943,259	(4,115,579)	-4.90%
Total Deferred Outflows of Resources	42,043,143	7,719,041	34,324,102	444.67%
Liabilities				
Other Liabilities	3,128,582	5,932,260	(2,803,678)	-47.26%
Long-Term Liabilities	135,012,314	85,411,834	49,600,480	58.07%
Total Liabilities	138,140,896	91,344,094	46,796,802	51.23%
Total Deferred Inflows of Resources	1,006,378	1,465,462	(459,084)	100.00%
Net Position				
Invested in Capital Assets Net of Related Debt	35,939,589	34,933,237	1,006,352	2.88%
Restricted	4,584,922	4,829,703	(244,781)	-5.07%
Unrestricted	(57,800,962)	(40,910,196)	(16,890,766)	41.29%
Total Net Position	\$ (17,276,451)	\$ (1,147,256)	\$ (16,129,195)	1405.89%

Morgan County School District Re-3
Management's Discussion & Analysis
For the Fiscal Year Ended June 30, 2017

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 \$55,326,248 at June 30, 2016 to \$107,263,668 at June 30, 2017. 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 decreased by \$16,129,195 for the fiscal year ended June 30, 2017 which was a \$38,199,039 reduction from the \$22,069,844 increase experienced in 2015-2016. The decrease was a combination of lower revenue and higher expense for 2016-2017.

The 2016-2017 decrease was partially attributable to the reduction in BEST Capital Construction grant revenue for the new Middle School that was recognized as revenue in 2015-2016 which was not recurring in 2016-2017 since the 2016-2017 construction expenditures of \$5,345,881 were paid for from the remaining grant matching General Obligation Bond proceeds held on deposit with the Colorado Department of Education that had been recorded as revenue in 2014-2015.

In addition, a significant increase in the District's net pension liability at June 30, 2017 which resulted in an additional pension expense of \$14,936,412 in 2016-2017 over the expense recognized in 2015-2016. Table 2 reflects the District's change in net position.

**Morgan County School District Re-3
Management's Discussion & Analysis
For the Fiscal Year Ended June 30, 2017**

**Table 2
Changes in Net Position**

	Total Governmental Activities		Total Dollar Change	Total Percentage Change
	2017	2016	2017-2016	2017-2016
Revenues				
Program Revenues				
Charges for Services	\$ 457,005	\$ 449,339	\$ 7,666	1.71%
Operating Grants & Contributions	5,352,058	5,620,051	(267,993)	-4.77%
Capital Grants & Contributions	203,296	22,689,332	(22,486,036)	-99.10%
General Revenues				
Property Taxes	11,091,470	11,406,697	(315,227)	-2.76%
State Revenue	15,565,329	14,735,114	830,215	5.63%
Insurance Proceeds	134,767	2,765	132,002	4774.03%
Miscellaneous	93,964	39,646	54,318	137.01%
Paving Reimbursement	100,000	-	100,000	100.00%
Interest Income	82,827	35,297	47,530	134.66%
Total Revenues	33,080,716	54,978,241	(21,897,525)	-39.83%
Expenses				
Instruction	27,711,242	18,029,576	9,681,666	53.70%
Supporting Services	18,494,902	12,141,173	6,353,729	52.33%
Food Services	2,071,753	1,725,263	346,490	20.08%
Interest	932,014	1,012,385	(80,371)	-7.94%
Total Expenses	49,209,911	32,908,397	16,301,514	49.54%
Change In Net Position	\$ (16,129,195)	\$ 22,069,844	\$ (38,199,039)	-173.08%

**Morgan County School District Re-3
Management's Discussion & Analysis
For the Fiscal Year Ended June 30, 2017**

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**

	2017	2016	Change	Percent Change
Instruction	\$ (24,211,373)	\$ (14,183,176)	\$ (10,028,197)	(70.70%)
Support Services	(17,628,631)	11,175,139	(28,803,770)	(257.75%)
Food Services	(425,534)	(129,253)	(296,281)	(229.23%)
Interest on Long-Term Debt	(932,014)	(1,012,385)	80,371	7.94%
Total Expenses	\$ (43,197,552)	\$ (4,149,675)	\$ (39,047,877)	940.99%

Changes in Fund Balance 2016 to 2017

The following tables (4 through 9) demonstrate a comparison in the changes in fund balances from the 2016 fiscal year to the current 2017 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, 2017**

OVERVIEW OF THE FINANCIAL STATEMENTS (continued)

Changes in Fund Balance: 2016 to 2017 (continued)

Table 4: General Fund Department

	<u>2017</u>	<u>2016</u>	<u>Change</u>	<u>Percent Change</u>
Revenues:				
Property Taxes	\$ 6,341,272	\$ 6,526,793	\$ (185,521)	-2.84%
Specific Ownership Taxes	976,051	1,024,958	(48,907)	-4.77%
Intergovernmental	1,707,647	1,816,650	(109,003)	(6.00%)
State Equalization	15,517,500	14,735,114	782,386	5.31%
Other	187,498	168,656	18,842	11.17%
Total Revenues	24,729,968	24,272,171	457,797	1.89%
Expenditures:				
Salaries	14,711,053	14,246,766	464,287	3.26%
Benefits	5,676,617	5,111,028	565,589	11.07%
Purchased Services	1,558,528	1,342,168	216,360	16.12%
Supplies/Materials	1,544,068	1,544,272	(204)	-0.01%
Capital Outlay	161,470	137,391	24,079	17.53%
Other (net of indirect cost reimbursement)	(111,348)	(301,128)	189,780	-63.02%
Total Expenditures	23,540,388	22,080,497	1,459,891	6.61%
 Excess of Revenues over Expenditures	 1,189,580	 2,191,674	 (1,002,094)	 -45.72%
 Allocations and Transfers	 (1,630,363)	 (1,514,080)	 (116,283)	 7.68%
 Net Change in Fund Balances	 \$ (440,783)	 \$ 677,594	 \$ (1,118,377)	 -165.05%

**Morgan County School District Re-3
Management's Discussion & Analysis
For the Fiscal Year Ended June 30, 2017**

OVERVIEW OF THE FINANCIAL STATEMENTS (continued)

Changes in Fund Balance: 2016 to 2017 (continued)

Table 5: Mill Levy Department

	<u>2017</u>	<u>2016</u>	<u>Change</u>	<u>Percent Change</u>
Revenues:				
Property Taxes	\$ 546,239	\$ 549,630	\$ (3,391)	(0.62%)
Other	4,287	1,881	2,406	127.91%
Total Revenues	<u>550,526</u>	<u>551,511</u>	<u>(985)</u>	<u>(0.18%)</u>
Expenditures:				
Instruction & Supporting Services	330,503	288,396	42,107	14.60%
Capital Outlay	193,247	165,702	27,545	16.62%
Total Expenditures	<u>523,750</u>	<u>454,098</u>	<u>69,652</u>	<u>15.34%</u>
Net Change in Fund Balances	<u>\$ 26,776</u>	<u>\$ 97,413</u>	<u>\$ (70,637)</u>	<u>(72.51%)</u>

Table 6: Daycare Department

	<u>2017</u>	<u>2016</u>	<u>Change</u>	<u>Percent Change</u>
Revenues:				
Local Sources	\$ 126,697	\$ 118,335	\$ 8,362	7.07%
Other	18,841	14,556	4,285	29.44%
Total Revenues	<u>145,538</u>	<u>132,891</u>	<u>12,647</u>	<u>9.52%</u>
Expenditures:				
Supporting Services	133,585	136,493	(2,908)	(2.13%)
Net Change in Fund Balances	<u>\$ 11,953</u>	<u>\$ (3,602)</u>	<u>\$ 15,555</u>	<u>(431.84%)</u>

**Morgan County School District Re-3
Management's Discussion & Analysis
For the Fiscal Year Ended June 30, 2017**

OVERVIEW OF THE FINANCIAL STATEMENTS (continued)

Changes in Fund Balance: 2016 to 2017 (continued)

Table 7: Capital Reserve Department

	<u>2017</u>	<u>2016</u>	<u>Change</u>	<u>Percent Change</u>
Revenues:				
Intergovernmental	\$ 102,941	\$ 200,196	\$ (97,255)	100.00%
Other	10	10,039	(10,029)	(99.90%)
Total Revenues	<u>102,951</u>	<u>210,235</u>	<u>(107,284)</u>	<u>(51.03%)</u>
Expenditures:				
Supporting Services	2,030	1,692	338	100.00%
Noncapital Outlay	210,836	72,898	137,938	189.22%
Capital Outlay	134,307	319,986	(185,679)	(58.03%)
Total Expenditures	<u>347,173</u>	<u>394,576</u>	<u>(47,403)</u>	<u>(12.01%)</u>
Excess of Expenditures over Revenue	(244,222)	(184,341)	(59,881)	32.48%
Allocations and Transfers	519,000	519,000	-	0.00%
Net Change in Fund Balances	<u>\$ 274,778</u>	<u>\$ 334,659</u>	<u>\$ (59,881)</u>	<u>(17.89%)</u>

