

## **FINANCIAL SECTION**

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**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, 2010, which collectively comprise the Morgan County, Colorado'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 2009 financial statements, and in our report dated July 1, 2010, 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, 2010, and the respective changes in financial position, and where applicable cash flows, thereof for the year then ended in conformity with accounting principles generally accepted in the United States of America.

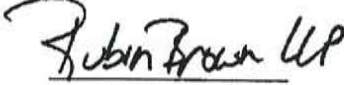
**Board of County Commissioners  
Morgan County, Colorado**

**In accordance with *Government Auditing Standards*, we have also issued our report dated July 28, 2011 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 23 and 72 through 79, respectively, 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.**

**July 28, 2011**

  
**RubinBrown LLP**

## 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, 2010. 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 \$200 million (net assets) at the end of 2010. Of this amount, \$26 million (unrestricted net assets) may be used to meet the government's ongoing obligations to citizens and creditors. The remaining \$174 million is invested in capital assets or restricted by law.
- The County's General Fund balance was \$10.6 million as of December 31, 2010. Of this amount, \$560,000 is restricted for emergencies and \$24,000 is reserved for inventory, \$1 million is designated for capital building projects, \$1.3 million is designated for future debt service, \$130,000 is designated for other agencies, and \$390,000 has been designated for the 2011 budget year. The remaining \$7.2 million is undesignated fund balance. The 2009 fund balance was \$10 million.
- The total 2010 General Fund balance is \$10.6 million, which is \$400,000 less than the 2010 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 74% of the General Fund revenue in 2010.

### 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 nine individual governmental funds. Information is presented separately in the governmental fund balance sheet and in the governmental fund statement of revenues, expenditures, and changes in fund balances for the 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 72 – 77 of this report. Data from the other six 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 82 – 85 in this report. Governmental funds budgets for the non-major funds are provided on pages 86 – 92. The basic governmental fund financial statements can be found on pages 30 – 35 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 37 – 39. The Internal Service Fund comparative schedule of net assets is on page 98. Budget to actual comparisons for the Enterprise Funds are on pages 94 – 95. Budget to actual comparison for the Internal Services Fund is on page 99.

**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. One of four types of fiduciary funds is Agency Funds. Morgan County maintains four Agency Funds. The accounting used for fiduciary funds is much like that used for proprietary funds. A combining Statement of Agency Funds is on page 102. Individual statements are provided on pages 103 – 106.

**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 41 – 67 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, 2010, assets exceeded liabilities by \$200 million. The largest portion of Morgan County's net assets (86%) 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 \$767,500 of net assets represents resources that are subject to external restrictions on how they may be used. The largest portion of the restricted assets \$560,000 is restricted for emergencies under the TABOR law.

The County had unrestricted net assets of \$26 million, which may be used to meet the County's ongoing obligations to citizens and creditors.

At the end of 2010, 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.

	Governmental activities		Business-type activities		Total Government	
	2010	2009	2010	2009	2010	2009
<b>Assets</b>						
Current and other assets	\$ 39,611,199	\$ 37,572,259	\$ 3,137,461	\$ 2,857,307	\$ 42,748,660	\$ 40,429,566
Capital assets	<u>173,835,469</u>	<u>181,861,016</u>	<u>1,790,241</u>	<u>1,770,189</u>	<u>175,625,710</u>	<u>183,631,205</u>
Total assets	<u>213,446,668</u>	<u>219,433,275</u>	<u>4,927,702</u>	<u>4,627,496</u>	<u>218,374,370</u>	<u>224,060,771</u>
<b>Liabilities</b>						
Current liabilities	14,486,188	14,202,209	112,414	104,565	14,598,602	14,306,774
Long-term liabilities	<u>2,924,280</u>	<u>3,129,580</u>	<u>443,338</u>	<u>423,877</u>	<u>3,367,618</u>	<u>3,553,457</u>
Total liabilities	<u>17,410,468</u>	<u>17,331,789</u>	<u>555,752</u>	<u>528,442</u>	<u>17,966,220</u>	<u>17,860,231</u>
<b>Net assets</b>						
Invested in capital assets, net of debt	171,760,468	179,576,016	1,790,241	1,770,189	173,550,709	181,346,205
Restricted	767,500	788,500	-	-	767,500	788,500
Unrestricted	<u>23,508,232</u>	<u>21,736,970</u>	<u>2,581,709</u>	<u>2,328,865</u>	<u>26,089,941</u>	<u>24,065,835</u>
Total net assets	<u>\$ 196,036,200</u>	<u>\$ 202,101,486</u>	<u>\$ 4,371,950</u>	<u>\$ 4,099,054</u>	<u>\$ 200,408,150</u>	<u>\$ 206,200,540</u>

