

FINANCIAL SECTION

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BONDI & Co. LLC

CERTIFIED PUBLIC ACCOUNTANTS
MANAGEMENT CONSULTANTS

44 INVERNESS DRIVE EAST
ENGLEWOOD, COLORADO 80112

www.bondico.com

(303) 799-6826 PHONE
(800) 250-9083 TOLL-FREE

(303) 799-6926 FAX

**Board of County Commissioners
Morgan County, Colorado
Fort Morgan, Colorado**

Independent Auditors' Report

We have audited the accompanying financial statements of the governmental activities, the business-type activities, each major fund, and the aggregate remaining fund information of Morgan County, Colorado, as of and for the year ended December 31, 2008, which collectively comprise the County's basic financial statements as listed in the table of contents. These financial statements are the responsibility of Morgan County, Colorado's management. Our responsibility is to express opinions on these financial statements based on our audit. The prior year summarized comparative information has been derived from Morgan County, Colorado's 2007 financial statements and, in our report dated July 26, 2008, we expressed unqualified opinions on the respective financial statements of the governmental activities, the business-type activities, each major fund, and the aggregate remaining fund information.

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 of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinions.

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



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**Board of County Commissioners
Morgan County, Colorado
Fort Morgan, Colorado**

In accordance with *Government Auditing Standards*, we have also issued our report dated June 23, 2009 on our consideration of Morgan County, Colorado's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be considered in assessing the results of our audit.

The Management's Discussion and Analysis and budgetary comparison information on pages 13 through 22 and 70 through 75, are not a required part of the basic financial statements but are supplementary information required by accounting principles generally accepted in the United States of America. We have applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of the required supplementary information. However, we did not audit the information and express no opinion on it.

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise Morgan County, Colorado's basic financial statements. The introductory section; combining and individual fund financial statements and schedules; statistical section; schedule of expenditures of federal awards as required by the U.S. Office of Management and Budget Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*; Local Highway Finance Report; and Schedule of Federal Financial Assistance Reconciliation are presented for purposes of additional analysis and are not a required part of the basic financial statements. The combining and individual fund financial statements and schedules, schedule of expenditures of federal awards, Local Highway Finance Report, and Schedule of Federal Financial Assistance Reconciliation have been subjected to the auditing procedures applied in the audit of the basic financial statements and, in our opinion, are fairly stated in all material respects in relation to the basic financial statements taken as a whole. The introductory section and statistical section have not been subjected to the auditing procedures applied in the audit of the basic financial statements and, accordingly, we express no opinion on them.

June 23, 2009


BONDI & Co. LLC

MANAGEMENT'S DISCUSSION AND ANALYSIS

As management of the County of Morgan, we offer readers of Morgan County Government's financial statements this narrative overview and analysis of the financial activities of Morgan County for the fiscal year ended December 31, 2008. We encourage readers to consider the information presented here in conjunction with the letter of transmittal and basic financial statements to enhance their understanding of the County's financial performance.

FINANCIAL HIGHLIGHTS

- Morgan County's assets exceeded liabilities by \$212 million (net assets) at the end of 2008. Of this amount, \$24 million (unrestricted net assets) may be used to meet the government's ongoing obligations to citizens and creditors. The remaining \$188 million is invested in capital assets or restricted by law.
- The County's General Fund balance was \$10.6 million as of December 31, 2008. Of this amount, \$555,000 is restricted for emergencies and \$3,345 is reserved for inventory. The remaining \$10 million is designated for subsequent years' expenditures and other future purposes including \$1 million for capital building projects and \$1.3 million for future debt service. The 2007 General Fund balance was \$10.2 million.
- The total 2008 General Fund balance is \$10.6 million, which is \$368,156 greater than the 2008 General Fund operating expenditures plus operating transfers out. The County Commissioners' goal is to keep fund balance at no less than 75% of operating expenditures. Morgan County does not have a county sales tax and relies heavily on property tax collections as a main revenue source. Property taxes represent 67% of the General Fund revenue in 2008.

OVERVIEW OF THE FINANCIAL STATEMENTS

This discussion and analysis is intended to serve as an introduction to the County's basic financial statements. Morgan County's basic financial statements comprise three components: 1) government-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 including combining statements for non-major funds, and a statistical section.