Table 8: Insurance Department

	<u>2017</u>	<u>2016</u>	<u>Change</u>	<u>Percent Change</u>
Revenues:				
Other Revenue	\$ 3,979	\$ 14,952	\$ (10,973)	100.00%
Investment Earnings	234	110	124	112.73%
Total Revenues	<u>4,213</u>	<u>15,062</u>	<u>(10,849)</u>	<u>(72.03%)</u>
Expenditures:				
Supporting Services	526,493	380,370	146,123	38.42%
Total Expenditures	<u>526,493</u>	<u>380,370</u>	<u>146,123</u>	<u>38.42%</u>
Excess of Revenues over Expenditure	(522,280)	(365,308)	(156,972)	42.97%
Other Financing Sources				
Insurance Proceeds	134,767	2,765	132,002	4774.03%
Allocations and Transfers	375,000	375,000	-	0.00%
Total Other Financing Sources	<u>509,767</u>	<u>377,765</u>	<u>132,002</u>	<u>34.94%</u>
Net Change in Fund Balances	<u>\$ (12,513)</u>	<u>\$ 12,457</u>	<u>\$ (24,970)</u>	<u>(200.45%)</u>

**Morgan County School District Re-3
Management's Discussion & Analysis
For the Fiscal Year Ended June 30, 2017**

OVERVIEW OF THE FINANCIAL STATEMENTS (continued)

Changes in Fund Balance: 2016 to 2017 (continued)

Table 9: Preschool Department

	<u>2017</u>	<u>2016</u>	<u>Change</u>	<u>Percent Change</u>
Revenues:				
Interest Income	\$ 18	\$ 14	\$ 4	28.57%
Total Revenues	<u>18</u>	<u>14</u>	<u>4</u>	<u>28.57%</u>
Expenditures:				
Instruction	523,942	509,832	14,110	2.77%
Supporting Services	113,503	95,109	18,394	19.34%
NonCapital Outlay	8,447	9,209	(762)	(8.27%)
Total Expenditures	<u>645,892</u>	<u>614,150</u>	<u>31,742</u>	<u>5.17%</u>
Excess of Expenditures over Revenues	(645,874)	(614,136)	(31,738)	5.17%
Allocations and Transfers	<u>626,811</u>	<u>514,156</u>	<u>112,655</u>	<u>21.91%</u>
Net Change in Fund Balances	<u>\$ (19,063)</u>	<u>\$ (99,980)</u>	<u>\$ 80,917</u>	<u>(80.93%)</u>

The overall change in the six departments of the General Fund was a \$158,852 decrease in fund balance. The General Fund Department (Table 4) reflected an increase in total program funding which consisted of a \$782,386 increase in state equalization and smaller decreases in property and specific ownership tax and intergovernmental revenue. This increase funded the majority of the increase in total General Fund Department expenditures of \$1,459,891. The District provided a step increase in compensation to its employees for the 2016-2017 year. The overall expenditure increases for the General Fund Department were partially offset by the increase in state equalization revenue resulting in the decrease of the General Fund Department fund balance by \$440,783 in 2016-2017.

Morgan County School District Re-3
Management's Discussion & Analysis
For the Fiscal Year Ended June 30, 2017

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

	2017	2016	Dollar Change	Percent Change
General	\$ 9,586,628	\$ 9,745,480	\$ (158,852)	(1.63%)
Federal Programs	278,872	310,142	(31,270)	(10.08%)
Bond Redemption	2,715,081	2,687,017	28,064	1.04%
Building Fund	2,008,791	7,354,672	(5,345,881)	(72.69%)
Food Services Fund	693,838	619,785	74,053	11.95%
Total	<u>\$ 15,283,210</u>	<u>\$ 20,717,096</u>	<u>\$ (5,433,886)</u>	<u>(26.23%)</u>

The material change from above was in the Building Fund. The Building Fund decrease of \$5,345,881 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, 2017

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 2016-2017 revenue was \$378,213 lower than the final budgeted projections. The projected revenue was within 1.45% of the final budget. Total General Fund actual expenditures were \$2,476,751 less than the final budgeted expenditures. Of the total expenditures, Instructional expenditures were 3.23% (\$490,803) lower than the final budget. Supporting Services had a greater budget savings which amounted to \$1,985,948. The majority of those savings were in the other support where the capital expenditures in the Mill Levy and Capital Reserve Departments were \$376,072 less than the final budgeted amount.

60.77% 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 2016-2017 year:

General Fund	
Colorado Preschool Department	\$75,000

Morgan County School District Re-3
Management's Discussion & Analysis
For the Fiscal Year Ended June 30, 2017

Capital Assets and Debt Administration

Table 11
Capital Assets at June 30
Net of Depreciation

	Governmental Activities 2017	Governmental Activities 2016
	<u>2017</u>	<u>2016</u>
Land	\$ 322,557	\$ 322,557
Construction in Progress	35,970,591	30,831,889
Buildings and improvements	50,677,235	50,617,592
Furniture and equipment	5,793,998	5,392,421
Vehicles	<u>3,062,987</u>	<u>3,028,244</u>
Total	<u>95,827,368</u>	<u>90,192,703</u>
Less accumulated depreciation	(34,847,776)	(33,142,294)
Totals	<u><u>\$ 60,979,592</u></u>	<u><u>\$ 57,050,409</u></u>

The District continued its construction of the new Middle School and the District added \$5,239,301 of costs to the construction in progress account in 2016-2017 for a total cumulative cost of \$35,970,591. The balance of the construction costs will be incurred in 2017-2018.

**Morgan County School District Re-3
Management's Discussion & Analysis
For the Fiscal Year Ended June 30, 2017**

OVERVIEW OF THE FINANCIAL STATEMENTS (continued)

Capital Assets and Debt Administration (continued)

Long-Term Debt

At June 30, 2017 the District had \$24,535,000 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. The funding repayment to CDE was repaid in June 2017.

The remaining \$439,013 in long-term obligations includes compensated absences and early retirement leave liability recorded by the District at year end, which was a \$16,232 net decrease from the prior year. The District will make its last payment under the Early Retirement Program in January 2018.

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

	<u>Year End</u>			Percent Change
	<u>2017</u>	<u>2016</u>	<u>Change</u>	
General Obligation Bonds	\$ 24,535,000	\$ 26,520,000	\$ (1,985,000)	(7.48%)
Bond Premium	2,774,633	3,090,031	(315,398)	(10.21%)
CDE Funding Repayment		52,774	(52,774)	(100.00%)
Early Retirement Leave	73,493	76,426	(2,933)	(3.84%)
Compensated Absences	365,520	346,355	19,165	5.53%
Total	<u>\$ 27,748,646</u>	<u>\$ 30,085,586</u>	<u>\$ (2,336,940)</u>	<u>(7.77%)</u>

Further information for capital assets and long-term debt is available in notes 5 to 9 in the financial statements.

Morgan County School District Re-3
Management's Discussion & Analysis
For the Fiscal Year Ended June 30, 2017

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 made preliminary projections that there will be some incremental funding for 2017-2018 compared to 2016-2017. The District received a 5% premium increase for the health insurance provided to District employees for 2016-2017 and a 13.9% increase for 2017-2018. In addition, the District incurred a \$400,000 reduction in its health insurance Claim Fluctuation Reserve during 2016-2017 and made an additional \$400,000 cash contribution to the reserve which restored the reserve to \$500,000 at June 30, 2017.

In June 2017, the District was awarded a \$2,600,000 Capital Construction Grant from the Head Start program through the Department of Health and Human Services for the construction of a new Head Start wing to the Sherman Early Child Hood building which houses the District's preschool and kindergarten programs. In conjunction with the Head Start grant, the District plans to add 2 additional classrooms to the Sherman Early Child Hood building as part of the same construction project at a cost to the District of approximately \$600,000. The new facilities are expected to be completed by August 2018.

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, 2017

	<u>Governmental Activities</u>
ASSETS	
Cash and Investments	\$12,045,006
Restricted Investments	4,743,451
Receivable from Treasurer	110,298
Property Tax Receivable	521,315
Accounts Receivable	193,443
Intergovernmental Receivable	1,014,640
Prepaid Expenses	95,807
Inventory	124,128
Capital Assets	
Land	322,557
Construction In Progress	35,970,591
Other Capital Assets - Net of Accumulated Depreciation	24,686,444
Total Assets	<u>79,827,680</u>
Deferred Outflows of Resources	
Deferred Loss on Refunding Bonds	360,839
Pensions, Net of Accumulated Amortization	41,682,304
Total Deferred Outflows of Resources	<u>42,043,143</u>
LIABILITIES	
Accounts Payable	236,888
Due to Other Governments	327
Accrued Salaries and Benefits	2,596,054
Accrued Interest Payable	92,150
Hospital Escrow	1,801
Retainage Payable	100,948
Unearned Revenue	100,414
Noncurrent Liabilities	
Due Within One Year	2,278,004
Due in More Than One Year	25,470,642
Net Pension Liability	107,263,668
Total Liabilities	<u>138,140,896</u>
Deferred Inflows of Resources	
Pensions, Net of Accumulated Amortization	1,006,378
NET POSITION	
Net Investment in Capital Assets	35,939,589
Restricted for	
Emergency Reserve (TABOR)	1,050,000
Mill Levy - Capital and Maintenance	744,064
Debt Service	2,731,705
Preschool	59,153
Unrestricted	(57,800,962)
Total Net Position	<u><u>(\$17,276,451)</u></u>

