

Region 9 Economic Development District  
of Southwest Colorado, Inc.

FINANCIAL STATEMENTS INDEPENDENT  
AUDITOR'S REPORT

September 30, 2016



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## INDEPENDENT AUDITOR'S REPORT

February 15, 2017

Board of Directors  
Region 9 Economic Development District of Southwest Colorado, Inc.  
Durango, Colorado

**Report on the Financial Statements**

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 Region 9 Economic Development District of Southwest Colorado, Inc. as of and for the year ended September 30, 2016, and the related notes to the financial statements, which collectively comprise the District'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 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 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.

***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 Region 9 Economic Development District of Southwest Colorado, Inc., as of September 30, 2016, and the respective changes in financial position, and, where applicable, cash flows thereof 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 on pages 3-8 and budgetary comparison information on page 29 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

February 15, 2017

Region 9 Economic Development District of Southwest Colorado, Inc.

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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 Information*

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise Region 9 Economic Development District of Southwest Colorado Inc.'s basic financial statements. The schedule of expenditures of federal awards is presented for purposes of additional analysis as required by Title 2 U.S. *Code of Federal Regulations* (CFR) Part 200, *Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards*, and is also not a required part of the basic financial statements.

The schedule of expenditures of federal awards is the responsibility of management and was derived from and relate directly to the underlying accounting and other records used to prepare the basic financial statements. Such 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 such 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.

**Other Reporting Required by Government Auditing Standards**

In accordance with *Government Auditing Standards*, we have also issued our report dated February 15, 2017, on our consideration of Region 9 Economic Development District of Southwest Colorado Inc.'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 Region 9 Economic Development District of Southwest Colorado, Inc.'s internal control over financial reporting and compliance.

 Beckstead & Co., LLC

**Region 9 Economic Development District of Southwest Colorado, Inc.**  
**Management's Discussion and Analysis**  
**September 30, 2016**

**OVERVIEW OF SELECTED FINANCIAL STATEMENTS**

**Statement of Net Position.** The statement of net position for the Region 9 Economic Development District of Southwest Colorado (Region 9 EDD), Inc. is divided into two categories, Governmental Activities and Business Type Activities (the proprietary funds). The difference between assets and liabilities is reported as *net position*. It provides information pertaining to the nature of Region 9 EDD's assets and liabilities. The statement also provides the basis for determining the overall financial health of Region 9 EDD including liquidity and financial flexibility. On September 30, 2016 total assets for Governmental Activities were \$368,116 and total assets for the Business-type Activities were \$4,921,959. Total liabilities for Governmental Activities are \$355,062 with the primary liability being the internal balance of \$316,409 owed to non-governmental funds. The total liabilities of the Business-type Activities are \$730,217 and include a negative liability of (\$316,409), the internal balance owed from other funds and \$1,004,256 owed to USDA on the IRP and RMAP notes. Net position for Governmental Activities is \$13,054. Net position for the Business-type Activities is \$4,191,742.

**Statement of Revenues, Expenses and Changes in Fund Balances – Governmental Fund.** The Governmental Fund consists of Region 9 EDD's General Fund #100. This fund tracks activities for several projects which include the Enterprise Zone Administration, the Four Corners Film Office, the Economic Development Administration (EDA) Planning and Technical Assistance program and other special projects. The statements of revenues, expenditures, and changes in fund balances measure the success of Region 9 EDD's governmental type operations and can be used to determine if intergovernmental grants and user fees are adequate to recover expenses. The total revenue for the fiscal year ended September 30, 2016 in the Governmental Funds was \$246,635 and the total expenditures was \$369,863 for a deficit of (\$123,228) of revenue over expenditures before other financing sources and uses.

**Statement of Revenues, Expenses and Changes in Fund Net Position – Proprietary Funds.** The statement of revenues, expenses, and changes in fund net position includes the revenues and expenses of the various loan programs. The total operating revenue in the Proprietary Funds for the fiscal year ended September 30, 2016 was \$289,671 and the total operating expenses were \$719,964 for an operating loss of (\$430,293). This operating loss was covered with funds from intergovernmental grants of \$827,319 for income before transfers of \$371,026.

**Statement of Cash Flows – Proprietary Funds.** The statement of cash flows presents information concerning Region 9 EDD's cash receipts and cash payments during the year from Proprietary Funds. The statement reports the cash receipts, cash payments and net cash from operations, investments, intergovernmental grants, and related financial activities. At September 30, 2016, cash and cash equivalents were \$457,881, and at September 30, 2015 they were \$582,362.

**FINANCIAL ANALYSIS**

A summary of the statement of net position is included as Table A below. Increases or decreases in Region 9 EDD's net position are indicators of improving or deteriorating financial health. Region 9

EDD's primary and major assets are the notes receivable from the business loan program and cash on hand available for lending.

**TABLE A**

**Statement of Net Position**

	<b>FY2015</b>	<b>FY2016</b>
Current and other assets	\$5,054,612	\$5,272,473
Capital assets, net	<u>27,792</u>	<u>17,602</u>
Total assets	<u>\$5,082,404</u>	<u>\$5,290,075</u>
Current liabilities	\$ 104,976	\$ 128,692
Long-term liabilities	<u>1,004,273</u>	<u>956,587</u>
Total liabilities	<u>\$ 1,109,249</u>	<u>\$ 1,085,279</u>
Net position:		
Invested in capital assets, net of related debt	\$ 27,792	\$ 17,602
Restricted	1,934,129	1,156,813
Unrestricted	<u>2,011,234</u>	<u>3,030,381</u>
Total net position	<u>\$ 3,973,155</u>	<u>\$ 4,204,796</u>

From October 1, 2015 to September 30, 2016 there was an increase in total assets of \$207,671 and a decrease in total liabilities of \$23,970. The increase in assets was due to an increase Notes Receivable. The decrease in liabilities was from paying down the Intermediary Relending Program (IRP) loans.

**Revenues, Expenses and Changes in Fund Balance / Net Position**

Table B summarizes activity in the Governmental Fund and Table C summarizes activity in the Proprietary Funds for FY 2015 and FY2016. Table B shows an increase in revenue and an increase in expenditures with a smaller deficit of revenues over expenditures FY2016. The ending fund balance increased due to other financing sources, which is the internal fund transfer that adjusts the due to and due from accounts between the Governmental and Proprietary funds.

**TABLE B**

**Statements of Activities-Governmental Funds**

	<b>FY ended September 30, 2015</b>	<b>FY ended September 30, 2016</b>
Total revenues	\$ 203,881	\$ 246,635
Total expenditures	<u>344,424</u>	<u>369,863</u>
Excess (Deficit) of revenues over (under) expenditures	(140,543)	(123,228)
Other financing sources	<u>109,457</u>	<u>137,129</u>
Change in fund balance	<u>(31,086)</u>	<u>13,901</u>
Fund balance (deficit), beginning	<u>24,407</u>	<u>(7,039)</u>
Fund balance (deficit), ending	<u>\$ (7,039)</u>	<u>\$ 6,862</u>

Table C shows a decrease in operating revenues and an increase in operating expenses. Non-operating revenues increased 46% from 2015. The change in net position of \$233,897 was an increase of \$290,783 compared to the previous year.

**TABLE C**

**Statement of Activities –Business-Type Activities**

	<b>FY ended September 30, 2015</b>	<b>FY ended September 30, 2016</b>
Total operating revenues	\$ 301,650	\$ 289,671
Total operating expenses	<u>681,025</u>	<u>719,964</u>
Operating income (loss)	(379,375)	(430,293)
Non-operating revenues (expenses), Intergovernmental grant and change in fair value of assets held	<u>431,946</u>	<u>801,319</u>
Other financing sources (uses) Transfers out	(109,457)	(137,129)
Change in net position	(56,886)	233,897
Net position, beginning	<u>4,014,731</u>	<u>3,957,845</u>
Net position, ending	<u>\$ 3,957,845</u>	<u>\$ 4,191,742</u>

**FINANCIAL HIGHLIGHTS**

Region 9 EDD’s total (both Governmental and Business Type activities) net position on September 30, 2016 was \$4,204,796 including cash of \$460,721. The majority of assets are in the Business Type Activities, loan program. Total Net Position increased by \$231,641 from the prior year.