Government-Wide Financial Statements. The government-wide financial statements are designed to provide readers with a broad overview of the County's finances, in a manner similar to a private sector business.

The statement of net assets presents information on all of the County's assets and liabilities, with the difference between the two reported as net assets. Over time, increases or decreases in net assets may serve as a useful indicator of whether the financial position of Morgan County is improving or deteriorating.

The statement of activities presents information showing how the government's net assets changed during the fiscal year. All changes in net assets are reported as soon as the

underlying event giving rise to the change occurs, regardless of the timing of related cash flows. Thus revenues and expenses are reported in the statement for some items that will only result in cash flows in future fiscal periods, for example uncollected taxes and earned but unused vacation leave.

Both of the government-wide financial statements distinguished functions of the County that are principally supported by taxes and intergovernmental revenues (governmental activities) from other functions that are intended to recover all or a significant portion of their costs through user fees and charges (business-type activities). The governmental activities of Morgan County include general government, public safety, highways and bridges, recreation, and human services. The business-type activities of the County include operation of a solid waste landfill and a County ambulance service.

The government-wide financial statements include not only Morgan County but the Morgan County Building Authority, a separate legal entity which has a significant financial relationship with the County. This entity is shown as a blended component unit and is reported with the primary government. The Morgan County Building Authority is a Colorado non-profit corporation, created for the purpose of constructing major building projects. In 1999, the County entered into a lease-purchase agreement with the Morgan County Building Authority for the purpose of constructing and financing a Human Services building.

Fund Financial Statements. A fund is a grouping of related accounts that is used to maintain control over resources that have been segregated for specific activities or objectives. Morgan County, like other state and local governments, uses fund accounting to ensure and demonstrate compliance with finance-related legal requirements. All of the funds of Morgan County can be divided into three categories: governmental funds, proprietary funds, and fiduciary funds.

Governmental Funds. Governmental funds are used for essentially the same functions reported as governmental activities in the government-wide financial statements. However, unlike the government-wide financial statements, governmental fund financial statements focus on near-term inflows and outflows of spendable resources as well as on balances of spendable resources available at the end of the fiscal year. Such information may be useful in evaluating a government's near-term financing requirements.

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

Morgan County maintains ten individual governmental funds. Information is presented separately in the governmental fund balance sheet and in the governmental fund statement of revenues, expenditures, and changes in fund balances for the general fund, road and bridge fund, and the social services fund, all of which are considered to be major funds. Morgan County adopts an annual appropriated budget for all major funds. A budgetary comparison statement has been provided for all major governmental funds on pages 70 – 75 of this report. Data from the other seven governmental funds are combined into a single, aggregated

presentation. Individual fund data for each of these non-major funds is provided in the form of combining statements on pages 78 – 81 in this report. The County also adopts annual appropriated budgets for three non-major funds. Governmental funds budgets for the non-major funds are provided on pages 82 – 88 with the exception of the Emergency Reserve Fund, Sheriff Confiscation/Seizure Fund and the Debt Service Fund. Appropriated budgets are not legally required for these funds. The basic governmental fund financial statements can be found on pages 28 – 34 of this report.

Proprietary Funds. Morgan County maintains two different types of proprietary funds. Enterprise funds are used to report the same functions presented in the business-type activities in the government-wide financial statements. The County uses enterprise funds to account for the solid waste landfill and the ambulance service operation. The County also maintains an internal service fund as an accounting device used to accumulate and allocate costs internally among the County's various functions. Morgan County uses the internal service fund to account for its fleet of vehicles, county attorney, human resources, accounting and purchasing services and its management information systems. Because these services predominately benefit governmental rather than business-type functions, they are included within governmental activities in the government-wide financial statements.

Proprietary funds provide the same type of information as the government-wide financial statements, only in more detail. The proprietary fund financial statements provide separate information for the Solid Waste Management Fund and the Ambulance Service Fund, both of which are considered to be business type activities funds as well as the Internal Service Fund which is considered a governmental activities fund.

Enterprise Fund statements are on pages 90 – 91. The Internal Service Fund statement is on pages 94 – 95. Budget to actual comparisons for these funds are also provided in the report.

Fiduciary Funds. Fiduciary funds are used to account for resources held for the benefit of parties outside the government. Fiduciary funds are not included in the government-wide financial statements because the resources of these funds are not available to support Morgan County's own operations. The accounting used for fiduciary funds is much like that used for proprietary funds.