Morgan County School District Re-3
Balance Sheet
Governmental Funds
June 30, 2017

	General Fund	Federal Programs Fund	Bond Redemption Fund	Building Fund
ASSETS				
Cash and Investments	\$ 11,278,195	\$ 279,521		
Restricted Investments			\$ 2,698,670	\$ 2,044,781
Receivable from Treasurer	100,460		9,838	
Property and S.O. Tax Receivable	382,518		138,797	
Accounts Receivable	187,314			
Intergovernmental Receivables	343,696	495,328		
Interfund Receivable	236,531	6,629	2,735	100,000
Prepaid Expenditures	92,045	3,066		
Inventory	75,145			
Total Assets	\$ 12,695,904	\$ 784,544	\$ 2,850,040	\$ 2,144,781
Liabilities:				
Accounts Payable	\$ 184,452	\$ 2,754		\$ 39,679
Hospital Escrow	1,801			
Accrued Salaries and Benefits	2,365,250	216,924		
Due to Other Governments		327		
interfund Payables	189,782	128,935	\$ 26,185	
Unearned Revenue		100,414		
Retainage Payable	4,637			96,311
Total Liabilities	2,745,922	449,354	26,185	135,990
Deferred Inflows of Resources				
Taxes	236,906		108,774	
Grants	126,448	56,318		
Total Deferred Inflows of Resources	363,354	56,318	108,774	-
Fund Balances:				
Nonspendable				
Prepaid Expenditures	92,045	3,066		
Inventory	75,145			
Restricted				
Emergency Reserve (TABOR)	1,050,000			
Capital Construction				2,008,791
Mill Levy - Capital and Maintenance	725,245			
Debt Service			2,715,081	
Preschool	57,687			
Assigned				
Subsequent Year's Budget	1,110,573			
Food Service				
Capital Projects/Replacements	1,016,430			
District Grant Funding Set Aside		275,806		
Unassigned	5,459,503			
Total Fund Balances	9,586,628	278,872	2,715,081	2,008,791
Total Liabilities, Deferred Inflows of Resources and Fund Balances	\$ 12,695,904	\$ 784,544	\$ 2,850,040	\$ 2,144,781

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 (\$24,535,000), bond premium (\$2,774,633), accrued interest payable (\$92,150), deferred loss on bond refunding \$360,839, compensated absences (\$365,520), early retirement (\$73,493), net pension liability (\$107,263,668), pension-related deferred outflows of resources \$41,682,304, pension-related deferred inflows of resources (\$1,006,378), 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
\$ 487,290	\$ 12,045,006
	4,743,451
	110,298
	521,315
6,129	193,443
175,616	1,014,640
	345,895
696	95,807
48,983	124,128
<u>\$ 718,714</u>	<u>\$ 19,193,983</u>

\$ 10,003	\$ 236,888
	1,801
13,880	2,596,054
	327
993	345,895
	100,414
	100,948
<u>24,876</u>	<u>3,382,327</u>

	345,680
	182,766
<u>-</u>	<u>528,446</u>

696	95,807
48,983	124,128
	1,050,000
	2,008,791
	725,245
	2,715,081
	57,687
41,651	1,152,224
602,508	602,508
	1,016,430
	275,806
	5,459,503
<u>693,838</u>	<u>15,283,210</u>

\$ 718,714

60,979,592

528,446

(94,067,699)

\$ (17,276,451)

Morgan County School District Re-3
Statement of Revenues, Expenditures, and
Changes in Fund Balances
Governmental Funds
For the Fiscal Year Ended June 30, 2017

	<u>General</u>	<u>Federal Programs Fund</u>	<u>Bond Redemption Fund</u>	<u>Building Fund</u>
Revenues:				
Property Taxes	\$ 6,887,511		\$ 3,162,482	
Specific Ownership Taxes	976,051			
Intergovernmental	1,829,317	\$ 2,170,731		\$ -
State Equalization	15,517,500			
Interest Income	65,787	222	2,275	12,844
Other	4,993		32	100,000
Local Sources	252,055	41,839		
Total Revenues	<u>25,533,214</u>	<u>2,212,792</u>	<u>3,164,789</u>	<u>112,844</u>
Expenditures:				
Current				
Instruction	14,530,320	1,061,518		
Supporting Services	10,478,654	1,208,804	3,500	56,513
Food Services				
Debt Service				
Principal			1,985,000	
Interest			1,148,225	
Non Capital Outlay	318,029	51,478		5,144
Capital Outlay	390,278	31,814		5,397,068
Total Expenditures	<u>25,717,281</u>	<u>2,353,614</u>	<u>3,136,725</u>	<u>5,458,725</u>
Excess (Deficiency) of Revenues over Expenditures	<u>(184,067)</u>	<u>(140,822)</u>	<u>28,064</u>	<u>(5,345,881)</u>
Other Financing Sources (Uses):				
Insurance Proceeds	134,767			
Transfers In		109,552		
Transfers Out	<u>(109,552)</u>			
Total Other Financing Sources (Uses)	<u>25,215</u>	<u>109,552</u>	<u>-</u>	<u>-</u>
Net Change in Fund Balances	(158,852)	(31,270)	28,064	(5,345,881)
Fund Balances - Beginning of the Year	<u>9,745,480</u>	<u>310,142</u>	<u>2,687,017</u>	<u>7,354,672</u>
Fund Balances - End of the Year	<u>\$ 9,586,628</u>	<u>\$ 278,872</u>	<u>\$ 2,715,081</u>	<u>\$ 2,008,791</u>

Nonmajor Food Service Fund	Total Governmental Funds
	\$ 10,049,993
	976,051
\$ 1,435,983	5,436,031
1,699	15,517,500
36,847	82,827
209,277	141,872
<u>1,683,806</u>	<u>503,171</u>
	<u>32,707,445</u>
	15,591,838
1,598,309	11,747,471
	1,598,309
	1,985,000
11,444	1,148,225
	386,095
<u>1,609,753</u>	<u>5,819,160</u>
	<u>38,276,098</u>
<u>74,053</u>	<u>(5,568,653)</u>
	134,767
	109,552
	<u>(109,552)</u>
-	<u>134,767</u>
74,053	(5,433,886)
<u>619,785</u>	<u>20,717,096</u>
<u>\$ 693,838</u>	<u>15,283,210</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, 2017

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

Net Change in Fund Balances of Governmental Funds. \$ (5,433,886)

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	\$ (1,889,977)	
Net capital outlays	5,819,160	3,929,183

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 as follows:

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

Repayments of bond principal and repayments of other long-term debt 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 and other long-term debt transactions for the fiscal year:

Repayment of bond principal	1,985,000	
Colorado Department of Revenue Funding Repayment	52,774	2,037,774

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.

7,071

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	(19,165)	
Early retirement	2,933	
Change in the net pension liability	(51,937,420)	
Change in pension related deferred outflows	34,430,360	
Change in pension related deferred inflows	459,084	(17,064,208)

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		120,304
Change in deferred property taxes		65,427

Change in net position of governmental activities. \$ (16,129,195)

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, 2017

	Private-Purpose Trust Fund	Agency Funds
ASSETS		
Cash and Investments	\$ 121,016	\$ 697,467
Accounts Receivable	7	1,393
	121,023	698,860
Total Assets	121,023	\$ 698,860
LIABILITIES		
Due To Student/Community Organizations		\$ 413,447
Funds Held for Others		274,422
Accounts Payable		10,991
		698,860
Total Liabilities	-	\$ 698,860
NET POSITION		
Held in Trust for Scholarships/Students	34,982	
Held in Trust for Endowments	86,041	
	121,023	
Total Net Position	\$ 121,023	

Morgan County School District Re-3
Statement of Changes in
Fiduciary Net Position
For the Fiscal Year Ended June 30, 2017

	Private-Purpose Trust Fund
Additions	
Contributions and Donations	\$ 235,482
Interest Income	217
Total Additions	235,699
Deductions:	
Scholarship Awards	239,443
Change in Net Position	(3,744)
Net Position - Beginning of the Year	124,767
Net Position - End of the Year	\$ 121,023

Morgan County School District Re-3
Notes to Financial Statements
June 30, 2017

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, 2017

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, 2017

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, 2017

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, 2017

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 fifty 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, 2017

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, 2017

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

(F) 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.

(G) 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.

(H) 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.

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.

Morgan County School District Re-3
Notes to Financial Statements
June 30, 2017

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

(H) Capital Assets (continued)

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

(I) 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, 2017

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

(J) 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.

(K) 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, 2017

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

(L) 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.

(M) 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.

(N) 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, 2017

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

(N) 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.

(O) 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.

(P) 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 program was terminated by the Board of Education effective June 30, 2017 and the last payment under the plan was paid January 2018.

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.

Morgan County School District Re-3
Notes to Financial Statements
June 30, 2017

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, 2017, the District had bank deposits of \$3,977,548 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

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.

Morgan County School District Re-3
Notes to Financial Statements
June 30, 2017

NOTE (2) Cash and Investments (continued)

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 policies for and reviews the operation of local government investment pools in the state.

