

SOUTHWEST COLORADO COUNCIL OF GOVERNMENTS

Financial Statements and  
Independent Auditor's Report

December 31, 2013

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## INDEPENDENT AUDITOR'S REPORT

June 17, 2014

Board of Directors  
Southwest Colorado Council of Governments

### ***Report on the Financial Statements***

We have audited the accompanying financial statements of the governmental activities and the major fund of Southwest Colorado Council of Governments (the "Council"), as of and for the year ended December 31, 2013, and the related notes to the financial statements, which collectively comprise the Council's basic financial statements 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.

### ***Auditor's 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. 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 auditor's 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 entity's 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 entity's 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.

June 17, 2014

Southwest Colorado Council of Governments

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### ***Opinions***

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities and the major fund of Southwest Colorado Council of Governments as of December 31, 2013, 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 Budgetary Comparison Schedule – General Fund 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 required supplementary 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.

Southwest Colorado Council of Governments  
Statement of Net Position  
December 31, 2013

		Governmental Activities
<b>Assets</b>		
Current Assets		
Cash		\$ 67,893
Prepaid expenses		300
Grants and member governments receivable		258,426
Due from Region 9 Economic Development District of Southwest Colorado		1,204
	Total Current Assets	327,823
	Total Assets	\$ 327,823
<b>Liabilities</b>		
Current Liabilities		
Unearned member governments contributions		\$ 28,852
Accounts payable		242,291
	Total Current Liabilities	271,143
	Total Liabilities	271,143
<b>Net Position</b>		
Unrestricted		56,680
	Total Net Position	56,680
	Total Liabilities and Net Position	\$ 327,823

The accompanying notes are an integral part of these financial statements.

Southwest Colorado Council of Governments  
Statement of Activities  
For the year ended December 31, 2013

	<u>Expenses</u>	<u>Charges for Services</u>	<u>Operating Grants and Contributions</u>	<u>Net Revenue (Expense)</u>
Governmental Activities				
General government	\$ 406,414	\$ 9,686	\$ 419,454	\$ 22,726
Grants passed through to member governments	<u>1,126,167</u>	<u>-</u>	<u>1,126,167</u>	<u>-</u>
Totals	<u>\$ 1,532,581</u>	<u>\$ 9,686</u>	<u>\$ 1,545,621</u>	\$ 22,726
Net Position, beginning of year				<u>33,954</u>
Net Position, end of year				<u>\$ 56,680</u>

The accompanying notes are an integral part of these financial statements.

Southwest Colorado Council of Governments  
 Balance Sheet  
 Governmental Fund  
 December 31, 2013

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	<u>General Fund</u>
<b>Assets</b>	
Cash	\$ 67,893
Prepaid expenses	300
Grants receivable	258,426
Due from Region 9 Economic Development District of Southwest Colorado	<u>1,204</u>
<b>Total Assets</b>	<b><u>\$ 327,823</u></b>
 <b>Liabilities</b>	
Unearned member governments contributions	\$ 28,852
Accounts payable	<u>242,291</u>
<b>Total Liabilities</b>	<b>271,143</b>
 <b>Fund Balance</b>	
Nonspendable	300
Unassigned	<u>56,380</u>
<b>Total Fund Balance</b>	<b><u>56,680</u></b>
<b>Total Liabilities and Fund Balance</b>	<b><u>\$ 327,823</u></b>

The accompanying notes are an integral part of these financial statements.

Southwest Colorado Council of Governments  
Statement of Revenues, Expenditures, and Changes in Fund Balances  
Governmental Fund  
For the year ended December 31, 2013

	General Fund
Revenues	
Grant revenue	\$ 1,443,116
Sales (net of costs of \$334)	9,686
Contributions from member governments	102,505
Total Revenues	1,555,307
Expenditures	
General government	406,414
Grants passed through to member governments	1,126,167
Total Expenditures	1,532,581
Excess of Revenues Over (Under) Expenditures	22,726
Fund balances, beginning of year	33,954
Fund balances, end of year	\$ 56,680

The accompanying notes are an integral part of these financial statements.

## SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Southwest Colorado Council of Governments (the "Council") is an association of local governments formed through inter-governmental agreements. The Council was formed on April 2, 2010, pursuant to Colorado Revised Statutes, Sections 29-1-401 and 29-1-402. The Council was created for the purpose of promoting regional cooperation and coordination among local governments and between levels of government for the geographic area comprising the counties of Archuleta, Dolores, La Plata, Montezuma, and San Juan. The Council provides local public officials with the means of responding more effectively to the local and regional problems of the member governments.

### 1. Reporting Entity

The Council is governed by a board with representation appointed by its member governments. The board is responsible for setting policy, appointing administrative personnel and adopting an annual budget in accordance with the provisions of Colorado Revised Statutes.

The reporting entity consists of (a) the primary government; i.e., the Council, and (b) organizations for which the Council is financially accountable. The Council is considered financially accountable for legally separate organizations if it is able to appoint a voting majority of an organization's governing body and is either able to impose its will on that organization or there is potential for the organization to provide specific financial benefits, to, or to impose specific financial burdens on, the Council. Consideration is also given to other organizations which are fiscally dependent, i.e., unable to adopt a budget, levy taxes or issue debt without approval by the Council. Organizations for which the nature and significance of their relationship with the Council are such that exclusion would cause the reporting entity's financial statements to be misleading or incomplete are also included in the reporting entity.

Based on the criteria discussed above, the Council is not financially accountable for any other entity, nor is the Council a component unit of any other government.

### 2. Government-wide and Fund Financial Statements

The government-wide financial statements (i.e., the Statement of Net Position and the Statement of Activities) report information on all of the non-fiduciary activities of the primary government. *Governmental activities*, which normally are supported by taxes and intergovernmental revenues, are reported separately from *business-type activities*, which rely to a significant extent on fees and charges for support. There are no business-type activities for the Council.

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

Southwest Colorado Council of Governments  
Notes to Financial Statements  
December 31, 2013

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Separate financial statements are provided for governmental funds and proprietary funds. Major individual governmental funds and major individual enterprise funds are reported as separate columns in the fund financial statements. There are no proprietary funds for the Council.

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

The government-wide financial statements are reported using the *economic resources measurement focus* and the *accrual basis of accounting*. Revenues are recorded when earned and expenses are recorded when a liability is incurred, regardless of the timing of related cash flows. Grants and similar items are recognized as revenue as soon as all eligibility requirements imposed by the provider have been met.

Governmental fund financial statements are reported using the *current financial resources measurement focus* and the *modified accrual basis of accounting*. Revenues are recognized as soon as they are both measurable and available. Revenues are considered to be available when they are collectible within the current period or soon enough thereafter to pay liabilities of the current period. For this purpose, the government considers revenues to be available if they are collected within 60 days of the end of the current fiscal period. Expenditures generally are recorded when a liability is incurred, as under accrual accounting. However, certain expenditures are recorded only when payment is due.

Grant revenue is considered to be measurable and available only when eligibility requirements have been met by the Council. When both restricted and unrestricted resources are available for use, it is the Council's policy to use restricted resources first, then unrestricted resources as they are needed.

The Council reports the following major governmental funds:

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

Amounts reported as program revenues include operating grants and contributions. Internally dedicated resources are reported as general revenues rather than program revenues.

4. Receivables and Payables

Grants receivable and amounts due from other governments are shown net of estimated uncollectible amounts. All receivables at December 31, 2013 are considered collectible and, therefore, an allowance for uncollectible grants receivable and amounts due from other governments has not been recorded.

5. Capital Assets

The Council does not report any capital assets.

Southwest Colorado Council of Governments  
Notes to Financial Statements  
December 31, 2013

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6. Unearned Revenue

Unearned revenue has been reported for contributions received from member governments to fund expenditures that have not yet been incurred.