Notes to the financial statements. The notes provide additional information that is essential to a full understanding of the data provided in the government-wide and fund financial statements. The notes to the financial statements are on pages 39 – 65 of this report.

COUNTY-WIDE FINANCIAL ANALYSIS

Net Assets. As noted earlier, net assets may serve over time as a useful indicator of a government's financial position. As of December 31, 2008, assets exceeded liabilities by \$212.2 million. The largest portion of Morgan County's net assets (88%) is invested in capital assets. These assets include land, buildings, machinery, and equipment, as well as infrastructure. These capital assets are used to provide services to citizens and are not available for future spending. Although the investment in capital assets is reported net of related debt, the resources needed to repay this debt must be provided from other sources as the assets themselves cannot be liquidated to repay the debt.

An additional \$803,000 of net assets represents resources that are subject to external restrictions on how they may be used. The largest portion of the restricted assets \$554,905 is restricted for emergencies under the TABOR law.

The County had unrestricted net assets of \$24 million, which may be used to meet the County's ongoing obligations to citizens and creditors.

At the end of 2008, Morgan County had positive balances in all three categories of net assets, both for governmental activities and business type activities. The three categories of net assets are: invested in capital assets net of related debt, assets subject to certain restrictions, and unrestricted assets.

**Morgan County Government
Net Assets**

	Governmental activities		Business-type activities		Total Government	
	2008	2007	2008	2007	2008	2007
Assets						
Current and other assets	\$ 35,842,881	\$ 35,990,586	\$ 3,451,805	\$ 3,417,703	\$ 39,294,686	\$ 39,408,289
Capital assets	<u>189,437,569</u>	<u>198,004,257</u>	<u>566,059</u>	<u>574,712</u>	<u>190,003,628</u>	<u>198,578,969</u>
Total assets	<u>225,280,450</u>	<u>233,994,843</u>	<u>4,017,864</u>	<u>3,992,415</u>	<u>229,298,314</u>	<u>237,987,258</u>
Liabilities						
Current liabilities	13,179,323	14,120,260	59,005	75,869	13,238,328	14,196,129
Long-term liabilities	<u>3,313,685</u>	<u>3,541,904</u>	<u>579,949</u>	<u>534,523</u>	<u>3,893,634</u>	<u>4,076,427</u>
Total liabilities	<u>16,493,008</u>	<u>17,662,164</u>	<u>638,954</u>	<u>610,392</u>	<u>17,131,962</u>	<u>18,272,556</u>
Net assets						
Invested in capital assets, net of debt	186,952,569	195,329,257	566,059	574,712	187,518,628	195,903,969
Restricted	803,405	822,405	0	0	803,405	822,405
Unrestricted	<u>21,031,468</u>	<u>20,181,017</u>	<u>2,812,851</u>	<u>2,807,311</u>	<u>23,844,319</u>	<u>22,988,328</u>
Total net assets	<u>\$ 208,787,442</u>	<u>\$ 216,332,679</u>	<u>\$ 3,378,910</u>	<u>\$ 3,382,023</u>	<u>\$ 212,166,352</u>	<u>\$ 219,714,702</u>

The total net assets decreased in 2008 by \$7.5 million.