Fair Value Measurements - At June 30, 2017, the District's investments in the local government investment pools and money market fund were reported at the net asset value per share.

The District invested in COLOTRUST and CSAFE throughout the fiscal year. At June 30, 2017 the District had the following investments:

<u>Investments</u>	<u>Maturities</u>	<u>Total Fair Value</u>
COLOTRUST	Less than one year	\$ 5,788,186
CSAFE	Less than one year	4,423,579
Federated Government Obligation Money Market Fund	Less than one year	2,698,670
Total		<u><u>\$ 12,910,435</u></u>

The cash held in the money market account (\$ 2,698,670) is required to be used for the payment of long term Debt (see Note 9) and \$1,748,128 held in CSAFE is required to be used for capital construction. In addition, the District has \$296,653 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, 2017

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	\$ 7,620,108	\$ 1,679,595	\$ 9,299,703
Mill Levy Department	472,363	288,756	761,119
Daycare Department	7,651	45,475	53,126
Capital Reserve Department	1,422	795,768	797,190
Insurance Department	31,259	316,356	347,615
Colorado Preschool Department	1,144	18,298	19,442
Total Combined General Fund	<u>8,133,947</u>	<u>3,144,248</u>	<u>11,278,195</u>
Federal Programs Fund	20,826	258,695	279,521
Bond Redemption Fund	2,698,670		2,698,670
Building Fund	1,748,128	296,653	2,044,781
Food Services Fund	226,844	260,446	487,290
Private Purpose Trust Fund		121,016	121,016
Agency Fund	82,020	615,447	697,467
Total Cash and Investments	<u>12,910,435</u>	<u>4,696,505</u>	<u>17,606,940</u>
Less Cash Held By Third Parties			
General Fund Department			
BEST Health Trust (See Note 15)		(500,000)	(500,000)
Building Fund			
CDE Capital Construction Division		(296,653)	(296,653)
Total Cash and Investments Held By District	<u>\$ 12,910,435</u>	<u>\$ 3,899,852</u>	<u>\$ 16,810,287</u>

Morgan County School District Re-3
Notes to Financial Statements
June 30, 2017

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, 2017 consist of the following:

	Interfund Receivables	Interfund Payables
General Fund		
General Fund Department	\$ 161,531	\$ 184,364
Mill Levy Maintenance		4,522
Colorado Preschool Department	75,000	896
Total General Fund	236,531	189,782
Federal Programs Fund	6,629	128,935
Bond Redemption Fund	2,735	26,185
Building Fund	100,000	
Food Service Fund		993
 Total Governmental Funds	\$ 345,895	\$ 345,895

The interfund transfers for the fiscal year ended June 30, 2017 are as follows:

	In	Out
<u>Governmental Funds:</u>		
General Fund		\$ 109,552
Federal Programs	\$ 109,552	

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, 2017

NOTE (5) Capital Assets

For the year ended June 30, 2017, the District charged \$1,373,107 and \$516,870 in depreciation expense to Instruction and Supporting Services respectively.

Activity of depreciated capital assets for the fiscal year ended June 30, 2017, is as follows:

Governmental Activities

	Balance 6/30/2016	Additions	Deletions	Balance 6/30/2017
Non-depreciable capital assets:				
Land and Water Rights	\$ 322,557	\$ -	\$ -	\$ 322,557
Construction in Progress	30,831,889	5,239,301	(100,599)	35,970,591
Total Non-depreciable Assets	31,154,446	5,239,301	(100,599)	36,293,148
Capital Assets Being Depreciated				
Buildings and improvements	50,617,592	59,643	-	50,677,235
Furniture and Equipment	5,392,421	586,072	(184,495)	5,793,998
Vehicles	3,028,244	34,743	-	3,062,987
Total Capital Assets Being Depreciated	59,038,257	680,458	(184,495)	59,534,220
Less accumulated depreciation for:				
Buildings and improvements	(27,487,167)	(1,406,659)	-	(28,893,826)
Furniture and Equipment	(3,107,304)	(383,661)	184,495	(3,306,470)
Vehicles	(2,547,823)	(99,657)	-	(2,647,480)
Total Accumulated Depreciation	(33,142,294)	(1,889,977)	184,495	(34,847,776)
Total Capital Assets Being Depreciated	25,895,963	(1,209,519)	-	24,686,444
Net Capital Assets Governmental Activities	\$ 57,050,409	\$ 4,029,782	\$ (100,599)	\$ 60,979,592

Morgan County School District Re-3
Notes to Financial Statements
June 30, 2017

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, 2017, accrued salaries and benefits were as follows:

General Fund	
General Fund Department	\$ 2,306,897
Mill Levy Department	8,327
Daycare Department	14,169
Colorado Preschool Department	35,857
Total General Fund	2,365,250
Federal Programs Fund	216,924
Food Service Fund	13,880
Total Governmental Activities	\$ 2,596,054

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:

	<u>Total Payments</u>
January 1, 2018	73,493
Total	\$ 73,493

The District has terminated the early retirement leave program and the January 1, 2018 payment is the last payment under the program.

Morgan County School District Re-3
Notes to Financial Statements
June 30, 2017

NOTE (8) Changes in Long – Term Debt

The changes in governmental activities long-term debt for the year ended June 30, 2017, are as follows:

	Balance at June 30, 2016	Additions	Deletions	Balance at June 30, 2017	Due Within One Year
Bonds Payable	\$ 26,520,000		\$ 1,985,000	\$ 24,535,000	\$ 2,065,000
Bond Premium	3,090,031		315,398	2,774,633	
Colorado Dept. of Education Funding Repayment	52,774		52,774	-	
Early Retirement Program	76,426	73,493	76,426	73,493	73,493
Compensated Absences	346,355	211,172	192,007	365,520	139,511
Totals	\$ 30,085,586	\$ 284,665	\$ 2,621,605	27,748,646	\$ 2,278,004
Less Amount Due Within One Year				<u>(2,278,004)</u>	
Due in More Than One Year				<u>\$ 25,470,642</u>	

Compensated absences and early retirement will be liquidated by the General Fund. The District had 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 to the State was repaid on June 8, 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, 2017

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>
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>\$ 2,330,000</u>	<u>\$ 123,900</u>	<u>\$ 2,453,900</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>
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>\$ 5,295,000</u>	<u>\$ 793,300</u>	<u>\$ 6,088,300</u>

Morgan County School District Re-3
Notes to Financial Statements
June 30, 2017

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>
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	3.50%	415,000	220,437	635,437
2021-2022	4.00%	425,000	205,737	630,737
2022-2027	4.00%	5,075,000	520,750	5,595,750
		<u>\$ 6,655,000</u>	<u>\$ 1,675,585</u>	<u>\$ 8,330,585</u>

Morgan County School District Re-3
Notes to Financial Statements
June 30, 2017

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>
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
2021-2022	5.00%	440,000	421,250	861,250
2022-2027	5.00%	2,560,000	1,743,750	4,303,750
2027-2032	5.00%	3,265,000	1,019,375	4,284,375
2032-2035	5.00%	2,380,000	182,250	2,562,250
		<u>\$ 10,255,000</u>	<u>\$ 5,223,425</u>	<u>\$ 15,478,425</u>

Morgan County School District Re-3
Notes to Financial Statements
June 30, 2017

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 may elect to withdraw their contributions upon termination of employment, and may be eligible to receive a matching amount if five years of service credit is earned and certain other criteria is met. 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, 2017

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 2016 and 2017 was 19.15% and 19.65% 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, 2017, were \$3,214,981, 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, 2017, the District reported a net pension liability of \$107,263,668, representing its proportionate share of the net pension liability of the SDTF. The net pension liability was measured at December 31, 2016, and the total pension liability used to calculate the net pension liability was determined by an actuarial valuation as of December 31, 2015. Standard update procedures were used to roll-forward the total pension liability to December 31, 2016.

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, 2016, relative to the contributions of all participating employers. At December 31, 2016, the District's proportion was 0.3602611241%, which was a decrease of 0.0014832513% from its proportion measured at December 31, 2015.

Morgan County School District Re-3
Notes to Financial Statements
June 30, 2017

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, 2017, the District recognized pension expense of \$20,121,278. At June 30, 2017, the District reported deferred outflows of resources and deferred inflows of resources related to pensions from the following sources:

	Outflows of Resources	Inflows of Resources
Differences between expected and actual experience	\$ 1,340,958	\$ 945
Changes of Assumptions and other inputs	34,804,822	483,708
Net difference between projected and actual earnings on plan investments	3,586,673	
Changes in proportion		521,725
Contributions subsequent to the measurement date	<u>1,949,851</u>	
Total	<u>\$ 41,682,304</u>	<u>\$ 1,006,378</u>

District contributions subsequent to the measurement date of \$1,949,851 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>	
2018	\$ 15,374,499
2019	15,558,103
2020	7,757,696
2021	<u>35,777</u>
Total	<u>\$ 38,726,075</u>

Morgan County School District Re-3
Notes to Financial Statements
June 30, 2017

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, 2015 determined the total pension liability using the following actuarial assumptions and other inputs. On November 18, 2016, PERA's governing board adopted revised economic and demographic assumptions, which were effective on December 31, 2016, and which were reflected in the roll-forward calculation of the total pension liability from December 31, 2015, to December 31, 2016, as follows:

	<u>Assumptions</u>	<u>Revised Assumptions</u>
Price inflation	2.8%	2.4%
Real wage growth	1.1%	1.1%
Wage inflation	3.9%	3.5%
Salary increases, including wage inflation	3.9% - 10.1%	3.5% - 9.7%
Long-term investment rate of return, net of plan investment expenses, including price inflation	7.5%	7.25%
Discount Rate	7.5%	5.26%
Future post-retirement benefit increases:		
Hired prior to 1/1/07	2%	2%
Hired after 12/31/06	ad hoc	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. Active member mortality was adjusted to 55 percent of the base rate for males and 40 percent for females. For disabled retirees, the RP-2000 Disabled Retiree Mortality Table was used, set back two years.