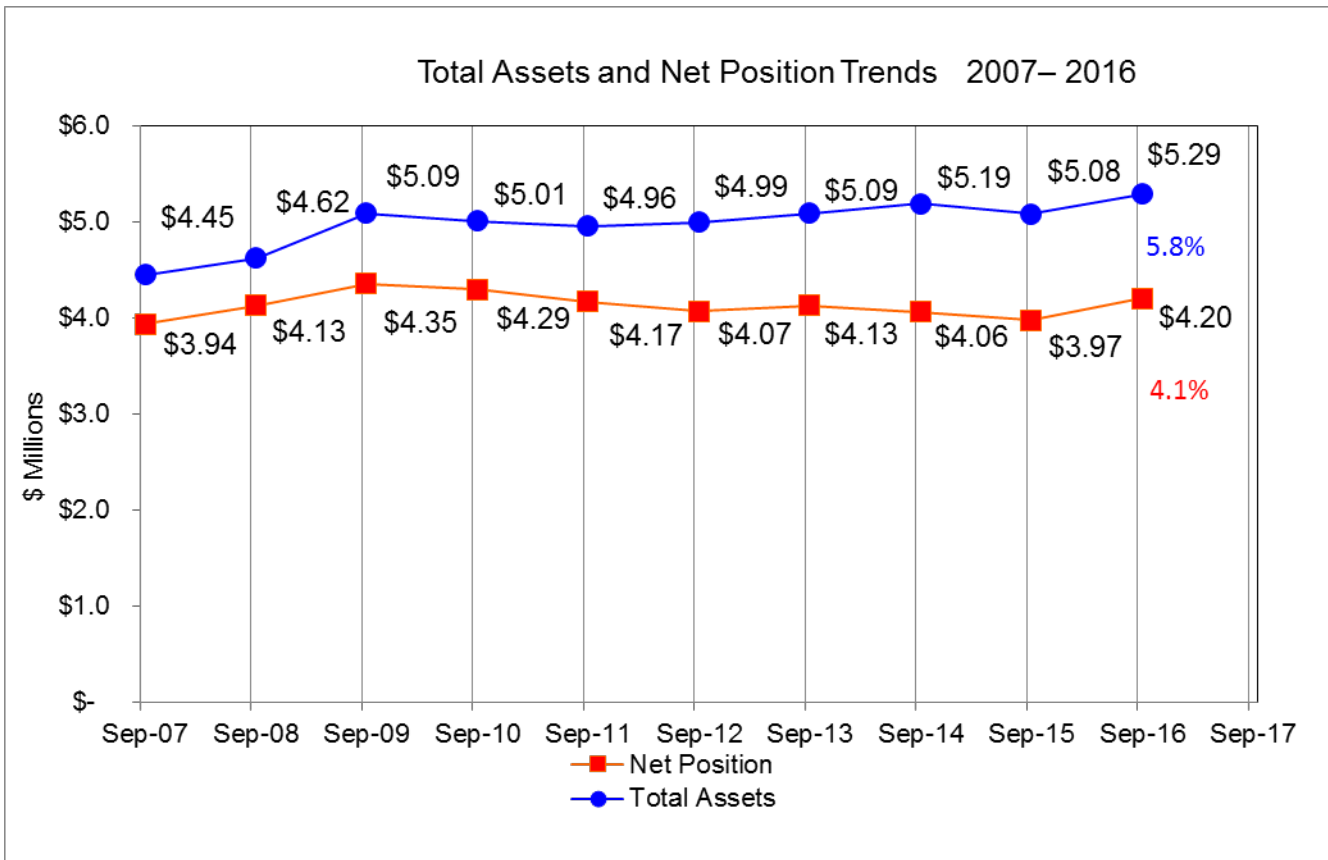
The Governmental Fund had total revenues of \$246,635 and total expenditures of \$369,863 for revenue over expenses of (\$123,228). By comparison, in the previous fiscal year, the Governmental Fund had total revenues of \$203,881 and total expenditures of (\$344.424) resulting in revenue over expenses of (\$140,543). The comparison shows an improvement from the previous year of \$17,315.

The Proprietary Fund operating revenues of \$289,671 and operating expenses of \$719,964 resulted in an operating loss of (\$430,293). For fiscal year 2015 the Proprietary Fund operating expenses of \$681,025 exceeded operating revenues of \$301,650 resulting in an operating loss of (\$379,375). Intergovernmental grants offset the operating loss by \$827,319 FY2016 for a net ending position of \$4,191,742. The operating loss FY15 was offset by intergovernmental grants of \$458,030 for a net ending position of \$3,957,845.

**MANAGEMENT’S DISCUSSION AND FINANCIAL ANALYSIS**

Total assets and net position has seen improvement this reporting period. The growth of total assets and net position per year had been consistent until FY2010 when total assets and net position began a decline (See charts below). This was due to in large part to the recession in terms of loans charged off, e.g. Bad Debt Expense in FY 2009 was \$560,677, \$280,566 in FY2010, and \$349,865 in FY2011.

The Net Position is the Total Assets less liabilities. In FY2016 the Total Assets increased by 5.8% and Net Position increased by 4.1%.



Even with the upturn in Total Assets and Net Position, preventing future declines is important. To reduce large loan losses, stricter lending practices were incorporated into Region 9 EDD’s loan policies. Staff are currently exploring new lending capital sources. These measures of increasing revenues and keeping expenses lower will help prevent future declining trends.

One factor affecting Region 9 EDD’s financial position is the low interest rate environment for loans and deposits. Another factor that contributes to a reduction in Region 9 EDD’s Net Position is providing matching funds to programs that are not reimbursed. The District spent \$141,746 FY2016 compared to \$169,338 the previous year for matching funds for the EDA Planning grant and other economic development initiatives. These activities include support of other programs such as the local economic development groups and data publications.

The primary liabilities of Region 9 EDD are the loans from the USDA for the Intermediary Re-lending Program (IRP) and a loan through the Rural Micro-entrepreneur Assistance Program. The notes payable at FY2016 end was \$1,004,256. Four certificates of deposits totaling \$64,398 are pledged as security for the IRP loans from USDA and \$13,051 as cash reserves for the RMAP.

Region 9 EDD continues to support the efforts of Southwest Colorado Accelerator Program for Entrepreneurs (SCAPE) by investing in the Program’s companies and utilizing financial resources for development and operations. Currently, the District has equity investments totaling \$36,488 in past companies completing the program. Also, as of September 30, 2016 Region 9 EDD has invested \$63.100 in 6 companies through the SCAPE Investment Fund. This investment is in the Fund not the individual companies.

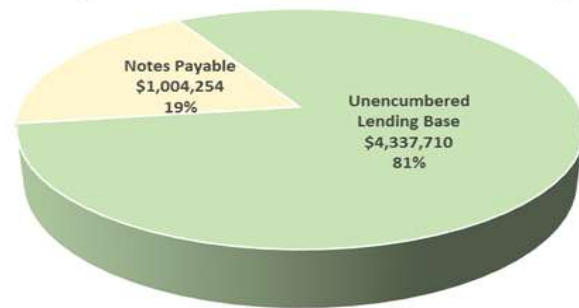
## FINANCIAL POLICY PRIORITIES

A financial goal of Region 9 EDD is to grow the loan portfolio to a level that the interest received on the loans will pay for operational costs of the business loan programs as well as help pay for the governmental programs that Region 9 EDD administers. The current target is \$10 million. This compares to the current loan balance (after allowance for loan loss) on September 30, 2016 of \$4,466,455. Loan portfolio growth takes place as more intergovernmental grants are received. The recent decline in market interest rates on loans and deposits may require the target to be higher for financial sustainability.

Another priority is to keep the amount of funds borrowed for the loan funds within an acceptable range. Region 9 EDD policy is that borrowed funds should not exceed 30% of the total Lending Base which is Notes Receivable; plus unrestricted cash on hand to lend; plus CDBG funds receivable.