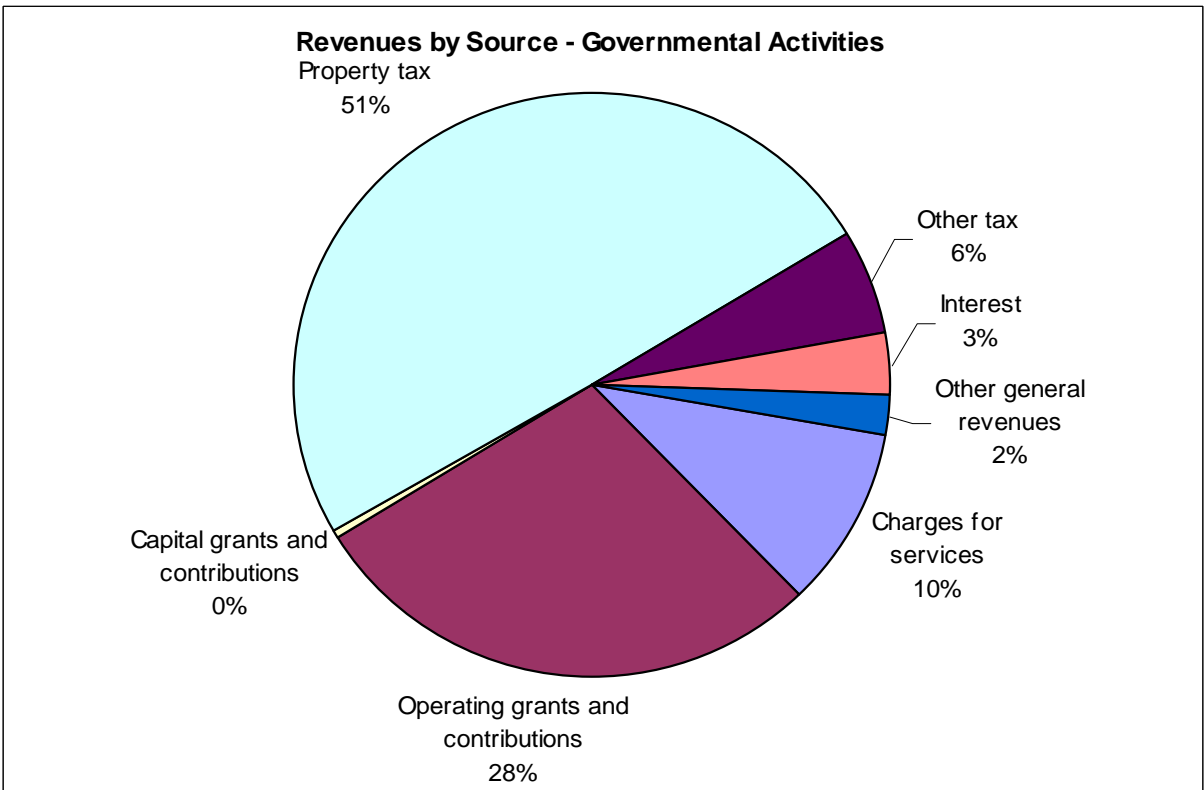
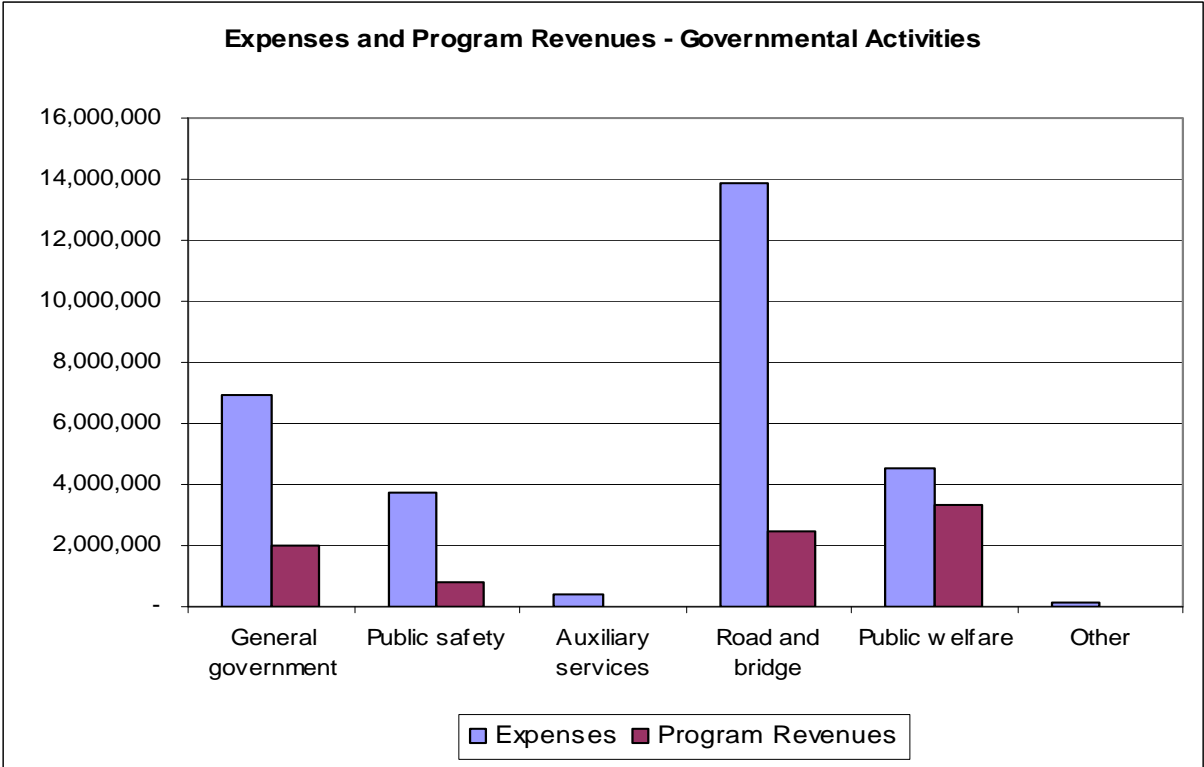
The total restricted net assets decreased by \$19,000. The reserve fund requirement for the certificates of participation issued in 1999 is recalculated annually. The recalculation reduced the amount required to be reserved by \$19,000. These funds are currently being held for the Morgan County Building Authority in the County's general fund for future debt payments. The amount required restricted for emergencies under the TABOR law remained unchanged from 2007. A calculation of the required 3% of fiscal spending required reserved for emergencies is done annually and adjusted accordingly. There was no need for this adjustment in 2008.