The actuarial assumptions used in the December 31, 2015, 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 study adopted by PERA's governing board on November 15, 2013, and January 17, 2014.

As a result of a 2016 experience analysis, revised economic and demographic actuarial assumptions were adopted by PERA's governing board on November 18, 2016, to more closely reflect PERA's actual experience.

Morgan County School District Re-3
Notes to Financial Statements
June 30, 2017

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 revised assumptions reflected in the roll-forward of the total pension liability included healthy mortality assumptions for active members using the RP-2014 White Collar Employee Mortality Table. The mortality rates incorporate a 70 percent factor applied to male rates and a 55 percent factor applied to female rates. For disabled retirees, the mortality assumption was changed to reflect 90 percent of the RP-2014 Disabled Retiree Mortality Table.

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.

The most recent analysis of the long-term expected rate of return was adopted by the PERA governing board on November 18, 2016, 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>Geometric Real Rate of Return</u>
U.S. Equity - Large Cap	21.20%	4.30%
U.S. Equity - Small Cap	7.42%	4.80%
Non U.S. Equity - Developed	18.55%	5.20%
Non U.S. Equity - Emerging	5.83%	5.40%
Core Fixed Income	19.32%	1.20%
High Yield	1.38%	4.30%
Non U.S. Fixed Income - Developed	1.84%	0.60%
Emerging Market Debt	0.46%	3.90%
Core Real Estate	8.50%	4.90%
Opportunity Fund	6.00%	3.80%
Private Equity	8.50%	6.60%
Cash	1.00%	0.20%
Total	<u>100.00%</u>	

Morgan County School District Re-3
Notes to Financial Statements
June 30, 2017

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)

Discount Rate - The discount rate used to measure the total pension liability was 5.26%. 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 0.5% each year, to a minimum of 10.15%.

Based on the assumptions described previously, the SDTF's fiduciary net position was projected to be depleted in 2041 and, as a result, the municipal bond index rate, defined as the December average of the Bond Buyer General Obligation 20-year Municipal Bond Index, was used in the determination of the discount rate. The long-term expected rate of return of 7.25% on plan investments was applied to all periods through 2041, and the municipal bond index rate was applied to periods after 2041 to develop the discount rate. On the measurement date of December 31, 2016, the municipal bond index rate was 3.86%, resulting in a discount rate of 5.26%. The discount rate at the prior measurement date was 7.5%.

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 5.26%, as well as the District's proportionate share of the net pension liability if it were calculated using a discount rate that is one percentage point lower (4.26%) or one percentage point higher (6.26%) than the current rate, as follows:

	1% Decrease (4.26%)	Current Discount Rate (5.26%)	1% Increase (6.26%)
Proportionate share of net pension liability	\$ 134,880,616	\$ 107,263,668	\$ 84,770,664

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.

Morgan County School District Re-3
Notes to Financial Statements
June 30, 2017

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.

Funding Policy

The District is required to contribute at a rate of 1.02% of covered salary for all PERA members. 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, 2017, 2016, and 2015 was \$169,018, \$162,789 and \$157,866 respectively 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, 2017, the District paid \$181,968 for those services which included \$42,202 paid for administrative services. Separate financial statements for the BOCES are available at 2020 Clubhouse Drive, Greeley, CO, 80634.

Morgan County School District Re-3
Notes to Financial Statements
June 30, 2017

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.

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, 2017, the District has restricted fund balance of \$1,050,000 in the General Fund for this reserve.

Morgan County School District Re-3
Notes to Financial Statements
June 30, 2017

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

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.

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, 2017.

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, 2017, 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.

Morgan County School District Re-3
Notes to Financial Statements
June 30, 2017

NOTE (15) **Risk Management (continued)**

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.

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 2017 was \$3,500. There is no lifetime maximum benefit for 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.

Morgan County School District Re-3
Notes to Financial Statements
June 30, 2017

NOTE (15) Risk Management (continued)

BEST Health Plan (continued)

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 District made two, \$200,000 additional deposits in 2016-2017 to restore its CFR balance after experiencing higher claim losses. The summary of the District's CFR deposit is as follows:

Balance at June 30, 2016	\$ 500,000
2016-2017 deposits	400,000
2016-2017 excess medical claim losses	<u>(400,000)</u>
Balance at June 30, 2017	\$ <u>500,000</u>

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, 2017

PROPORTIONATE SHARE OF THE NET PENSION LIABILITY

	12/31/16	12/31/15	12/31/14	12/31/13
District's Proportion of the Net Pension Liability	<u>0.3602611241%</u>	<u>0.3617443754%</u>	<u>0.3656166177%</u>	<u>0.3707465781%</u>
District's Proportionate Share of the Net Pension Liability	\$ 107,263,668	\$ 55,326,248	\$ 49,553,333	\$ 47,288,626
District's Covered Payroll	\$ 16,173,882	\$ 15,764,734	\$ 15,316,707	\$ 14,945,964
District's Proportionate Share of the Net Pension Liability as a Percentage of Covered Payroll	663%	351%	324%	316%
Plan Fiduciary Net Position as a Percentage of the Total Pension Liability	43%	59%	63%	64%

DISTRICT CONTRIBUTIONS

	6/30/17	6/30/16	6/30/15	6/30/14
Statutorily Required Contribution	\$ 3,045,963	\$ 2,830,814	\$ 2,614,912	\$ 2,422,215
Contributions in Relation to the Statutorily Required Contribution	<u>(3,045,963)</u>	<u>(2,830,814)</u>	<u>(2,614,912)</u>	<u>(2,422,215)</u>
Contribution Deficiency (Excess)	<u>\$</u>	<u>\$</u>	<u>\$</u>	<u>\$</u>
District's Covered Payroll	\$ 16,570,403	\$ 15,959,719	\$ 15,481,355	\$ 15,147,263
Contributions as a Percentage of Covered Payroll	18.38%	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, 2017

	Original Budgeted Amounts	Final Budgeted Amounts	Actual Amounts	Variance with Final Budget Positive (Negative)
Revenues:				
Local Sources:				
Property Taxes	\$ 6,888,616	\$ 6,912,446	\$ 6,880,762	\$ (31,684)
Delinquent Taxes	5,000	5,000	6,749	1,749
Specific Ownership Taxes	618,848	665,075	618,968	(46,107)
Specific Ownership - Bond Redemption and Mill Levy	395,000	380,000	357,083	(22,917)
Tuition	37,000	34,000	28,853	(5,147)
Interest Income	32,655	32,650	65,787	33,137
Other	226,626	497,626	338,729	(158,897)
Federal Sources - Grants	625,807	626,807	504,341	(122,466)
State Sources				
State Equalization	15,093,205	15,590,971	15,517,500	(73,471)
ESL	322,866	322,866	322,866	-
Vocational Education	84,000	84,000	110,108	26,108
Transportation	136,000	136,000	152,954	16,954
Special Education	549,530	549,530	552,659	3,129
BEST Construction	-	-	-	-
Other State Sources	74,456	74,456	75,855	1,399
Total Revenues	25,089,609	25,911,427	25,533,214	(378,213)
Expenditures (See Schedules)				
Instruction	14,544,321	15,188,637	14,697,834	490,803
Supporting Services	12,292,799	13,005,395	11,019,447	1,985,948
Total Expenditures	26,837,120	28,194,032	25,717,281	2,476,751
Excess (Deficiency) of Revenue Over Expenditures	(1,747,511)	(2,282,605)	(184,067)	2,098,538
Other Financing Sources (Uses)				
Insurance Proceeds	-	-	134,767	134,767
Transfers Out	(90,658)	(79,390)	(109,552)	(30,162)
Total Other Financing Sources (Uses)	(90,658)	(79,390)	25,215	104,605
Net Change in Fund Balance	(1,838,169)	(2,361,995)	(158,852)	2,203,143
Beginning Fund Balance	6,973,794	7,862,435	9,745,480	1,883,045
Ending Fund Balance	\$ 5,135,625	\$ 5,500,440	\$ 9,586,628	\$ 4,086,188

Morgan County School District Re-3
Budgetary Comparison Schedule - General Fund
For The Fiscal Year Ended June 30, 2017