September 30, 2016	
Gross Notes Receivable	\$ 4,826,758
Unrestricted Cash to Lend	\$ 381,386
CDBG AR	\$ 133,820
Lending Base	\$ 5,341,964
Notes Payable	<b>\$ 1,004,254</b>
Unencumbered Lending Base	\$ 4,337,710

**Notes Payable as a Percentage of the Lending Base**



Maintaining liquidity is an issue, especially in periods of high loan demand. Region 9 EDD relies on principal and interest payments on loans outstanding to cover operating costs and to provide liquid assets for additional loans. Region 9 EDD maintains an operating cash balance of \$100,000 in the primary bank account that is not included in the funds available for lending.

### Capital Assets and Debt Administration

**Capital Assets.** Region 9 EDD's investments in capital assets for its governmental activities as of September 30, 2016 amounts to \$17,602 (net of accumulated depreciation). Investments in capital assets include software, equipment, furniture & fixtures, and computers.

	<u>Governmental activities</u>		<u>Total</u>	
	2015	2016	2015	2016
Software	\$12,083	\$6,210	\$12,083	\$6,210
Equipment	5,488	5,462	5,488	5,462
Furniture & Fixtures	1,824	874	1,823	874
Computers	8,397	5,056	8,397	5,056
<b>Total</b>	<b>\$27,792</b>	<b>\$17,602</b>	<b>\$27,792</b>	<b>\$17,602</b>

There were no major capital asset events during the current fiscal year. Prior capital asset investments were made for new accounting software. The majority of the software asset will be fully depreciated in the next fiscal year.

**Long-term Debt.** For Year 2015-2016, Region 9 EDD had a total debt for its business-type activities of \$1,004,256. This amount is comprised of 5 notes payable to the United States Department of Agriculture (USDA). Four notes are through USDA’s Intermediary re-lending program (IRP). The original amount for each note was \$250,000, borrowed at 1% amortized over a 30 year period. The fifth note was through the Rural Microenterprise Assistance Program (RMAP). The original note amount was \$281,047 at 2% amortized over a twenty-year term. All notes are secured by restricted cash, receivables, contract rights, and general intangibles. The borrowed funds were loaned to businesses and are part of the receivables used as security.

	<u>Business-type activities</u>		<u>Total</u>	
	2015	2016	2015	2016
USDA (IRP-Note 1)	\$168,532	\$159,935	\$168,532	\$159,935
USDA (IRP-Note 2)	185,513	177,085	185,513	177,085
USDA (IRP-Note 3)	210,298	202,119	210,298	202,119
USDA (IRP-Note 4)	242,133	233,704	242,133	233,704
USDA (RMAP-Note 5)	245,201	231,413	245,201	231,413
<b>Total</b>	<b>\$1,051,677</b>	<b>\$1,004,256</b>	<b>\$1,051,677</b>	<b>\$1,004,256</b>

Total debt decreased by \$47,421 during the current fiscal year. Regular annual payments are made in January for notes 1 & 2 with the maturity dates in January 2033 and January 2035. The annual payments for notes 3 & 4 are made in March with maturity dates in March 2039 and March 2041. Payments on the RMAP note are made monthly. This note matures in December of 2030.

### **ECONOMIC FACTORS AND NEXT YEAR’S BUDGET**

The Board of Directors and the management of Region 9 EDD considered many factors when they established the budget for FY2017. Projected revenue from the loan funds, intergovernmental grant revenue, user fees and changes in operating costs are evaluated and considered before a final budget is adopted. Because of Region 9 EDD’s dependence on principal and interest payments to sustain its operating and loan activities, the 2017 budget is dependent on loan demand and Region 9 EDD’s borrowers’ ability to repay the loans due. The District is already exploring new sources for lending capital to shift reliance from the CDBG program. It’s important to diversify our lending pool to help safeguard Region 9’s lending program.

**CONTACT Region 9 EDD** This financial report is designed to provide our Board of Directors, funding partners and other interested parties with the general overview of Region 9 EDD’s finances and demonstrates accountability for the money it receives. If you have any questions or need additional information please contact Laura Lewis Marchino, Executive Director, 970-247-9621 or [laura@scan.org](mailto:laura@scan.org).

Region 9 Economic Development District of Southwest Colorado, Inc.

STATEMENT OF NET POSITION

September 30, 2016

	Primary Government		
	Governmental	Business-type	Total
<b>Assets</b>			
Cash and investments - unrestricted	\$ 319,249	\$ 64,022	\$ 383,271
Cash - restricted	-	77,450	77,450
Prepaid expenses	3,914	-	3,914
Accounts receivable	27,351	133,820	161,171
Notes receivable, net	-	4,466,455	4,466,455
Accrued interest receivable	-	14,123	14,123
Real property held for sale	-	60,000	60,000
Equity positions	-	106,089	106,089
Capital assets: equipment, net	17,602	-	17,602
<b>Total assets</b>	<b>368,116</b>	<b>4,921,959</b>	<b>5,290,075</b>
<b>Liabilities</b>			
Accounts payable	24,440	15,965	40,405
Accrued expenses	2,803	14,031	16,834
Unearned grant revenue	-	12,374	12,374
Internal balances	316,409	(316,409)	-
Long-term liabilities			
Accrued compensated absences	11,410	-	11,410
Notes payable			
Due or payable within one year	-	47,669	47,669
Due or payable after one year	-	956,587	956,587
<b>Total liabilities</b>	<b>355,062</b>	<b>730,217</b>	<b>1,085,279</b>
<b>Net position</b>			
Net investment in capital assets	17,602	-	17,602
Restricted for revolving loans	-	1,156,813	1,156,813
Unrestricted	(4,548)	3,034,929	3,030,381
<b>Total net position (deficit)</b>	<b>\$ 13,054</b>	<b>\$ 4,191,742</b>	<b>\$ 4,204,796</b>

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

Region 9 Economic Development District of Southwest Colorado, Inc.

STATEMENT OF ACTIVITIES

For the Year Ended September 30, 2016

Functions / Programs	Expenses	Program Revenues		Net (Expense) Revenue and Changes in Net Position		
		Charge for Services	Operating Grants and Contributions	Primary Government		
				Governmental Activities	Business-type Activities	Total
Primary government:						
Governmental activities:						
Economic development	\$ 386,020	\$ 87,433	\$ 117,428	\$ (181,159)		\$ (181,159)
Business-type activities:						
Revolving loans	719,964	289,671	827,319		\$ 397,026	397,026
Total primary government	<u>\$ 1,105,984</u>	<u>\$ 377,104</u>	<u>\$ 944,747</u>	(181,159)	397,026	215,867
General revenues						
Earnings on investments				378	-	378
Impairment of value of equity positions				-	(26,000)	(26,000)
Miscellaneous				41,396	-	41,396
Transfers in (out)				137,129	(137,129)	-
Total general revenues and transfers				<u>178,903</u>	<u>(163,129)</u>	<u>15,774</u>
Change in net position				(2,256)	233,897	231,641
Net position, beginning				<u>15,310</u>	<u>3,957,845</u>	<u>3,973,155</u>
Net position, ending				<u>\$ 13,054</u>	<u>\$ 4,191,742</u>	<u>\$ 4,204,796</u>

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

Region 9 Economic Development District of Southwest Colorado, Inc.

BALANCE SHEET - GOVERNMENTAL FUND - GENERAL FUND

September 30, 2016

**ASSETS**

	<u>General Fund</u>
<b>Assets</b>	
Cash	\$ 308,059
Cash in CSAFE	11,190
Prepaid expenses	3,914
Accounts and grants receivable	27,351
Total assets	<u>\$ 350,514</u>

**LIABILITIES AND FUND BALANCES**

<b>Liabilities</b>	
Accounts payable	\$ 24,440
Accrued expenses	2,803
Due to other funds	316,409
Total liabilities	<u>343,652</u>

<b>Fund balances</b>	
Nonspendable	3,914
Unassigned	2,948
Total fund balance (deficit)	<u>6,862</u>
Total liabilities and fund balance	<u>\$ 350,514</u>

Total governmental fund balance (deficit)	\$ 6,862
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Amounts reported for governmental activities in the statement on net position are different because:

Capital assets used in the governmental activities are not financial resources and therefore are not reported in the funds	17,602
Accrued compensated absences are not due and payable in the current period and therefore are not reported in the funds	<u>(11,410)</u>
Net position of governmental activities	<u>\$ 13,054</u>

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

Region 9 Economic Development District of Southwest Colorado, Inc.

STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCES - GOVERNMENTAL FUND -  
 GENERAL FUND  
 For the Year Ended September 30, 2016

	<u>General Fund</u>
<b>Revenues</b>	
Intergovernmental	
Grants	\$ 108,302
Dues assessed to member governments	40,078
Charges for services	47,355
Local sources	
Contributions and grants	9,126
Interest	378
Miscellaneous	41,396
Total revenues	<u>246,635</u>
<b>Expenditures</b>	
Current	
Economic development	369,863
Total expenditures	<u>369,863</u>
Excess (deficiency) of revenues over (under) expenditures	<u>(123,228)</u>
<b>Other financing sources and (uses)</b>	
Transfers in	137,129
Transfers out	-
Other financing sources and (uses)	<u>137,129</u>
Net change in fund balances	13,901
Fund balance (deficit), beginning	<u>(7,039)</u>
Fund balance (deficit), ending	<u>\$ 6,862</u>

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

Region 9 Economic Development District of Southwest Colorado, Inc.

RECONCILIATION OF THE STATEMENT OF REVENUES,  
EXPENDITURES, AND CHANGES IN FUND BALANCES - GOVERNMENTAL FUNDS  
TO THE STATEMENT OF ACTIVITIES

For the Year Ended September 30, 2016

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Net change in fund balances - total governmental funds	\$ 13,901
Amounts reported for governmental activities in the statement of activities are different because:	
Governmental funds report capital outlay as expenditures. However, in the statement of activities the cost of those assets is allocated over their estimated useful lives and reported as depreciation expense.	
Capital outlay	2,669
Depreciation expense	(12,859)
Governmental funds do not record the change in accrued compensated absences during the year as an expenditure. However, in the statement of activities, this change is shown as additional expense. This is the amount of the change in accrued compensated absences in the current year.	
	<u>(5,967)</u>
Change in net position of governmental activities	<u>\$ (2,256)</u>

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

Region 9 Economic Development District of Southwest Colorado, Inc.

STATEMENT OF NET POSITION - PROPRIETARY FUNDS

September 30, 2016

	Business-type Activities - Enterprise Revolving Loan Funds				Total
	CDBG Revolving Loan Fund	Revolving Loan Fund	Intermediary Re-lending Loan Fund	EDA Revolving Loan Fund - Nonmajor	
<b>Assets</b>					
Cash-unrestricted	\$ -	\$ -	\$ 64,022	\$ -	\$ 64,022
Cash-restricted	-	-	77,450	-	77,450
Due from other funds	-	168,215	151,356	205,079	524,650
Grants and other receivables	133,770	50	-	-	133,820
Equity positions	-	106,089	-	-	106,089
Prepaid expenses	-	-	-	-	-
Notes receivable, net	812,742	2,772,927	706,891	173,895	4,466,455
Accrued interest receivable	2,009	9,045	2,488	581	14,123
Real property held for sale	-	-	60,000	-	60,000
Depreciable capital asset, net	-	-	-	-	-
Total assets	948,521	3,056,326	1,062,207	379,555	5,446,609
<b>Liabilities</b>					
Accounts payable	2,858	13,107	-	-	15,965
Accrued expenses	5,634	8,290	95	12	14,031
Unearned grant revenue	12,374	-	-	-	12,374
Due to other funds	208,241	-	-	-	208,241
Notes payable					
Portion due within one year	-	-	47,669	-	47,669
Portion due after one year	-	-	956,587	-	956,587
Total liabilities	229,107	21,397	1,004,351	12	1,254,867
<b>Net position</b>					
Net investment in capital assets	-	-	-	-	-
Restricted for revolving loans	719,414	-	57,856	379,543	1,156,813
Unrestricted	-	3,034,929	-	-	3,034,929
Total net position	\$ 719,414	\$ 3,034,929	\$ 57,856	\$ 379,543	\$ 4,191,742

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

Region 9 Economic Development District of Southwest Colorado, Inc.

STATEMENT OF REVENUES, EXPENSES, AND CHANGES IN NET POSITION - PROPRIETARY FUNDS

For the Year Ended September 30, 2016

	Business-type Activities - Enterprise Revolving Loan Funds				Total
	CDBG Revolving Loan Fund	Revolving Loan Fund	Intermediary Re-lending Loan Fund	EDA Revolving Loan Fund - Nonmajor	
Operating revenues					
Loan fees	\$ 12,802	\$ 19,877	\$ 2,771	\$ 727	\$ 36,177
Loan interest	56,064	133,568	41,208	10,552	241,392
Miscellaneous	42	11,808	252	-	12,102
Total operating revenues	<u>68,908</u>	<u>165,253</u>	<u>44,231</u>	<u>11,279</u>	<u>289,671</u>
Operating expenses					
Loan processing costs					
Purchased services	1,945	1,619	162	-	3,726
Credit reserve registration fees	7,273	10,208	1,270	300	19,051
Administration					
Salaries and benefits	239,918	171,189	2,066	710	413,883
Purchased services	52,547	30,866	4,160	4,709	92,282
Supplies and materials	15,111	11,994	142	99	27,346
Depreciation	-	-	-	-	-
Miscellaneous expenses	11,845	1,639	390	40	13,914
Contributions	-	12,250	-	-	12,250
Interest expense	-	-	12,851	-	12,851
Provision for loan loss	18,860	130,079	(10,431)	(13,847)	124,661
Total operating expenses	<u>347,499</u>	<u>369,844</u>	<u>10,610</u>	<u>(7,989)</u>	<u>719,964</u>
Operating income (loss)	(278,591)	(204,591)	33,621	19,268	(430,293)
Nonoperating revenues (expenses)					
Intergovernmental grants	808,323	18,996	-	-	827,319
Impairment of equity positions	-	(26,000)	-	-	(26,000)
Income (loss) before transfers	<u>529,732</u>	<u>(211,595)</u>	<u>33,621</u>	<u>19,268</u>	<u>371,026</u>
Other financing sources (uses)					
Transfers in	-	1,359,937	-	-	1,359,937
Transfers out	(1,359,937)	(137,129)	-	-	(1,497,066)
Other financing sources (uses)	<u>(1,359,937)</u>	<u>1,222,808</u>	<u>-</u>	<u>-</u>	<u>(137,129)</u>
Change in net position	(830,205)	1,011,213	33,621	19,268	233,897
Net position, beginning	<u>1,549,619</u>	<u>2,023,716</u>	<u>24,235</u>	<u>360,275</u>	<u>3,957,845</u>
Net position, ending	<u>\$ 719,414</u>	<u>\$ 3,034,929</u>	<u>\$ 57,856</u>	<u>\$ 379,543</u>	<u>\$ 4,191,742</u>

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

Region 9 Economic Development District of Southwest Colorado, Inc.

STATEMENT OF CASH FLOWS - PROPRIETARY FUNDS

For the Year Ended September 30, 2016

	Business-type Activities - Enterprise Revolving Loan Funds				Total
	CDBG Revolving Loan Fund	Revolving Loan Fund	Intermediary Re-lending Loan Fund	EDA Revolving Loan Fund - Nonmajor	
Cash flows from operating activities:					
Cash received from customers	\$ 12,844	\$ 31,635	\$ 3,023	\$ 727	\$ 48,229
Interest received	54,340	142,106	40,006	10,429	246,881
Cash paid to employees	(239,918)	(171,189)	(2,066)	(710)	(413,883)
Cash paid to suppliers	(83,639)	(61,702)	(6,749)	(6,119)	(158,209)
Net cash provided (used) by operating activities	(256,373)	(59,150)	34,214	4,327	(276,982)
Cash flows from noncapital financing activities:					
Intergovernmental grants	930,843	30,336	-	-	961,179
Payments on debt	-	-	(47,421)	-	(47,421)
Interfund transfers	(951,205)	814,076	-	-	(137,129)
Net cash provided (used) by noncapital financing activities	(20,362)	844,412	(47,421)	-	776,629
Cash flows from capital and related financing activities:					
Payments of interest	-	-	(12,851)	-	(12,851)
Net cash provided (used) by capital and related financing activities	-	-	(12,851)	-	(12,851)
Cash flows from investing activities:					
Purchase of investments	-	(13,000)	-	-	(13,000)
Loans distributed	(680,909)	(965,039)	(324,600)	(30,000)	(2,000,548)
Loan payments received	291,760	565,817	350,736	53,823	1,262,136
Loan loss recoveries	6,862	34,105	79,369	19,799	140,135
Net cash provided (used) by investing activities	(382,287)	(378,117)	105,505	43,622	(611,277)
Increase (decrease) in cash and cash equivalents	(659,022)	407,145	79,447	47,949	(124,481)
Cash and cash equivalents at beginning of year	450,781	(238,930)	213,381	157,130	582,362
Cash and cash equivalents at end of year	<u>\$ (208,241)</u>	<u>\$ 168,215</u>	<u>\$ 292,828</u>	<u>\$ 205,079</u>	<u>\$ 457,881</u>

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

Region 9 Economic Development District of Southwest Colorado, Inc.