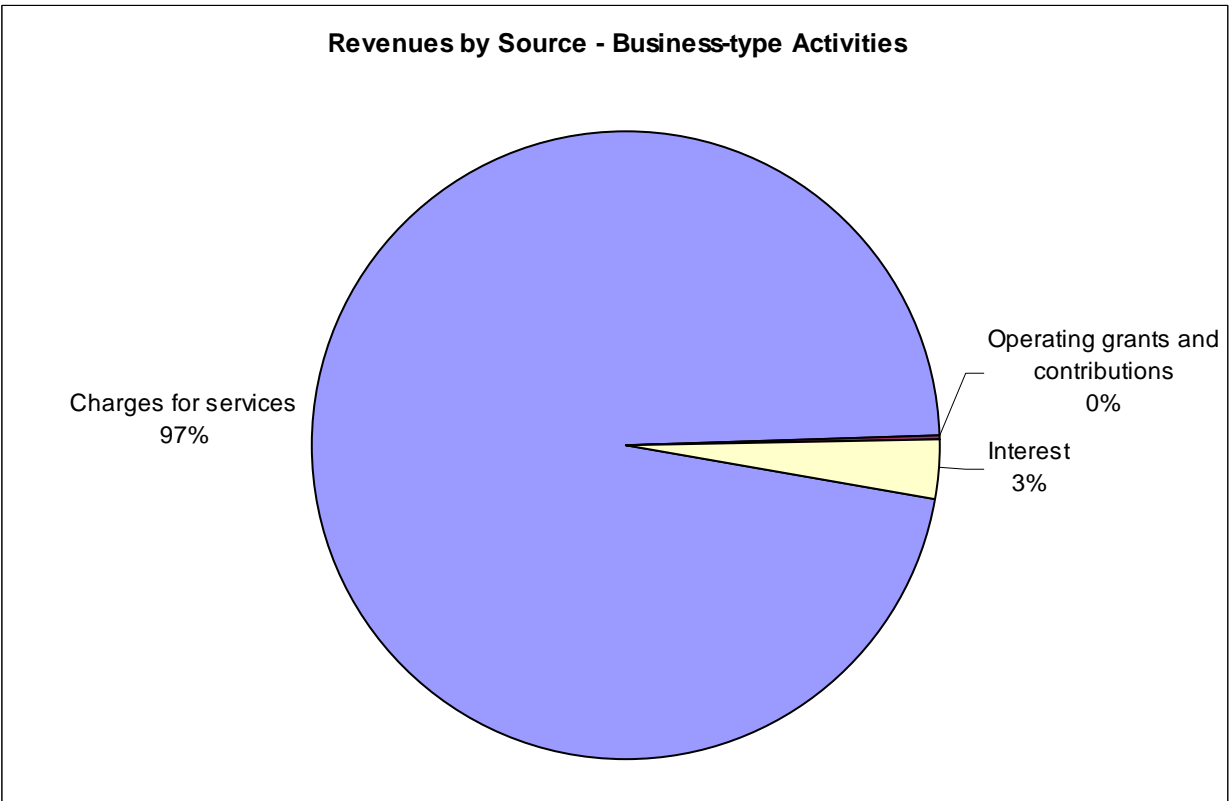
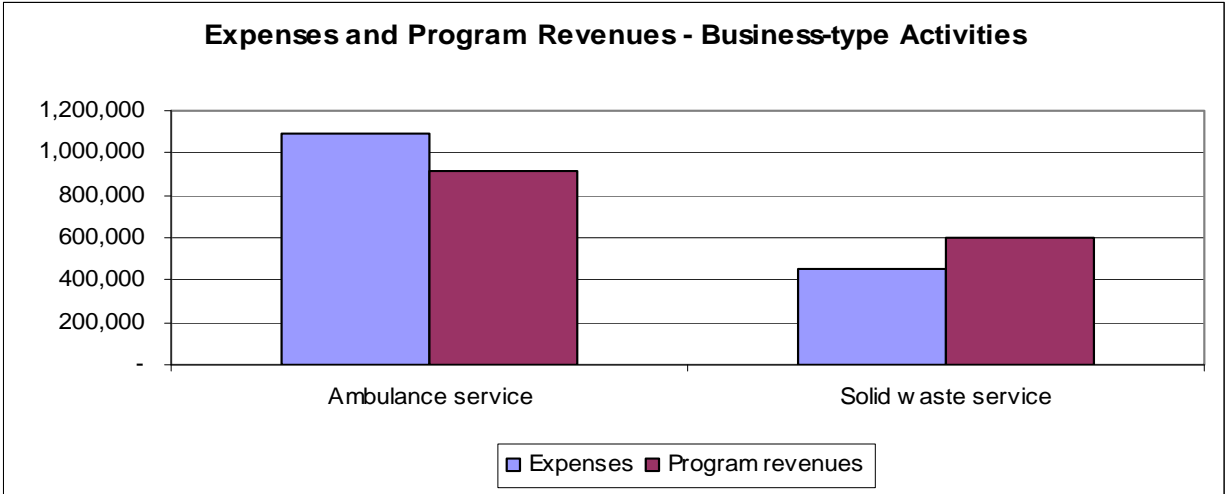
Net assets invested in capital assets net of debt decreased \$8.4 million in 2008. The majority of this decline was from depreciation calculated on capital assets. Actual capital projects completed and added in 2008 totaled \$1.9 million.