	Original Budgeted Amounts	Final Budgeted Amounts	Actual Amounts	Variance with Final Budget Positive (Negative)
Instruction				
Salaries	\$ 9,766,046	\$ 9,928,561	\$ 9,823,815	\$ 104,746
Employee Benefits	3,631,494	4,114,505	3,917,861	196,644
Purchased Services	482,774	478,274	475,570	2,704
Supplies and Materials	259,951	260,241	198,026	62,215
Capital Outlay	281,945	284,945	167,514	117,431
Other Expenses	122,111	122,111	115,048	7,063
Total Instruction	<u>\$ 14,544,321</u>	<u>\$ 15,188,637</u>	<u>\$ 14,697,834</u>	<u>\$ 490,803</u>
Total Instructional Services	\$ 14,544,321	\$ 15,188,637	\$ 14,697,834	490,803
Less Capital Outlay	(281,945)	(284,945)	(167,514)	(117,431)
Net Instructional Services	<u>\$ 14,262,376</u>	<u>\$ 14,903,692</u>	<u>\$ 14,530,320</u>	<u>\$ 373,372</u>
Supporting Services				
Students				
Salaries	\$ 746,421	\$ 738,628	\$ 747,719	\$ (9,091)
Employee Benefits	250,317	272,668	266,849	5,819
Purchased Services	258,026	258,026	206,090	51,936
Supplies and Materials	10,690	10,690	8,580	2,110
Capital Outlay	10,400	10,400	10,095	305
Other Expenses	1,450	1,450	1,564	(114)
Total Students	<u>1,277,304</u>	<u>1,291,862</u>	<u>1,240,897</u>	<u>50,965</u>
Instructional Staff				
Salaries	484,292	426,096	437,413	(11,317)
Employee Benefits	144,821	146,977	156,310	(9,333)
Purchased Services	34,068	34,068	22,031	12,037
Supplies and Materials	382,116	384,586	395,620	(11,034)
Capital Outlay	3,100	3,100	28,196	(25,096)
Other Expenses	32,875	32,875	27,882	4,993
Total Instructional Staff	<u>1,081,272</u>	<u>1,027,702</u>	<u>1,067,452</u>	<u>(39,750)</u>
General Administration				
Salaries	178,230	179,830	183,079	(3,249)
Employee Benefits	49,629	51,987	52,900	(913)
Purchased Services	76,526	76,526	69,584	6,942
Supplies and Materials	5,400	5,400	5,463	(63)
Capital Outlay	7,000	7,000	9,556	(2,556)
Other Expenses	22,500	22,500	20,434	2,066
Total General Administration	<u>339,285</u>	<u>343,243</u>	<u>341,016</u>	<u>2,227</u>
School Administration				
Salaries	1,452,611	1,517,142	1,488,969	28,173
Employee Benefits	484,689	543,565	520,298	23,267
Purchased Services	23,310	23,310	20,227	3,083
Supplies and Materials	20,152	20,152	11,785	8,367
Capital Outlay	4,050	4,050	2,169	1,881
Other Expenses	(63,040)	(1,756)	(64,752)	62,996
Total School Administration	<u>1,921,772</u>	<u>2,106,463</u>	<u>1,978,696</u>	<u>127,767</u>

Morgan County School District Re-3
Budgetary Comparison Schedule - General Fund
For The Fiscal Year Ended June 30, 2017

	Original Budgeted Amounts	Final Budgeted Amounts	Actual Amounts	Variance with Final Budget Positive (Negative)
Business Services				
Salaries	343,041	349,382	352,616	(3,234)
Employee Benefits	121,839	135,790	131,093	4,697
Purchased Services	111,629	111,629	113,217	(1,588)
Supplies and Materials	25,652	22,892	22,468	424
Capital Outlay	2,500	2,500	25,910	(23,410)
Other Expenses	(48,200)	(48,200)	(54,272)	6,072
Total Business Services	\$ 556,461	\$ 573,993	\$ 591,032	\$ (17,039)
Operations and Maintenance				
Salaries	\$ 1,135,383	\$ 1,173,198	\$ 1,151,317	\$ 21,881
Employee Benefits	478,932	546,717	515,518	31,199
Purchased Services	573,300	823,300	563,696	259,604
Supplies and Materials	804,500	804,500	787,466	17,034
Capital Outlay	315,532	315,532	227,296	88,236
Other Expenses	650	650	472	178
Total Operations and Maintenance	3,308,297	3,663,897	3,245,765	418,132
Student Transportation				
Salaries	356,510	419,421	394,327	25,094
Employee Benefits	140,240	172,963	170,961	2,002
Purchased Services	100,900	100,900	121,113	(20,213)
Supplies and Materials	119,400	119,400	124,180	(4,780)
Capital Outlay	152,200	342,200	9,684	332,516
Other Expenses	(133,450)	(133,450)	(138,156)	4,706
Total Student Transportation	735,800	1,021,434	682,109	339,325
Central Support				
Salaries	520,682	528,082	516,909	11,173
Employee Benefits	127,254	140,741	138,482	2,259
Purchased Services	693,667	750,385	796,388	(46,003)
Supplies and Materials	31,700	31,700	28,632	3,068
Capital Outlay	125,500	125,500	173,564	(48,064)
Other Expenses	3,700	3,700	1,970	1,730
Total Central Support	1,502,503	1,580,108	1,655,945	(75,837)
Other Support				
Salaries	101,362	105,898	100,413	5,485
Employee Benefits	32,230	36,329	34,181	2,148
Purchased Services	1,690	1,690	1,408	282
Supplies and Materials	7,450	7,450	8,177	(727)
Capital Outlay	127,383	127,383	54,323	73,060
Other Expenses	1,299,990	1,117,943	18,033	1,099,910
Total Other Support	1,570,105	1,396,693	216,535	1,180,158
Total Supporting Services	\$ 12,292,799	\$ 13,005,395	\$ 11,019,447	\$ 1,985,948
Total Support Services	\$ 12,292,799	\$ 13,005,395	\$ 11,019,447	1,985,948
Less Capital Outlay	(726,865)	(916,865)	(540,793)	(376,072)
Net Support Services	\$ 11,565,934	\$ 12,088,530	\$ 10,478,654	\$ 1,609,876

Morgan County School District Re-3
Budgetary Comparison Schedule - Federal Programs Fund
For The Fiscal Year Ended June 30, 2017

	June 30, 2017			June 30, 2016	
	Original Budgeted Amounts	Final Budgeted Amounts	Actual Amounts	Variance with Final Budget Positive (Negative)	Actual Amounts
Revenues:					
Local Sources	\$ 40,190	\$ 40,190	\$ 41,839	\$ 1,649	\$ 50,446
State Sources	403,950	491,529	427,424	(64,105)	526,316
Federal Sources	1,860,493	1,761,058	1,743,307	(17,751)	1,787,643
Interest Income	-	-	222	222	356
Total Revenues	<u>2,304,633</u>	<u>2,292,777</u>	<u>2,212,792</u>	<u>(79,985)</u>	<u>2,364,761</u>
Expenditures:					
Salaries	1,427,403	1,365,938	1,367,003	(1,065)	1,334,123
Benefits	609,571	630,137	596,282	33,855	518,256
Purchased Services	93,219	95,924	76,376	19,548	160,587
Supplies	83,566	131,355	92,235	39,120	133,107
Capital Outlay	-	-	51,478	(51,478)	115,581
Non Capital Outlay	28,595	84,703	31,814	52,889	-
Other	42,258	53,161	40,972	12,189	49,394
Indirect Costs	112,411	36,657	97,454	(60,797)	132,973
Total Expenditures	<u>2,397,023</u>	<u>2,397,875</u>	<u>2,353,614</u>	<u>44,261</u>	<u>2,444,021</u>
Excess (Deficiency) of Revenues over Expenditures	(92,390)	(105,098)	(140,822)	(35,724)	(79,260)
Other Financing Sources:					
Transfers In	92,390	105,098	109,552	4,454	105,924
Net Change in Fund Balance	-	-	(31,270)	(31,270)	26,664
Beginning Fund Balance	310,144	310,144	310,142	(2)	283,478
Ending Fund Balance	<u>\$ 310,144</u>	<u>\$ 310,144</u>	<u>\$ 278,872</u>	<u>\$ (31,272)</u>	<u>\$ 310,142</u>

Morgan County School District Re-3
Notes to Required Supplementary Information
June 30, 2017

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, 2017, the total pension liability was determined by an actuarial valuation as of December 31, 2015. In addition, the following revised economic and demographic assumptions were effective at December 31, 2016, and were reflected in the roll-forward procedures to determine the total pension liability at December 31, 2016.

- Investment rate of return assumption decreased from 7.5% per year, compounded annually, net of investment expenses, to 7.25%.
- Price inflation assumption decreased from 2.8% per year to 2.4%.
- Real rate of investment return assumption increased from 4.7% per year, net of investment expenses, to 4.85%.
- Wage inflation assumption decreased from 3.9% per year to 3.5%.
- Healthy and disabled mortality assumptions are based on the RP-2014 Mortality Tables, updated from the RP-2000 Mortality Tables.