6. Long-term Obligations

The Council does not report any long-term obligations.

7. Restricted Assets and Classification of Fund Balance

Assets are reported as restricted when limitations on their use change the nature or normal understanding of the availability of the asset. Such constraints are either imposed by creditors, contributors, grantors, laws of other governments, or imposed by enabling legislation. It is the Council's policy to use restricted assets first when an expense is incurred for which both restricted and unrestricted assets are available.

In the governmental fund financial statements fund balance is reported in five classifications.

**Nonspendable:** Prepaid expenses represent fund balance amounts that are not in spendable form. The Council has nonspendable fund balance related to prepaid expenses at year end.

**Restricted:** Restricted is that portion of fund balance that has been restricted by law, contract, or voter-approved action. The Council does not have any restricted fund balance at year end. It is the Council's policy to use restricted fund balance first when an expense is incurred for which both restricted and unrestricted fund balance are available.

**Committed:** Committed is that portion of fund balance that has been committed by the highest level of formal action of the District's Board of Directors and does not lapse at year-end. The Council does not have any committed fund balance at year end.

**Assigned:** Assignments of fund balance are designated by Council management. The Council does not have any assigned fund balance at year end.

**Unassigned:** Fund balance that has not been reported in any other classification is reported as unassigned.

## STEWARDSHIP, COMPLIANCE, AND ACCOUNTABILITY

### Budgetary Information

Annual budgets are adopted on a basis consistent with generally accepted accounting principles for all funds, as required by Colorado Statutes.

In the fall of each year, the Council's Board of Directors formally adopts a budget with appropriations for the ensuing year pursuant to the Colorado Local budget law. The budget for the governmental funds is adopted on a basis consistent with generally accepted accounting principles ("GAAP").

Southwest Colorado Council of Governments  
Notes to Financial Statements  
December 31, 2013

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As required by Colorado Statutes, the Council follows this timetable in approving and enacting a budget for the ensuing year.

1. On or before October 15 of each year, management submits to the Council's Board of Directors a recommended budget that details the necessary property taxes needed along with other available revenues to meet the Council's operating requirements.
2. After a required publication of "Notice of Proposed Budget" and a public hearing, the Council adopts the proposed budget and an appropriating resolution, which legally appropriates expenditures for the upcoming year.
3. After adoption of the budget resolution, the Council may make the following changes: a.) it may transfer appropriated monies between funds or between spending agencies within a fund, as determined by the original appropriation level; b.) supplemental appropriations to the extent of revenues in excess of the estimate in the budget; c.) emergency appropriations; and d.) reduction of appropriations for which originally estimated revenues are insufficient.

The level of control in the budget at which expenditures exceed appropriations is at the fund level. All appropriations lapse at year-end.

Encumbrances represent commitments related to unperformed contracts for goods or services. Encumbrance accounting – under which purchase orders, contracts and other commitments for the expenditure of resources are recorded to reserve that portion of the applicable appropriation – is not utilized by the Council because it is at present considered not necessary to assure effective budgetary control or to facilitate effective cash planning and control.

#### TABOR Amendment

In November 1992, Colorado voters amended Article X of the Colorado Constitution by adding Section 20, commonly known as the Taxpayer's Bill of Rights ("TABOR"). TABOR contains revenue, spending, tax, and debt limitations that apply to the State of Colorado and local governments. TABOR requires, with certain exceptions, advance voter approval for any new tax, tax rate increase, mill levy above that of the prior year, extension of any expiring tax, or tax policy change directly causing a net tax revenue gain to any local government.

TABOR also requires local governments to establish emergency reserves to be used for declared emergency only. Emergencies, as defined by TABOR, exclude economic conditions, revenue shortfalls, or salary or fringe benefit increases. These reserves are required to be 3% or more of fiscal year spending (excluding bonded debt service).