Governmental activities. Governmental activities decreased Morgan County's net assets by \$7.5 million. The following shows the elements of the County's decrease in net assets:

**Morgan County Government
Changes in Net Assets**

	Governmental activities		Business-type activities		Total Government	
	2008	2007	2008	2007	2008	2007
Revenues						
Program revenues:						
Charges for services	\$ 2,178,610	\$ 1,847,490	\$ 1,508,707	\$ 1,623,800	\$ 3,687,317	\$ 3,471,290
Operating grants and contributions	6,278,516	5,929,397	5,224	30,205	6,283,740	5,959,602
Capital grants and contributions	99,441	398,689	0	0	99,441	398,689
General revenues:						
Property tax	10,947,757	10,580,908	0	0	10,947,757	10,580,908
Other tax	1,288,415	1,317,463	0	0	1,288,415	1,317,463
Interest	735,984	1,229,720	47,504	66,533	783,488	1,296,253
Other general revenues	<u>513,339</u>	<u>583,761</u>	<u>2,587</u>	<u>2,588</u>	<u>515,926</u>	<u>586,349</u>
Total revenues	<u>22,042,062</u>	<u>21,887,428</u>	<u>1,564,022</u>	<u>1,723,126</u>	<u>23,606,084</u>	<u>23,610,554</u>
Expenses						
General government	6,957,754	7,132,019	0	0	6,957,754	7,132,019
Public safety	3,719,727	3,565,250	0	0	3,719,727	3,565,250
Public health	8,296	9,645	0	0	8,296	9,645
Auxiliary services	380,771	364,664	0	0	380,771	364,664
Roads and bridges	13,865,403	13,012,483	0	0	13,865,403	13,012,483
Public welfare	4,542,657	4,243,279	0	0	4,542,657	4,243,279
Other	138,030	144,698	0	0	138,030	144,698
Ambulance services	0	0	1,089,807	996,493	1,089,807	996,493
Solid waste services	<u>0</u>	<u>0</u>	<u>451,989</u>	<u>461,685</u>	<u>451,989</u>	<u>461,685</u>
Total expenses	<u>29,612,638</u>	<u>28,472,038</u>	<u>1,541,796</u>	<u>1,458,178</u>	<u>31,154,434</u>	<u>29,930,216</u>
Increase (decrease) in net assets before transfers	(7,570,576)	(6,584,610)	22,226	264,948	(7,548,350)	(6,319,662)
Transfers	<u>25,339</u>	<u>0</u>	<u>(25,339)</u>	<u>0</u>	<u>0</u>	<u>0</u>
Increase (decrease) in net net assets	<u>(7,545,237)</u>	<u>(6,584,610)</u>	<u>(3,113)</u>	<u>264,948</u>	<u>(7,548,350)</u>	<u>(6,319,662)</u>
Net assets – January 1 as reported	216,332,679	38,350,021	3,382,023	3,117,075	219,714,702	41,467,096
Net assets restated	<u>0</u>	<u>184,567,268</u>	<u>0</u>	<u>0</u>	<u>0</u>	<u>184,567,268</u>
Net assets January 1 as restated	<u>216,332,679</u>	<u>222,917,289</u>	<u>3,382,023</u>	<u>3,117,075</u>	<u>219,714,702</u>	<u>226,034,364</u>
Net assets – December 31	<u>\$208,787,442</u>	<u>\$216,332,679</u>	<u>\$ 3,378,910</u>	<u>\$ 3,382,023</u>	<u>\$ 212,166,352</u>	<u>\$ 219,714,702</u>