Morgan County School District Re-3
Notes to Required Supplementary Information
June 30, 2017

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, 2017

	<u>General Fund Department</u>	<u>Mill Levy Department</u>	<u>Daycare Department</u>
ASSETS			
Cash and Investments	\$ 9,299,703	\$ 761,119	\$ 53,126
Receivable from Treasurer	98,762	1,698	
Property and S.O. Tax Receivable	358,518	24,000	
Accounts Receivable	68,918	307	16,185
Intergovernmental Receivable	343,696		
Interfund Receivables	161,531		
Prepaid Expenditures	65,097		759
Inventory	75,145		
Total Assets	<u>\$ 10,471,370</u>	<u>\$ 787,124</u>	<u>\$ 70,070</u>
Liabilities:			
Accounts Payable	\$ 147,536	\$ 30,211	\$ 584
Hospital Escrow	1,801		
Accrued Salaries and Benefits	2,306,897	8,327	14,169
Interfund Payables	184,364	4,522	
Unearned Revenue	4,637		
Total Liabilities	<u>2,645,235</u>	<u>43,060</u>	<u>14,753</u>
Deferred Inflows of Resources			
Grant Revenue	126,448		
Taxes	218,087	18,819	
Total Deferred Inflows of Resources	<u>344,535</u>	<u>18,819</u>	<u>-</u>
Fund Balances:			
Non-Spendable			
Prepaid Expenditures	65,097		759
Inventory	75,145		
Restricted			
Emergency Reserve (TABOR)	1,050,000		
Mill Levy - Capital and Maintenance		725,245	
Preschool			
Assigned			
Subsequent Year's Budget	1,103,727		6,846
Capital Projects/Replacements			
Unassigned	5,187,631		47,712
Total Fund Balances	<u>7,481,600</u>	<u>725,245</u>	<u>55,317</u>
Total Liabilities, Deferred Inflows of Resources and Fund Balances	<u>\$ 10,471,370</u>	<u>\$ 787,124</u>	<u>\$ 70,070</u>

June 30, 2017

June 30, 2016

Capital Reserve Department	Insurance Department	Colorado Preschool Department	Total General Fund	Total General Fund
\$ 797,190	\$ 347,615	\$ 19,442	\$ 11,278,195	\$ 11,189,804
			100,460	179,965
101,732	172		382,518	378,740
			187,314	157,491
		75,000	343,696	276,503
	24,723	1,466	236,531	450,968
			92,045	71,284
			75,145	64,190
<u>\$ 898,922</u>	<u>\$ 372,510</u>	<u>\$ 95,908</u>	<u>\$ 12,695,904</u>	<u>\$ 12,768,945</u>
\$ 3,189	\$ 2,930	\$ 2	\$ 184,452	\$ 260,173
			1,801	2,129
		35,857	2,365,250	2,209,400
		896	189,782	358,215
-			4,637	-
<u>3,189</u>	<u>2,930</u>	<u>36,755</u>	<u>2,745,922</u>	<u>2,829,917</u>
			126,448	
			236,906	193,548
			363,354	193,548
	24,723	1,466	92,045	71,284
			75,145	64,190
			1,050,000	1,025,000
			725,245	698,469
		57,687	57,687	78,216
895,733	120,697		1,110,573	440,781
	224,160		1,016,430	620,955
<u>895,733</u>	<u>369,580</u>	<u>59,153</u>	<u>5,459,503</u>	<u>6,746,585</u>
			9,586,628	9,745,480
<u>\$ 898,922</u>	<u>\$ 372,510</u>	<u>\$ 95,908</u>	<u>\$ 12,695,904</u>	<u>\$ 12,768,945</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, 2017

	For the Fiscal		
	General Department	Mill Levy Department	Daycare Department
Property Taxes	\$ 6,341,272	\$ 546,239	
Specific Ownership Taxes	976,051		
Intergovernmental	1,707,647		\$ 18,729
State Equalization	15,517,500		
Interest Income	62,140	3,325	60
Other		962	52
Local Sources	125,358		126,697
Total Revenues	24,729,968	550,526	145,538
Expenditures:			
Current			
Instruction	14,006,378		
Supporting Services	9,372,540	330,503	133,585
Debt Service			
Principal			
Interest			
NonCapital Outlay	89,961	8,785	
Capital Outlay	71,509	184,462	
Total Expenditures	23,540,388	523,750	133,585
Excess (Deficiency) of Revenues over Expenditures	1,189,580	26,776	11,953
Other Financing Sources (Uses):			
Insurance Proceeds			
Allocations In			
Allocations Out	(1,520,811)		
Transfers Out	(109,552)		
Total Other Financing Sources (Uses)	(1,630,363)	-	-
Net Change in Fund Balances	(440,783)	26,776	11,953
Fund Balances - Beginning of the Year	7,922,383	698,469	43,364
Fund Balances - End of the Year	\$ 7,481,600	\$ 725,245	\$ 55,317

Year Ended June 30, 2017				For the Fiscal Year Ended June 30, 2016	
Capital Reserve Department	Insurance Department	Colorado Preschool Department	Total General Fund	Total General Fund	
			\$ 6,887,511	\$	7,076,423
			976,051		1,024,958
\$ 102,941			1,829,317		2,031,360
			15,517,500		14,735,114
10	\$ 234	\$ 18	65,787		26,126
	3,979		4,993		16,072
			252,055		271,831
102,951	4,213	18	25,533,214		25,181,884
		523,942	14,530,320		13,870,358
2,030	526,493	113,503	10,478,654		9,483,621
			-		-
			-		-
210,836		8,447	318,029		227,035
134,307			390,278		479,170
347,173	526,493	645,892	25,717,281		24,060,184
(244,222)	(522,280)	(645,874)	(184,067)		1,121,700
	134,767		134,767		2,765
519,000	375,000	626,811	1,520,811		1,408,156
			(1,520,811)		(1,408,156)
			(109,552)		(105,924)
519,000	509,767	626,811	25,215		(103,159)
274,778	(12,513)	(19,063)	(158,852)		1,018,541
620,955	382,093	78,216	9,745,480		8,726,939
\$ 895,733	\$ 369,580	\$ 59,153	\$ 9,586,628	\$	9,745,480

Morgan County School District Re-3
Budgetary Comparison Schedule - Bond Redemption Fund
For The Fiscal Year Ended June 30, 2017

	June 30, 2017			June 30, 2016	
	Original Budgeted Amounts	Final Budgeted Amounts	Actual Amounts	Variance with Final Budget Positive (Negative)	Actual Amounts
Revenue:					
Local Property Tax	\$ 3,170,801	\$ 3,178,688	\$ 3,162,482	\$ (16,206)	\$ 3,183,929
Interest Income	5,000	100	2,275	2,175	110
Other			32	32	
Total Revenue	<u>3,175,801</u>	<u>3,178,788</u>	<u>3,164,789</u>	<u>(13,999)</u>	<u>3,184,039</u>
Expenditures:					
Paying Agent Fees	5,250	5,250	3,500	1,750	2,917
Debt Service:					
Principal on Debt	1,985,000	1,985,000	1,985,000	-	2,005,000
Interest on Debt	1,148,226	1,148,226	1,148,225	1	1,227,700
Total Expenditures	<u>3,138,476</u>	<u>3,138,476</u>	<u>3,136,725</u>	<u>1,751</u>	<u>3,235,617</u>
Net Change in Fund Balance	37,325	40,312	28,064	(12,248)	(51,578)
Beginning Fund Balance	<u>2,690,799</u>	<u>2,687,017</u>	<u>2,687,017</u>	-	<u>2,738,595</u>
Ending Fund Balance	<u>\$ 2,728,124</u>	<u>\$ 2,727,329</u>	<u>\$ 2,715,081</u>	<u>\$ (12,248)</u>	<u>\$ 2,687,017</u>

Morgan County School District Re-3
Budgetary Comparison Schedule - Building Fund
For The Fiscal Year Ended June 30, 2017

					June 30, 2016
	Original Budgeted Amounts	Final Budgeted Amounts	Actual Amounts	Variance with Final Budget Positive (Negative)	Actual Amounts
Revenues:					
Intergovernmental - BEST Grant					\$ 22,390,099
Intergovernmental - Erate					91,392
Other Revenue		\$ 100,000	\$ 100,000	-	12,500
Interest Income	\$ 3,000	3,000	12,844	9,844	8,168
	<u>3,000</u>	<u>103,000</u>	<u>112,844</u>	<u>9,844</u>	<u>22,502,159</u>
Expenditures:					
Construction Supplies			26,618	(26,618)	
Contracted Services			29,895	(29,895)	
Capital Outlay - Building Improvements	8,289,478	7,457,674	5,281,173	2,176,501	30,633,962
Capital Outlay			115,895	(115,895)	
Non Capital Outlay			5,144	(5,144)	83,694
Total Expenditures	<u>8,289,478</u>	<u>7,457,674</u>	<u>5,458,725</u>	<u>1,998,949</u>	<u>30,717,656</u>
Net Change in Fund Balance	(8,286,478)	(7,354,674)	(5,345,881)	2,008,793	(8,215,497)
Beginning Fund Balance	10,239,844	7,354,674	7,354,672	(2)	15,570,169
Ending Fund Balance	<u>\$ 1,953,366</u>	<u>\$ -</u>	<u>\$ 2,008,791</u>	<u>\$ 2,008,791</u>	<u>\$ 7,354,672</u>