The Council's management believes it is not subject to the provisions of TABOR because the Council has no authority to tax or to issue general obligation debt. However, TABOR is complex and subject to interpretation. Many of its provisions, including the applicability of TABOR to associations of governments formed through inter-governmental agreement, may require judicial interpretation.

Southwest Colorado Council of Governments  
Notes to Financial Statements  
December 31, 2013

**DEPOSITS**

Deposits

The Colorado Public Deposit Protection Act (“PDPA”) requires that all units of local government deposit cash in eligible public depositories; eligibility is determined by State regulators. Amounts on deposit in excess of Federal Depository Insurance Corporation (“FDIC”) levels must be collateralized. The eligible collateral is determined by PDPA. The PDPA allows the institution to create a single collateral pool for all public funds. The pool for all the uninsured public deposits as a group is to be maintained by another institution or held in trust. The market value of the collateral must be at least equal to the aggregate uninsured deposits.

The State Regulatory Commissions for banks and financial services are required by statute to monitor the naming of eligible depositories and reporting of the uninsured deposits and assets maintained in the collateral pools.

The Council’s deposits are entirely covered by FDIC or by the collateral required by the PDPA. The FDIC insures the first \$250,000 of the Council’s deposits at each financial institution. At December 31, 2013, the Council’s cash deposits and investments had a carrying balance and a bank balance as follows:

<u>Type</u>	<u>Rating</u>	<u>Bank Balance</u>	<u>Carrying Amount</u>	<u>Maturities of Less Than One Year</u>
Deposits				
Checking	N/A	<u>\$ 227,138</u>	<u>\$ 67,712</u>	<u>\$ 67,712</u>

**CONCENTRATIONS**

During 2013 the Council received most of its revenue from grants and from its member governments.

**CONTINGENCIES**

The Council administers projects through grants. These projects are subject to audit by granting agencies. A substantial amount of grant revenue has been awarded to subrecipients. These grants are subject to final review and approval as to allowability by the respective grantor agencies. The amount, if any, of expenditures which may be disallowed by the granting agencies cannot be determined at this time. However, the Council expects such amounts, if any, to be immaterial.

REQUIRED SUPPLEMENTARY INFORMATION

Southwest Colorado Council of Governments  
 Budgetary Comparison Schedule  
 General Fund  
 For the year ended December 31, 2013

	Original Budget	Final Budget	Actual	Variance Over (Under)
<b>Revenues</b>				
Grant revenue	\$ 1,597,530	\$ 1,588,530	\$ 1,443,116	\$ (145,414)
Sales (net of costs of \$334)	101,142	97,115	9,686	(87,429)
Contributions from member governments	165,444	165,444	102,505	(62,939)
Total Revenues	<u>1,864,116</u>	<u>1,851,089</u>	<u>1,555,307</u>	<u>(295,782)</u>
<b>Expenditures</b>				
General government				
Management	93,471	93,471	57,743	(35,728)
Consulting	47,233	47,233	48,386	1,153
All-hazards grant expenditures	191,282	191,282	246,229	54,947
Professional	17,584	17,584	9,499	(8,085)
Other	123,859	123,859	44,557	(79,302)
Total General Government	<u>473,429</u>	<u>473,429</u>	<u>406,414</u>	<u>(67,015)</u>
Grants passed through to member governments	1,367,159	1,358,159	1,126,167	(231,992)
Total Grant Expenditures	<u>1,367,159</u>	<u>1,358,159</u>	<u>1,126,167</u>	<u>(231,992)</u>
Total Expenditures	<u>1,840,588</u>	<u>1,831,588</u>	<u>1,532,581</u>	<u>(299,007)</u>
Excess of Revenues Over (Under)				
Expenditures	23,528	19,501	22,726	3,225
Fund balances, beginning of year	(8,813)	(8,813)	33,954	42,767
Fund balances, end of year	<u>\$ 14,715</u>	<u>\$ 10,688</u>	<u>\$ 56,680</u>	<u>\$ 45,992</u>