FINANCIAL ANALYSIS OF THE COUNTY’S FUNDS

As noted earlier, Morgan County uses fund accounting to ensure and demonstrate compliance with finance-related legal requirements.

Governmental Funds Overview. The focus of County governmental funds is to provide information on near-term inflows, outflows, and balances of spendable resources. Such information is useful in assessing the County’s financing requirements. In particular,

unreserved fund balance may serve as a useful measure of a government's net resources available for spending at the end of the fiscal year.

The County's governmental funds financial position increased during the year 2008. The total fund balances in the governmental funds increased by \$.6 million. As of the end of 2008, the combined ending fund balance of County governmental funds was \$19 million. Approximately 73% of this consists of unreserved fund balance, which is available as working capital and for current spending in accordance with the purposes of the specific funds. The remainder of fund balance is reserved or designated for a specific purpose by the current County Commissioners to indicate that it is not available for new spending because it is committed for the following purposes: 1) a state-constituted mandated emergency reserve (\$554,905); 2) completion of capital projects (\$1,707,972); 3) repayment of debt (\$1,548,500); and 4) inventories (\$153,571).

Propriety Funds Overview. The County's proprietary fund statements provide the same type of information found in the government-wide statements, but in more detail.

The County has two enterprise-type proprietary funds, the Solid Waste Management Fund and Ambulance Service Fund.

- ❖ **Solid Waste Management Fund.** Unrestricted net assets of this fund at the end of the year amounted to \$2,381,944. This is an increase of \$159,593 from unrestricted net assets at the end of 2007.
- ❖ **Ambulance Service Fund.** Unrestricted net assets of this fund at the end of 2008 amounted to \$420,287. This is a decrease of \$164,673 from unrestricted net assets at the end of 2007.

The County has one Internal Service Fund type Proprietary Fund. The Internal Service Fund is a governmental activity fund in the Proprietary Fund financial statements. The county's Internal Service Fund, the Central Services Fund, has unrestricted net assets of \$3.4 million.

The County has three major governmental funds. These are the General Fund, Road and Bridge Fund, and Social Services Fund.

- ❖ **General Fund.** This is the primary operating fund of the Morgan County Government. It accounts for many of the County's core services such as law enforcement, the County Assessor, County Clerk and Recorder and planning and zoning. The general fund's balance as of December 31, 2008, was \$10.6 million. Of this amount, \$3.9 million is reserved or designated for a specific purpose. As a measure of the general fund's liquidity, it may be useful to compare the unreserved fund balance and total fund balance to total fund expenditures. Unreserved fund balance is 66% of total 2008 expenditures and transfers in the general fund.
- ❖ **Road and Bridge Fund.** The Road and Bridge Fund is mandated by state statutes. This fund accounts for costs related to County road and bridge construction and maintenance of same. The Road and Bridge Fund has \$5.8 million in fund balance at the end of 2008. Of this amount, \$1,707,972 is reserved for future capital highway projects and \$150,226 is reserved for bridge inventory. Total Road and Bridge fund balance increased by \$.4 million in 2008. Revenues decreased in 2008 by \$232,000. This reduction was due to a federal grant for paving that was completed in 2007. In

2008, the total expenditures in the Road and Bridge Fund increased by \$.5 million. The increase in expenditures was due in part to the increased maintenance cost of the County's bridges and roads.