STATEMENT OF CASH FLOWS - PROPRIETARY FUNDS - Continued

For the Year Ended September 30, 2016

	Business-type Activities - Enterprise Revolving Loan Funds				Total
	CDBG Revolving Loan Fund	Revolving Loan Fund	Intermediary Re-lending Loan Fund	EDA Revolving Loan Fund	
Reconciliation of operating income (loss) to net cash provided (used) by operating activities					
Operating income (loss)	\$ (278,591)	\$ (204,591)	\$ 33,621	\$ 19,268	\$ (430,293)
Adjustments to reconcile operating income (loss) to net cash provided (used) by operating activities					
Provision for loan loss	18,860	130,079	(10,431)	(13,847)	124,661
Interest expense	-	-	12,851	-	12,851
Depreciation	-	-	-	-	-
(Increase) decrease in accounts receivable	-	(50)	-	-	(50)
(Increase) decrease in accrued interest	(1,724)	8,538	(1,202)	(123)	5,489
(Increase) decrease in prepaid expenses	-	-	-	-	-
Increase (decrease) in accounts payable	5,082	6,874	(625)	(971)	10,360
Total adjustments	<u>22,218</u>	<u>145,441</u>	<u>593</u>	<u>(14,941)</u>	<u>153,311</u>
Net cash provided (used) by operating activities	<u>\$ (256,373)</u>	<u>\$ (59,150)</u>	<u>\$ 34,214</u>	<u>\$ 4,327</u>	<u>\$ (276,982)</u>
Statement of Net Position classifications					
Cash - unrestricted	\$ -	\$ -	\$ 64,022	\$ -	\$ 64,022
Cash - restricted	-	-	77,450	-	77,450
Due from other funds	-	168,215	151,356	205,079	524,650
Due to other funds	<u>(208,241)</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>(208,241)</u>
Cash and cash equivalents at end of year	<u>\$ (208,241)</u>	<u>\$ 168,215</u>	<u>\$ 292,828</u>	<u>\$ 205,079</u>	<u>\$ 457,881</u>
Noncash Investing and Financing Activities:					
Assets and liabilities transferred upon closing of CDBG grant:					
Due to / from other funds	\$ (951,205)	\$ 951,205	\$ -	\$ -	\$ -
Loans	(470,883)	470,883	-	-	-
Allowance for loan loss	62,560	(62,560)	-	-	-
Accrued interest receivable	(2,345)	2,345	-	-	-
Accounts payable	1,936	(1,936)	-	-	-
Net position	1,359,937	(1,359,937)	-	-	-

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

NOTES TO FINANCIAL STATEMENTS

September 30, 2016

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**SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES**

Reporting Entity

Region 9 Economic Development District of Southwest Colorado, Inc. (the District), is a not-for-profit corporation formed by local governments in Southwest Colorado in 1989 to provide economic development programs to Southwest Colorado and operates solely for the purpose of administering development grants.

The financial statements of the District have been prepared under accounting standards established by the Governmental Accounting Standards Board. The District was created by governmental entities; those governmental entities control a majority of the District's officers and the District can be dissolved by the governments that created it. Under guidance provided by the Governmental Accounting Standards Board, the District is to be considered a government for determination of the accounting standards applicable to its financial statements. The significant accounting policies applied are described below to enhance the usefulness of the financial statements to the reader.

Government-wide and Fund Financial Statements

The government-wide statements include the statement of net position and the statement of activities, which display information about the primary government. These statements include the financial activities of the overall government. Eliminations have been made to minimize the double-counting of internal activities. These statements distinguish between the governmental and business-type activities of the District. Governmental activities generally are financed through intergovernmental revenues and other non-exchange transactions. Business-type activities are financed in whole or in part by fees charged to external parties.

The statement of activities presents a comparison between direct expenses and program revenue for the different business-type activities of the District and for each function of the District's governmental activities. Direct expenses are those that are specifically associated with a program or function and, therefore, are clearly identifiable to a particular function. The District has adopted an informal indirect expense allocation plan rather than employ a formal indirect cost rate proposal (ICRP). These indirect expense allocations are reflected in the expenditures of the District's fund financial statements. Program revenues include (a) fees, fines, and charges paid by the recipients of goods or services offered by the programs and (b) grants and contributions that are restricted to meeting the operational or capital requirements of a particular program. Revenues that are not classified as program revenues are presented as general revenues.

The fund financial statements provide information about the District's funds. Separate statements for each fund category (governmental and proprietary) are presented. The emphasis of fund financial statements is on major governmental and enterprise funds, each displayed in a separate column. All remaining governmental and enterprise funds are aggregated and reported as non-major funds.

Proprietary fund operating revenues, such as charges for services, result from exchange transactions associated with the principal activity of the fund. Exchange transactions are those in which each party received and gives up essentially equal values. Nonoperating revenues, such as subsidies, grants, and investment earnings, result from nonexchange transactions or ancillary activities.

NOTES TO FINANCIAL STATEMENTS

September 30, 2016

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The District reports the following major governmental funds:

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

Proprietary funds are used to account for those operations that are financed and operated in a manner similar to private business or where the board has decided that the determination of revenues earned, costs incurred and/or net income is necessary for management accountability. All of the District's proprietary funds are enterprise funds. The District's major proprietary funds are as follows:

CDBG Revolving Loan Fund – used to account for collecting, disbursing and administering federal funds received in a Community Development Block Grant passed through the State of Colorado for the purpose of providing loans to qualified businesses in the region. There have been seven of these grants awarded since 1995. The seventh contract was awarded July 20, 2015 and was active in this reporting period.

Revolving Loan Fund – used to account for disbursing, collecting and administering loans that are considered “revolved” or that were originally made in a grant that has been closed.

Intermediary Re-lending Loan Fund – used to account for collecting, disbursing, and administering federal funds received from a USDA loan for the purpose of providing loans to qualified businesses in the region.

EDA Revolving Loan Fund - used to account for disbursing, collecting and administering federal funds from the Economic Development Administration for the purpose of providing loans to qualified businesses in the region.

Measurement Focus, Basis of Accounting

The government-wide and proprietary fund financial statements are reported using the economic resources measurement focus and accrual basis of accounting. Revenues are recorded when earned and expenses are recorded at the time liabilities are incurred, regardless of when the related cash flows take place. Non-reciprocal transactions, in which the District gives (or receives) value without directly receiving (or giving) equal value in exchange, include grants and donations. On an accrual basis, revenue from grants and donations are recognized in the fiscal year in which all eligibility requirements have been satisfied.

Governmental funds are reported using the current financial resources measurement focus and the modified accrual basis of accounting. Under this method, revenues are recognized when measurable and available. The District considers all revenues reported in the governmental funds to be available if the revenues are collected within sixty days after year-end. Grants, donations, and interest are considered to be susceptible to accrual. Expenditures are recorded when the related fund liability is incurred, except for principal and interest on general long-term debt and claims and judgments, which are recognized as expenditures to the extent they have matured. General capital asset acquisitions are reported as expenditures in governmental funds. Proceeds of general long-term debt and acquisitions under capital leases are reported as other financing sources.

NOTES TO FINANCIAL STATEMENTS

September 30, 2016

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Deposits and Investments

The District's cash and cash equivalents are comprised of cash on hand, demand deposits and short-term investments with original maturities of three months or less from the date of acquisition. Certain funds hold all cash balances and reflect other funds' equity in these balances as a due to/from other funds. These amounts are considered cash equivalents and are eliminated in the governmental and business-type activities columns of the statement of net position, except for any net residual amounts due between governmental and business-type activities, which are reclassified and presented as internal balances.