The total net assets decreased in 2010 by \$5.79 million.

The total restricted net assets decreased by \$21,000. 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 \$21,000. 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 at \$560,000 in 2010. A calculation of the required 3% of fiscal spending required reserved for emergencies is completed annually and adjusted accordingly.

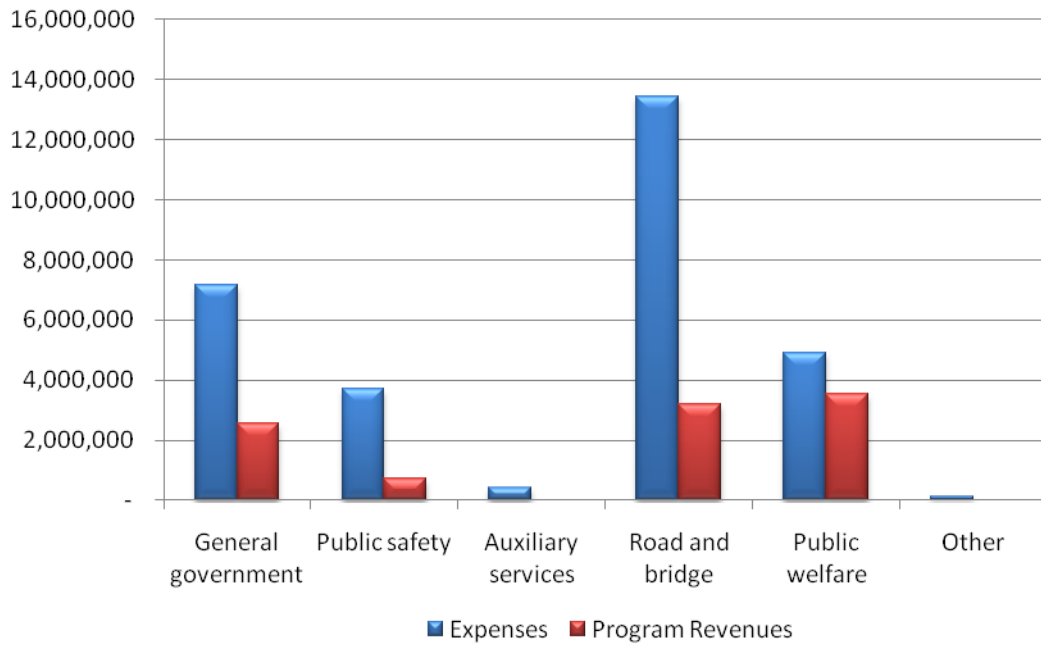
Net assets invested in capital assets net of debt decreased \$7.8 million in 2010. The majority of this decline was from depreciation calculated on capital assets.