Morgan County School District Re-3
Budgetary Comparison Schedule - Food Service Fund
For The Fiscal Year Ended June 30, 2017

	June 30, 2017			June 30, 2016	
	Original Budgeted Amounts	Final Budgeted Amounts	Actual Amounts	Variance with Final Budget Positive (Negative)	Actual Amounts
Revenues					
School Meals	\$ 170,200	\$ 170,200	\$ 190,481	\$ (170,200)	\$ 179,640
Lunch Reimbursements	13,000	13,000	18,796	(13,000)	17,508
Federal Aid:					
School Lunch Program	830,800	830,800	911,629	(830,800)	862,500
Donated Commodities	119,458	119,458	120,361	(119,458)	109,685
School Breakfast Program	250,135	250,135	336,515	(250,135)	350,135
Other Food Service Grants	30,000	30,000	34,531	(30,000)	44,327
State Aid:					
Child Nutrition Match	14,000	14,000	14,063	(14,000)	13,707
Start Smart	7,850	7,850	7,184	(7,850)	7,294
K-12 Reduced	11,000	11,000	11,700	(11,000)	10,912
Interest Income	600	600	1,699	(600)	893
Inter Fund Reimbursements	25,000	25,000	35,888	(25,000)	30,936
Other Revenue	150	150	959	(150)	302
Total Revenues	1,472,193	1,472,193	1,683,806	211,613	1,627,839
Expenditures					
Salaries	438,191	436,035	458,892	(22,857)	421,391
Employee Benefits	176,211	216,219	215,331	888	175,130
Repairs & Maintenance	1,500	1,500	60	1,440	510
Purchased Services	3,500	3,500	3,441	59	3,169
Travel	2,875	2,875	2,086	789	1,819
Supplies & Materials	58,500	58,500	75,326	(16,826)	59,210
Food Costs:					
Food and Milk	726,305	776,305	717,090	59,215	732,982
Commodities	119,458	119,458	120,361	(903)	109,685
Commodities Fees	9,000	9,000	3,860	5,140	371
Capital Equipment					18,672
Non Capital Equipment	20,000	20,000	11,444	8,556	9,300
Other	1,400	1,400	1,862	(462)	1,098
Indirect Cost					150,000
Total Expenditures	1,556,940	1,644,792	1,609,753	35,039	1,683,337
Net Change in Fund Balance	(84,747)	(172,599)	74,053	246,652	(55,498)
Beginning Fund Balance	938,970	675,284	619,785	(55,499)	675,283
Ending Fund Balance	\$ 854,223	\$ 502,685	\$ 693,838	\$ 191,153	\$ 619,785

Morgan County School District Re-3
Budgetary Comparison Schedule - Private-Purpose Trust Fund
For The Fiscal Year Ended June 30, 2017

	<u>June 30, 2017</u>			Variance with Final Budget Positive (Negative)	<u>June 30, 2016</u>
	Original Budgeted Amounts	Final Budgeted Amounts	Actual Amounts		Actual Amounts
Additions:					
Contributions and Donations	\$ 190,000	\$ 190,000	\$ 235,482	\$ 45,482	\$ 188,456
Interest Income	200	200	217	17	167
Total Additions	<u>190,200</u>	<u>190,200</u>	<u>235,699</u>	<u>45,499</u>	<u>188,623</u>
Deductions:					
Scholarship Awards	<u>190,200</u>	<u>240,200</u>	<u>239,443</u>	<u>757</u>	<u>196,304</u>
Change in Net Position	-	(50,000)	(3,744)	46,256	(7,681)
Beginning Net Position	<u>125,384</u>	<u>124,768</u>	<u>124,767</u>	<u>(1)</u>	<u>132,448</u>
Ending Net Position	<u>\$ 125,384</u>	<u>\$ 74,768</u>	<u>\$ 121,023</u>	<u>\$ 46,255</u>	<u>\$ 124,767</u>

Morgan County School District Re-3
Statement of Changes in
Assets and Liabilities
Agency Fund
For the Fiscal Year Ended June 30, 2017

	<u>Balance July 1, 2016</u>	<u>Additions</u>	<u>Deletions</u>	<u>Balance June 30, 2017</u>
Assets				
Cash and Investments	\$ 620,276	\$ 617,283	\$ 540,092	\$ 697,467
Accounts Receivable	2,283	1,393	2,283	1,393
Total Assets	<u><u>\$ 622,559</u></u>	<u><u>\$ 618,676</u></u>	<u><u>\$ 542,375</u></u>	<u><u>\$ 698,860</u></u>
Liabilities				
Due to Student/Community Organizations	\$ 331,718	\$ 585,567	\$ 503,838	\$ 413,447
Funds Held for Others	283,811	22,118	31,507	274,422
Total Funds Held For Others	<u>615,529</u>	<u>607,685</u>	<u>535,345</u>	<u>687,869</u>
Accounts Payable	7,030	10,991	7,030	10,991
Total Liabilities	<u><u>\$ 622,559</u></u>	<u><u>\$ 618,676</u></u>	<u><u>\$ 542,375</u></u>	<u><u>\$ 698,860</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, 2017, 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 26, 2018.

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.



February 26, 2018



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, 2017. 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 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 Title 2 U.S. Code of Federal Regulations Part 200, *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, 2017.

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, 2017, 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 26, 2018, 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 26, 2018

**MORGAN COUNTY SCHOOL DISTRICT RE-3
SCHEDULE OF FINDINGS AND QUESTIONED COSTS
For the Year Ended June 30, 2017**

Summary of Auditors' Results

Financial Statements

Type of auditors' report issued: unmodified

Internal control over financial reporting:

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

Noncompliance material to financial statements noted?

yes no

Federal Awards

Internal control over major federal programs:

- Material weaknesses identified? yes no
- Significant deficiencies identified that are not considered to be material weaknesses? yes 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 2 CFR 200.516(a)?

yes no

Identification of major federal programs:

Child Nutrition Cluster

- 10.553 School Breakfast Program
- 10.555 National School Lunch Program
- 10.559 Summer Food Service Program for Children

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

Auditee qualified as low-risk auditee? 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, 2017

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	\$ 736,080
TOTAL U.S. DEPARTMENT OF HEALTH AND HUMAN SERVICES			736,080
U.S. Department of Agriculture			
Child Nutrition Cluster			
Passed Through State Department of Human Services			
Food Donation	10.555	N/A	120,361
Passed Through State Department of Education			
School Breakfast Program	10.553	4553	336,515
National School Lunch Program	10.555	4555	911,629
Summer Food Service Program for Children	10.559	4559	34,531
Subtotal Child Nutrition Cluster			1,403,036
Passed Through State Department of Public Health and Environment			
Child and Adult Care Food Program	10.558	N/A	27,611
TOTAL U.S. DEPARTMENT OF AGRICULTURE			1,430,647
U.S. Department of Education			
Passed Through State Department of Education			
Title I	84.010	4010	637,041
Special Education Cluster			
Special Education	84.027	4027	588,105
Special Education - Preschool	84.173	4173	26,702
Subtotal Special Education Cluster			614,807
English Language Acquisition	84.365	4365/6365/7365	70,843
Supporting Effective Instruction	84.367	4367	143,682
Javits Gifted and Talented Students Education	84.206	5206	50,511
Passed Through State Community College System			
Career and Technical Education	84.048	N/A	31,285
TOTAL U.S. DEPARTMENT OF EDUCATION			1,548,169
TOTAL FEDERAL FINANCIAL ASSISTANCE			\$ 3,714,896

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, 2017

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, 2017. 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 2016-17
 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	9,285,169	24,417,622	24,544,896	9,157,895
18 Risk Mgmt Sub-Fund of General Fund	382,094	513,980	526,494	369,581
19 Colorado Preschool Program Fund	78,216	626,829	645,892	59,153
Sub-Total	9,745,479	25,558,431	25,717,281	9,586,629
11 Charter School Fund	0	0	0	0
20,26-29 Special Revenue Fund	0	0	0	0
06 Supplemental Cap Const, Tech, Main, Fund	0	0	0	0
21 Food Service Spec Revenue Fund	619,785	1,647,917	1,573,864	693,838
22 Govt Designated-Purpose Grants Fund	310,142	2,322,344	2,353,614	278,872
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	2,687,018	3,164,789	3,136,725	2,715,082
39 Certificate of Participation (COP) Debt Service Fund	0	0	0	0
41 Building Fund	7,354,672	112,844	5,458,725	2,008,791
42 Special Building Fund	0	0	0	0
43 Capital Reserve Capital Projects Fund	0	0	0	0
46 Supplemental Cap Const, Tech, Main Fund	0	0	0	0
Totals	20,717,096	32,806,326	38,240,210	15,283,212
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	124,768	235,700	239,445	121,023
73 Agency Fund	0	0	0	0
74 Pupil Activity Agency Fund	615,528	607,685	535,344	687,870
79 GASB 34:Permanent Fund	0	0	0	0
85 Foundations	0	0	0	0
Totals	740,296	843,386	774,789	808,893

FINAL