Equity Positions

Equity positions consist of securities issued by private companies; may be subject to restrictions on their resale; and are generally illiquid. Purchase of these equity positions are made primarily for the purpose of promoting economic development in conjunction with the District's mission. Secondly, the District seeks to realize appreciation and ultimately a gain on the sale of these positions. These equity positions are valued at cost, as adjusted for estimated impairment (if applicable). Gains, and losses not previously recognized through impairment, are recognized upon sale or liquidation of the equity position.

Notes Receivable

All notes receivable are shown net of an allowance for uncollectible loans. Loan payments past due more than 30 days are considered delinquent. Accrual of interest ceases when the loan is written off. The allowance for uncollectible loans is an estimate computed by grading each outstanding loan and applying percentages to each grade. Percentages are based on historical write-offs for similar loans. The allowance for uncollectible loans is reduced for each loan that is registered in the Colorado Credit Reserve Program. This program is a pooled insurance type program whereby each participating lender establishes a reserve account to cover losses on the loans it registers under the program. The District pays a registration fee into the reserve account each time a loan is registered. Registered small business loans qualify for a state funded match in the reserve account. Loan losses are covered by the program up to the total amount in the reserve account.

Real Property Held for Sale

The District occasionally holds real property that is acquired through foreclosure on collateralized notes receivable that default. The property is recorded at estimated fair value at the date of foreclosure and is subsequently adjusted for estimated impairment (if applicable). Gains, and losses not previously recognized through impairment, are recognized upon sale or liquidation of the property.

Restricted Assets

Certain assets of the District are classified as restricted assets because their use is restricted by grant agreements.

Capital Assets

Purchased or constructed capital assets are reported at cost. Donated capital assets are recorded at their estimated fair value at the date of donation. The cost of normal maintenance and repairs that do not add to the value of the asset or materially extend assets' lives are not capitalized. The District defines capital assets as assets with an initial, individual cost of more than \$1,000.

Capital assets of the primary government consist of office equipment and software and are depreciated using the straight-line method over a 5-year estimated useful life.

NOTES TO FINANCIAL STATEMENTS

September 30, 2016

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Compensated Absences

The total compensated absence liability is reported on the government-wide financial statements. Proprietary funds report the total compensated liability in each individual fund at the fund reporting level. Governmental funds report the compensated absence liability at the fund reporting level when paid.

Fund Balance

Generally, fund balance represents the difference between the current assets and current liabilities. The District reports as restricted those portions of fund balance which are legally segregated for a specific future use or which do not represent available, spendable resources and therefore are not available for appropriation or expenditure. Fund balance related to prepaid expenses is not in spendable form and is reported as nonspendable fund balance. Unassigned fund balance indicates that portion of fund balance that is available for appropriation in future periods. Assignment and commitment indicate management's intent to set aside resources for specific purposes. The District's policy with regard to the order of spending is to spend the restricted funds first, if available, followed by committed funds, assigned funds, and finally, unassigned funds. The Board commits funds by resolution and assigns funds by motion. The same level of action is required to remove a commitment or assignment of funds.

Net Position

Net position represents the difference between assets and liabilities. Net position invested in capital assets net of related debt, consists of capital assets, net of accumulated depreciation, reduced by the outstanding balances of any borrowing used for the acquisition, construction or improvement of those assets. This net position amount also is adjusted by any bond issuance deferred amount. Net position is reported as restricted when there are limitations imposed on its use either through the enabling legislation adopted by the District or through external restrictions imposed by creditor, grantors, or laws or regulations of governments. All other net position is reported as unrestricted.

Interfund Activity

Flow of cash or goods from one fund to another without a requirement for repayment are reported as interfund transfers. Interfund transfers are reported as other financing sources and (uses) in governmental funds and in proprietary funds.

Income Taxes

The District has received an Internal Revenue Service exemption from federal income taxes under Internal Revenue Code section 501(c)(6). The District adopted accounting requirements that prescribe when to recognize and how to measure the financial statement effects of income tax positions taken or expected to be taken on its income tax returns, including the position that the District continues to qualify to be treated as a tax-exempt entity for both federal and state income tax purposes. These rules require management to evaluate the likelihood that, upon examination by relevant taxing jurisdictions, those income tax positions would be sustained.

Based on that evaluation, if it were more than 50% probable that a material amount of income tax would be imposed at the entity level upon examination by the relevant taxing authorities, a liability would be recognized in the accompanying balance sheet along with any interest and penalties that would result from that assessment. When the District has unrelated business income, the federal Exempt Organization Business Income Tax Return (Form 990T) would be subject to examination by the Internal Revenue Service for three years after filing. Should any penalties and interest be incurred, they would be recognized as administration expenses.

NOTES TO FINANCIAL STATEMENTS

September 30, 2016

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Estimates

The preparation of financial statements in conformity with generally accepted accounting principles requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reported period. Actual results could differ from those estimates.

Budgetary Information

The District, a not-for-profit corporation, is not required to adopt an annual budget or to appropriate funds and is not subject to the Colorado state budget law. A budget to actual comparison is presented for those funds required to be reported by general accepted accounting principles.

Subsequent Events

Management has evaluated subsequent events through February 15, 2017, the date which the financial statements were available to be issued. No events were identified that required additional disclosure.

**CASH**

Cash Deposits

Cash includes money held in demand deposit and money market accounts. Custodial credit risk for these deposits is the risk that in the event of a bank failure, the District's deposits may not be returned to it. The District allocates its deposits to various financial institutions to mitigate this risk. As of September 30, 2016, the District's bank balance was not exposed to custodial credit risk because it was insured.

Investment in CSAFE

At December 31, 2016, the District had \$11,190 invested in the Colorado Surplus Asset Fund Trust (CSAFE), which is structured to be a stable value investment pool to meet the investment needs of local governments in Colorado. The State Securities Commission administers and enforces all State statutes governing the Trust. CSAFE seeks to maintain, but does not guarantee a net asset value at \$1.00 per share. CSAFE may invest in securities of the United States Treasury, United States Agencies, Primary Dealer Repurchase Agreements, AAAM rated money market funds, approved Colorado Banks and highly rated commercial paper. A designated custodial bank serves as custodian for CSAFE's investment portfolio and serves as the depository in connection with direct investments and withdrawals. The custodian's internal records segregate investments owned by CSAFE. As of September 30, 2016, the public entity investment pool, CSAFE, was rated AAAM by Standard & Poor's Financial Services, LLC.

*Interest rate risk.* The District does not have a formal investment policy that limits investment maturities as a means of managing its exposure to fair value losses arising from increasing interest rates. Colorado statutes do not allow investment maturities to exceed five years.

*Credit risk.* The District's policy allows investments meeting defined rating and risk rating criteria as follows:

- Obligations of the United States and certain U.S. government agency securities
- Local government investment pools
- Written repurchase agreements collateralized by certain authorized securities
- Certain international agency securities
- Certain mutual funds

*Concentration of credit risk.* The District places no limit on the amount the District may invest in any one issuer. At September 30, 2016, 100% of District's invested funds are in CSAFE.

NOTES TO FINANCIAL STATEMENTS

September 30, 2016

**RESTRICTED CASH**

In the Intermediary Re-lending Loan Fund, cash of \$77,450 has been restricted. These funds were pledged by the Board of Directors as collateral for local loan programs.