**Governmental activities.** Governmental activities decreased Morgan County's net assets by \$6.07 million. The following shows the elements of the County's decrease in net assets:

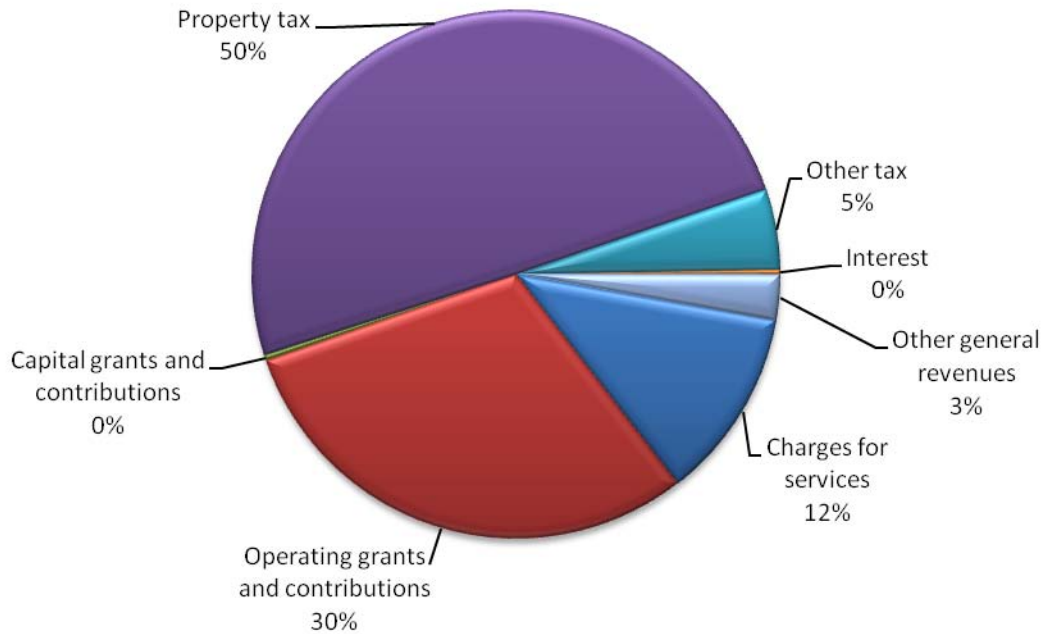
Morgan County Government  
Changes in Net Assets

	Governmental activities		Business-type activities		Total Government	
	2010	2009	2010	2009	2010	2009
<b>Revenues</b>						
Program revenues						
Charges for services	\$ 2,774,632	\$ 2,279,854	\$ 1,747,386	\$ 1,579,144	\$ 4,522,018	\$ 3,858,998
Operating grants and contributions	7,151,944	7,814,532	124,972	43,040	7,276,916	7,857,572
Capital grants and contributions	86,502	92,437	-	500,000	86,502	592,437
General revenues						
Property tax	11,768,430	11,102,178	-	-	11,768,430	11,102,178
Other tax	1,168,205	1,166,850	-	-	1,168,205	1,166,850
Interest	66,940	203,390	2,194	16,718	69,134	220,108
Other general revenues	651,445	668,983	803	2,812	652,248	671,795
<b>Total revenues</b>	<b>23,668,098</b>	<b>23,328,224</b>	<b>1,875,355</b>	<b>2,141,714</b>	<b>25,543,453</b>	<b>25,469,938</b>
<b>Expenses</b>						
General government	7,148,909	6,946,036	-	-	7,148,909	6,946,036
Public safety	3,703,123	4,017,992	-	-	3,703,123	4,017,992
Public health	-	8,399	-	-	-	8,399
Auxiliary services	429,247	463,526	-	-	429,247	463,526
Roads and bridges	13,447,387	13,778,533	-	-	13,447,387	13,778,533
Public welfare	4,885,491	4,672,693	-	-	4,885,491	4,672,693
Other	119,227	127,003	-	-	119,227	127,003
Ambulance services			1,043,694	1,073,356	1,043,694	1,073,356
Solid waste services			558,765	337,594	558,765	337,594
<b>Total expenses</b>	<b>29,733,384</b>	<b>30,014,182</b>	<b>1,602,459</b>	<b>1,410,950</b>	<b>31,335,843</b>	<b>31,425,132</b>
Increase (decrease) in net assets	(6,065,286)	(6,685,958)	272,896	730,764	(5,792,390)	(5,955,194)
Net assets - January 1	202,101,486	208,787,444	4,099,054	3,368,290	206,200,540	212,155,734
<b>Net assets - December 31</b>	<b>\$ 196,036,200</b>	<b>\$ 202,101,486</b>	<b>\$ 4,371,950</b>	<b>\$ 4,099,054</b>	<b>\$ 200,408,150</b>	<b>\$ 206,200,540</b>