- ❖ **Social Services Fund.** This fund is also State mandated. It accounts for the local share of many Federal and State public welfare programs. The Social Services fund balance at the end of 2008 was \$1.0 million. The total fund balance is 22% of the total expenditures and transfers.

GENERAL FUND BUDGETARY HIGHLIGHTS

The County's budget is prepared according to Colorado statutes. The most significant budgeted fund is the General Fund. The actual revenue totals did not meet the budgeted amount by approximately 3.6%. The contributing factor to this variance was actual investment earnings fell short of the budgeted amount. The expenditure amount budgeted exceeded the actual amount spent by approximately \$927,000 (8.5%). This was the direct result of careful purchasing by all county departments. Projects the County budgeted for were completed on schedule in 2008. There were no supplemental appropriations made to the original 2008 adopted budget.

CAPITAL ASSET AND DEBT ADMINISTRATION

Capital Assets. Morgan County's investment in capital assets for its governmental and business type activities as of December 31, 2008 totals \$190 million (net of accumulated depreciation). This investment includes all land, buildings, machinery and equipment, as well as infrastructure constructed from 1980 through 2008.

Major capital asset events during the current fiscal year included the following:

- Installation of a new security camera system at the Morgan County Justice Center.
- Major road and bridge improvements totaling \$.7 million.

**Capital Assets
(net of depreciation)**

	Governmental activities		Business-type activities		Total	
	2008	2007	2008	2007	2008	2007
Land	\$ 1,248,244	\$ 1,248,244	\$ 23,510	\$ 23,510	\$ 1,271,754	\$ 1,271,754
Building and Improvements	9,731,025	10,106,788	456,203	486,135	10,187,228	10,592,923
Machinery and Equipment	3,292,827	3,467,559	86,346	65,067	3,379,173	3,532,626
Infrastructure	174,843,424	183,018,736	0	0	174,843,424	183,018,736
Construction in Process	322,049	162,930	0	0	322,049	162,930
Total	\$189,437,569	\$198,004,257	\$566,059	\$574,712	\$190,003,628	\$198,578,969

Long-term Debt. At December 31, 2008 Morgan County had the following outstanding long-term debt (principal amount).

- \$2.485 million in Certificates of Participation.

The \$2.485 million represents the outstanding debt originated in 1999 when the County entered into a lease purchase agreement with the Morgan County Building Authority for construction of a Human Services building. The project is to be owned by the Morgan County Building Authority as lessor subject to the annually renewable leasehold interest of the County and to the County's annual right to purchase the complex. Neither the lease nor the certificates constitutes a general obligation or other indebtedness of the County.

Additional information the Morgan County long-term debt and capital asset activity can be found in notes 5, 7 and 8 of this report.

Other Matters. The following factors are expected to have a significant effect on the County's financial position or results of operations and were taken into account in developing the 2009 budget:

- The County assessed value increased 1%. This amounts to a increase of \$117,104 in property tax revenue for the County. This is a great concern for the County as property tax is the County's main revenue source. The County's agricultural economy has suffered from drought and the ensuing water shortage crisis. The County continues to promote economic development in Morgan County.
- The County is experiencing increased jail populations and rising costs of housing inmates. Planning has begun on building expansion and updating of the existing County Jail/Judicial Complex. The increased costs of operations of the Jail/Judicial Complex must be addressed.
- The County Social Services department continues to address increasing case loads.

REQUESTS FOR INFORMATION

This financial report is designed to provide a general overview of Morgan County's finances for all those with an interest in the government's finances. Financial information for the Morgan County Building Authority is included in the County's primary government financial statements and separate financial statements are not prepared. Questions concerning any of the information provided in this or for additional information should be addressed to the Finance Director, P.O. Box 189, Fort Morgan, CO 80701.