**NOTES RECEIVABLE**

Notes receivable represent loans made by the District to qualifying local businesses. The loans' proceeds were funded with a Community Development Block Grant, an Economic Development Administration Planning and Technical Assistance Fund Grant and four USDA Intermediary Re-lending Loans. Loans are typically collateralized by real or tangible property (second or next available position on deed of trust) and personal guaranties. The notes receivable are recorded in their respective Revolving Loan Funds. Collections of principal and interest are deposited back into the program to be utilized for additional loans and administrative expenses. Notes receivable balances and related allowances at September 30, 2016 have been reported as follows:

	CDBG Revolving Loan Fund	Revolving Loan Fund	Intermediary Re-lending Loan Fund	EDA Revolving Loan Fund	Totals
Notes receivable	\$ 835,544	\$ 3,052,739	\$ 759,469	\$ 179,006	\$ 4,826,758
Allowance for losses on uncollectible loans	<u>(22,802)</u>	<u>(279,812)</u>	<u>(52,578)</u>	<u>(5,111)</u>	<u>(360,303)</u>
Notes, net of allowance	<u>\$ 812,742</u>	<u>\$ 2,772,927</u>	<u>\$ 706,891</u>	<u>\$ 173,895</u>	<u>\$ 4,466,455</u>

A summary of note receivable activity for the year follows:

	Notes Receivable				
	CDBG Revolving Loan Fund	Revolving Loan Fund	Intermediary Re-lending Loan Fund	EDA Revolving Loan Fund	Totals
Balance at beginning of year	\$ 925,324	\$ 2,494,526	\$ 863,968	\$ 225,531	\$ 4,509,349
Loans disbursed	680,909	965,039	324,600	30,000	2,000,548
Loans charged-off	(8,046)	(311,892)	(78,363)	(22,702)	(421,003)
Principal collections	(291,760)	(565,817)	(350,736)	(53,823)	(1,262,136)
Inter-fund transfer	<u>(470,883)</u>	<u>470,883</u>	-	-	-
Balance at September 30, 2016	<u>\$ 835,544</u>	<u>\$ 3,052,739</u>	<u>\$ 759,469</u>	<u>\$ 179,006</u>	<u>\$ 4,826,758</u>

NOTES TO FINANCIAL STATEMENTS

September 30, 2016

An analysis of the change in the allowance for uncollectible loans is as follows:

	Allowance for Loan Losses				Totals
	CDBG Revolving Loan Fund	Revolving Loan Fund	Intermediary Re-lending Loan Fund	EDA Revolving Loan Fund	
Balance at beginning of year	\$ 67,686	\$ 364,960	\$ 62,003	\$ 21,861	\$ 516,510
Loans charged off	(8,046)	(311,892)	(78,363)	(22,702)	(421,003)
Recoveries	6,862	34,105	79,369	19,799	140,135
Loan loss reserve	18,860	130,079	(10,431)	(13,847)	124,661
Inter-fund transfer	<u>(62,560)</u>	<u>62,560</u>	<u>-</u>	<u>-</u>	<u>-</u>
Balance at September 30, 2016	<u>\$ 22,802</u>	<u>\$ 279,812</u>	<u>\$ 52,578</u>	<u>\$ 5,111</u>	<u>\$ 360,303</u>

**EQUITY POSITIONS AND REAL PROPERTY HELD FOR SALE**

At September 30, 2016 the real property held for sale had a carrying amount of \$60,000.

The equity positions were comprised of the following:

Pagosa Verde LLC	\$ 6,500
Echo Jar, Inc.	12,327
Ecospire, PBC	12,327
New Hat Foods	11,835
SCAPE Investment Fund	<u>63,100</u>
	<u>\$ 106,089</u>

The Pagosa Verde LLC, Echo Jar, Inc., Ecospire, PBC, and New Hat Foods investments represent equity ownership in small, closely-held operations.

The investment in the SCAPE Investment Fund represents amounts held by this investment fund at September 30, 2016 that have been or will be invested in small, closely-held startups.

NOTES TO FINANCIAL STATEMENTS

September 30, 2016

**CAPITAL ASSETS**

A summary of changes in general capital assets during the year ended September 30, 2016 follows:

	Beginning Balance	Increases	Decreases	Ending Balance
Governmental activities				
Capital assets being depreciated - equipment	\$ 77,779	\$ 7,920	\$ (6,564)	\$ 79,135
Less accumulated depreciation for equipment	<u>(49,987)</u>	<u>(12,859)</u>	<u>1,313</u>	<u>(61,533)</u>
Governmental activities capital assets, net	<u>\$ 27,792</u>	<u>\$ (4,939)</u>	<u>\$ (5,251)</u>	<u>\$ 17,602</u>
Business-type activities				
Capital assets being depreciated - software	\$ 6,500	\$ -	\$ -	\$ 6,500
Less accumulated depreciation for software	<u>(6,500)</u>	<u>-</u>	<u>-</u>	<u>(6,500)</u>
Business-type activities capital assets, net	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>

Depreciation expense was charged to functions/programs of the primary government as follows:

Governmental activities:	
Economic development	\$ 12,859
Business-type activities:	
Administration	\$ -

**NOTES PAYABLE**

At September 30, 2016, the District had borrowed \$250,000 under each of four loans and \$281,047 under a fifth loan from the United States Department of Agriculture (USDA) through its intermediary re-lending program. The four \$250,000 notes bear interest at 1% and the \$281,047 note bears interest at 2%. All are secured by restricted cash, receivables, contract rights, and general intangibles. The first two years of each loan require interest only payments. Each of the \$250,000 notes carries thirty-year payment terms. The \$281,047 note carries a twenty-year payment term. The \$250,000 notes' final payments are due in January 2033, January 2035, March 2039, and March 2041. The \$281,047 note's final payment is due in December 2030.

Changes in long-term obligations for the year ended September 30, 2016 are as follows:

	Beginning Balance	Additions	Reductions	Ending Balance	Due Within One Year
Business-type activities:					
USDA (Note 1)	\$ 168,532	\$ -	\$ 8,597	\$ 159,935	\$ 8,657
USDA (Note 2)	185,513	-	8,428	177,085	8,483
USDA (Note 3)	210,298	-	8,179	202,119	8,234
USDA (Note 4)	242,133	-	8,429	233,704	8,244
USDA (RMAP) (Note 5)	<u>245,201</u>	<u>-</u>	<u>13,788</u>	<u>231,413</u>	<u>14,051</u>
Total	<u>\$ 1,051,677</u>	<u>\$ -</u>	<u>\$ 47,421</u>	<u>\$ 1,004,256</u>	<u>\$ 47,669</u>

NOTES TO FINANCIAL STATEMENTS

September 30, 2016

The following is a schedule of debt service to maturity for the five notes combined:

<u>Year</u>	<u>Principal</u>	<u>Interest</u>	<u>Total Payment</u>
2017	\$ 47,669	\$ 12,561	\$ 60,230
2018	48,543	11,687	60,230
2019	49,182	11,048	60,230
2020	49,813	10,417	60,230
2021	50,488	9,742	60,230
2022-2026	262,636	38,514	301,150
2027-2031	264,945	20,642	285,587
2032-2036	158,138	7,945	166,083
2037-2041	72,842	1,723	74,565
	<u>\$ 1,004,256</u>	<u>\$ 124,279</u>	<u>\$ 1,128,535</u>

**OPERATING LEASE**

The District leases office space under a long-term operating lease in a building owned by another nonprofit organization. The lease calls for monthly payments of \$1,260 (increased from \$1,200 during the year) and is classified as an operating lease. Office lease expense under this operating lease amounted to \$14,940 for the year ended September 30, 2016. The lease is currently on a month to month basis.

**RETIREMENT PLAN**

On October 29, 1998 the District adopted a SIMPLE retirement account plan. All employees with annual compensation greater than \$5,000 are eligible to participate. Participants may elect to voluntarily contribute up to \$12,500 of their compensation to the plan annually. The District matches dollar for dollar employee pre-tax contributions in an amount up to 3% of the employee's compensation. Employee and employer contributions are fully vested at all times. The District's total contribution to the plan for the year ended September 30, 2016 was \$7,078.

**RISK OF LOSS**

The District is exposed to various risks of loss related to torts; theft of, damage to and destruction of assets; errors and omissions; and natural disasters for which the District carries commercial insurance. There have been no reductions in insurance coverages provided to the District and there have been no settlements exceeding insurance coverage for the past four years.

NOTES TO FINANCIAL STATEMENTS

September 30, 2016

**INTERFUND TRANSFERS AND BALANCES**

The composition of interfund transfers for the year ended September 30, 2016 is as follows:

	General Fund	Revolving Loan Fund	Total
Transferred from:			
CDBG Revolving Loan Fund	\$ -	\$ 1,359,937	\$ 1,359,937
Revolving Loan Fund	137,129	-	137,129
	<u>\$ 137,129</u>	<u>\$ 1,359,937</u>	<u>\$ 1,497,066</u>

The purpose of the transfers is to transfer surplus funds to the general fund, and / or to transfer surplus CDBG funds to the revolving loan fund upon close-out of the related grant.