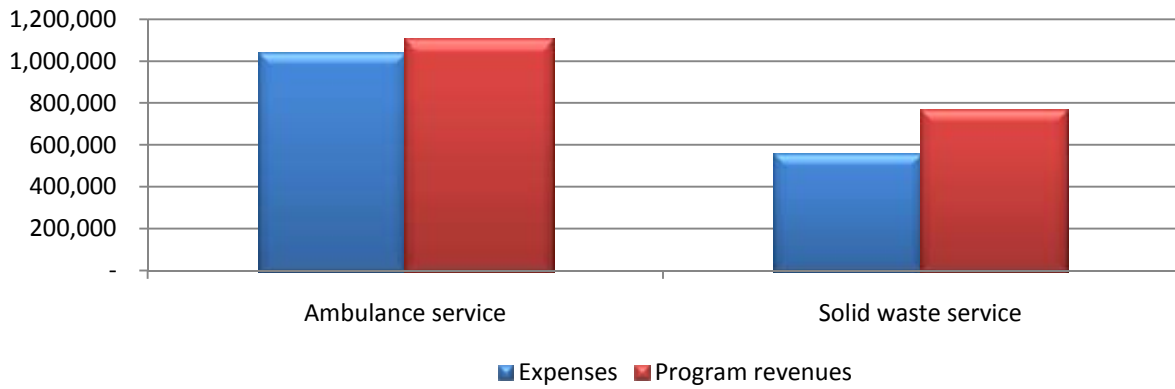
### Expenses and Program Revenues - Governmental Activities



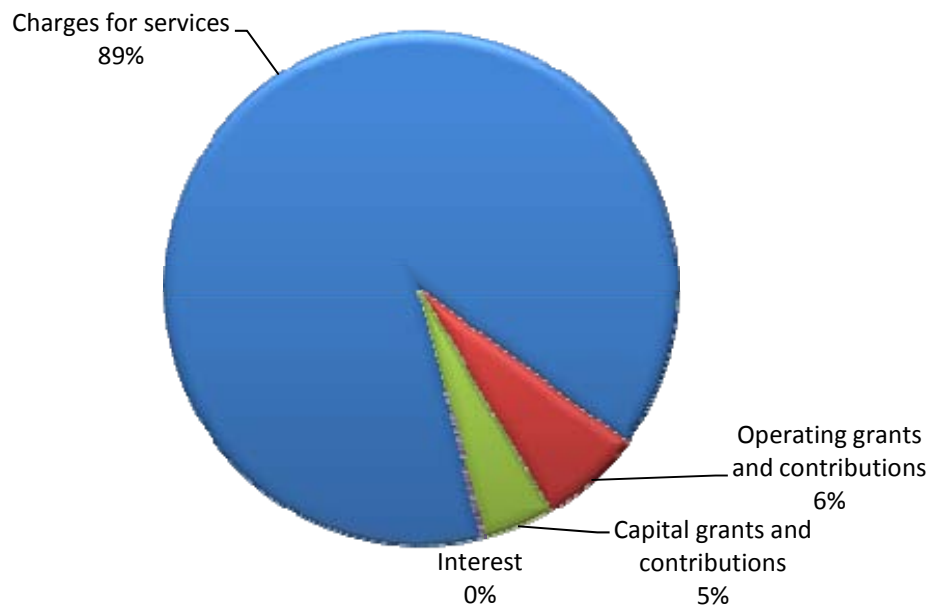
### Revenues by Source - Governmental Activities



### Expenses and Program Revenues - Business-type Activities



### Revenues by Source - Business-type Activities



## 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 2010. The total fund balances in the governmental funds increased by \$820,000. As of the end of 2010, the combined ending fund balance of County governmental funds was \$19.9 million. Approximately 66% 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 (\$560,000); 2) completion of capital projects (\$3,137,054); 3) repayment of debt (\$1,507,500); and 4) inventories (\$121,575).

**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 \$2,276,212. This is an increase of \$270,439 from unrestricted net assets at the end of 2009.
- ❖ **Ambulance Service Fund.** Unrestricted net assets of this fund at the end of 2010 amounted to \$305,497. This is a decrease of \$17,595 from unrestricted net assets at the end of 2009.

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 \$5 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, 2010, was \$10.6 million. Of this amount, \$3.4 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 61% of total 2010 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 \$6.7 million in fund balance at the end of 2010. Of this amount, \$2,137,054 is reserved for future capital highway projects and \$97,575 is reserved for bridge inventory. Total Road and Bridge fund balance increased by \$542,602 in 2010. Revenues decreased in 2010 by \$985,953. A large portion of the decrease in revenues in 2010 was the grants revenue. In 2009, the County received a \$500,000 grant as partial funding for a major paving project on County Road 19. In 2010, the total expenditures in the Road and Bridge Fund decreased by \$1.15 million. The decrease in expenditures was due mainly to the decrease in capital outlay road projects and the fact the County did not receive any grant funds.
  
- ❖ **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 2010 was \$279,083. The fund balance decreased by \$.5 million in 2010. This significant decrease is due to the rising cost of out of home treatment for children and a decrease in State funding sources.

## **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 revenues exceeded the budgeted amount by \$301,954. The County's fee accounts increased by 13% in 2010. Specific ownership taxes increased by 29%. This increase was due mainly to the State's increase in fees for vehicle registrations. The actual expenditures in the County's General Fund did not reach the budgeted amount. This was due to grants the County budgeted for that the County did not apply for.

## **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, 2010 totals \$173.6 million (net of accumulated depreciation). This investment includes all land, buildings, machinery and equipment, as well as infrastructure constructed from 1980 through 2010.

The major capital asset event during the current fiscal year included the following:

- An energy efficiency project in the County's Judicial Complex and the Human Services Building.

Morgan County Government  
Capital Assets  
(net of depreciation)

	Governmental activities		Business-type activities		Total Government	
	2010	2009	2010	2009	2010	2009
Land	\$ 1,263,744	\$ 1,248,244	\$ 28,347	\$ 28,347	\$ 1,292,091	\$ 1,276,591
Building and Improvements	9,736,280	9,300,147	1,000,250	1,042,612	10,736,530	10,342,759
Machinery and Equipment	3,522,670	3,723,744	761,644	699,230	4,284,314	4,422,974
Infrastructure	159,312,774	167,492,266	-	-	159,312,774	167,492,266
Construction in Process	-	96,615	-	-	-	96,615
Total net assets	<u>\$ 173,835,468</u>	<u>\$ 181,861,016</u>	<u>\$ 1,790,241</u>	<u>\$ 1,770,189</u>	<u>\$ 175,625,709</u>	<u>\$ 183,631,205</u>

**Long-term Debt.** At December 31, 2010 Morgan County had the following outstanding long-term debt (principal amount).

- \$2.075 million in Certificates of Participation.

The \$2.075 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 2010 budget:

- The County assessed value increased 1.7%. This amounts to an increase of \$197,948 in property tax revenue for the County. Morgan County's assessed value is critical to revenues as there is no County sales tax levied. . The County's agricultural industry has been the backbone of the area's economy for many years, but the water shortage crisis has taken its toll. The County continues to promote economic development in Morgan County.
- The County has historically, and continues to be, fiscally responsible. A fund balance for the County was carefully invested. Due to the current economy, interest rates declined and also the interest revenue for the 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.