The composition of inter-fund due from / to balances at September 30, 2016 is as follows:

	General Fund	Revolving Loan Fund	Intermediary Re-lending Loan Fund	EDA Revolving Loan Fund	Total
Due from:					
General Fund	\$ -	\$ 168,215	\$ 151,356	\$ 205,079	\$ 524,650
CDBG Revolving Loan Fund	208,241	-	-	-	208,241
	<u>\$ 208,241</u>	<u>\$ 168,215</u>	<u>\$ 151,356</u>	<u>\$ 205,079</u>	<u>\$ 732,891</u>

The reason for the inter-fund due to / from balances is because the general fund maintains the bank account that records deposits and disbursements of the other funds.

**CONTINGENT LIABILITIES**

The District participates in federally assisted grant and loan programs which are subject to program compliance audits by the grantors, lenders, or their representatives. Not all of the audits of the programs included in the year ended September 30, 2016 have been conducted. Accordingly, the District's compliance with applicable grant requirements will be established at some future date. The amount, if any, of expenditures which may be disallowed by the granting agencies cannot be determined at this time although the District expects such amounts, if any, to be immaterial.

NOTES TO FINANCIAL STATEMENTS

September 30, 2016

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**STATUTORY COMPLIANCE**

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 for the prior year, extension of an expiring tax, or tax policy change directly causing a net tax revenue gain to any local government.

The District is not a direct tax supported entity; therefore management believes that it is not subject to the provisions of TABOR. However, TABOR is complex and subject to interpretation. Many of its provisions may require judicial interpretation.

**CHANGE IN PRESENTATION**

During the year, the District determined that two funds previously reported as special revenue funds do not meet the criteria for reporting separately as special revenue funds. Instead, the funds should be reported for external financial reporting as part of the general fund. \$10,063 previously reported at September 30, 2015 as fund balance of the Enterprise Zone Grant Fund and \$19,530 previously reported at September 30, 2015 as fund balance of the Community Technical Assistance Fund are now included as fund balance of the General Fund.

REQUIRED SUPPLEMENTARY INFORMATION

Region 9 Economic Development District of Southwest Colorado, Inc.

SCHEDULE OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCE  
GENERAL FUND - BUDGET AND ACTUAL

For the Year Ended September 30, 2016  
(Unaudited)

	Original Budget	Final Budget	Actual	Variance with Final Budget Favorable (Unfavorable)
<b>Revenues</b>				
Intergovernmental				
Dues assessed to member governments	\$ 40,000	\$ 40,000	\$ 40,078	\$ 78
Grants	91,485	122,027	108,302	(13,725)
Charges for services	20,000	47,000	47,355	355
Local sources				
Interest	500	500	378	(122)
Contributions and grants	25,000	5,000	9,126	4,126
Miscellaneous	31,500	52,390	41,396	(10,994)
Total revenues	<u>208,485</u>	<u>266,917</u>	<u>246,635</u>	<u>(20,282)</u>
<b>Expenditures</b>				
Current				
Economic development				
Administration	13,850	44,650	24,746	19,904
Enterprise Zone	65,198	72,905	58,780	14,125
Community technical assistance	283,808	314,500	286,337	28,163
Total expenditures	<u>362,856</u>	<u>432,055</u>	<u>369,863</u>	<u>62,192</u>
Excess (deficiency) of revenues over (under) expenditures	(154,371)	(165,138)	(123,228)	41,910
Other financing sources and (uses)				
Transfer in	166,000	140,500	137,129	(3,371)
Transfer out	<u>-</u>	<u>23,000</u>	<u>-</u>	<u>(23,000)</u>
Net change in fund balance	11,629	(1,638)	13,901	15,539
Fund balance (deficit), beginning	<u>(7,039)</u>	<u>(7,039)</u>	<u>(7,039)</u>	<u>-</u>
Fund balance (deficit), ending	<u>\$ 4,590</u>	<u>\$ (8,677)</u>	<u>\$ 6,862</u>	<u>\$ 15,539</u>

SINGLE AUDIT SECTION

Region 9 Economic Development District of Southwest Colorado, Inc.

SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS

For the year ended September 30, 2016

<u>Federal Grantor / Pass Through Grantor / Program Title</u>	<u>Federal CFDA Number</u>	<u>Pass-Through Entity Identifying Number</u>	<u>2016 Amount of Award Expended</u>
<b>U.S. DEPARTMENT OF HOUSING AND URBAN DEVELOPMENT</b>			
Passed through Colorado Department of Local Affairs			
Community Development Block Grant	14.228	11-581	\$ 808,323
Total U.S. Department of Housing and Urban Development			<u>808,323</u>
<b>U.S. DEPARTMENT OF COMMERCE</b>			
Economic Development Support for Planning Organizations Grant	11.302		63,500
Economic Development Association Revolving Loan Fund	11.307		<u>174,543</u>
Total U.S. Department of Commerce			<u>238,043</u>
<b>U.S. DEPARTMENT OF AGRICULTURE</b>			
Rural Business Enterprise Grant	10.769		<u>24,538</u>
Total U.S. Department of Agriculture			<u>24,538</u>
Total expenditures of federal awards			<u>\$ 1,070,904</u>

**NOTES TO SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS**

**BASIS OF PRESENTATION**

The accompanying schedule of expenditures of federal awards includes the federal grant activity of Region 9 Economic Development District of Southwest Colorado, Inc. under programs of the federal government for the year ended September 30, 2016. The information in this schedule is presented in accordance with the 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). Because the schedule presents only a selected portion of the operations of Region 9 Economic Development District of Southwest Colorado, Inc., it is not intended to and does not present the financial position, changes in net position, or cash flows of Region 9 Economic Development District of Southwest Colorado, Inc.

**SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES**

Expenditures reported on the schedule are reported on the accrual basis of accounting. Such expenditures are recognized following the cost principles contained in the Uniform Guidance, wherein certain types of expenditures are not allowable or are limited as to reimbursement. Expenditures reported for the Economic Development Association Revolving Loan Fund grant, CFDA number 11.307, are calculated according to formula. Loan balances outstanding at the end of the year that were expended in prior years are included in this calculation.

Pass-through entity identifying numbers are presented when available.

**INDIRECT DE MINIMIS COST RATE**

The District utilizes the ten percent de minimis cost rate allowed by Uniform Guidance.

INDEPENDENT AUDITOR'S 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*

February 15, 2017

Board of Directors  
Region 9 Economic Development District of Southwest Colorado, Inc.  
Durango, Colorado

We have audited, in accordance with the 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, the business-type activities, each major fund, and the aggregate remaining fund information of Region 9 Economic Development District of Southwest Colorado, Inc., as of and for the year ended September 30, 2016, and the related notes to the financial statements, which collectively comprise Region 9 Economic Development District of Southwest Colorado, Inc.'s basic financial statements, and have issued our report thereon dated February 15, 2017.

**Internal Control over Financial Reporting**

In planning and performing our audit of the financial statements, we considered the Region 9 Economic Development District of Southwest Colorado, Inc.'s internal control over financial reporting (internal control) 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 Region 9 Economic Development District of Southwest Colorado, Inc.'s internal control. Accordingly, we do not express an opinion on the effectiveness of Region 9 Economic Development District of Southwest Colorado, Inc.'s internal control.

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 a combination of deficiencies, in internal control, such that there is a reasonable possibility that a material misstatement of the entity's financial statements will not be prevented, or detected and corrected on a timely basis. A *significant deficiency* is a deficiency, or a 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 internal control was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control that might be material weaknesses or, significant deficiencies. Given these limitations, during our audit we did not identify any deficiencies in internal control 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 Region 9 Economic Development District of Southwest Colorado, Inc.'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 entity'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 entity's internal control and compliance. Accordingly, this communication is not suitable for any other purpose.



INDEPENDENT AUDITOR'S REPORT ON COMPLIANCE FOR EACH MAJOR PROGRAM  
AND ON INTERNAL CONTROL OVER COMPLIANCE REQUIRED BY THE UNIFORM GUIDANCE

February 15, 2017

Board of Directors  
Region 9 Economic Development District of Southwest Colorado, Inc.  
Durango, Colorado

**Report on Compliance for Each Major Federal Program**

We have audited Region 9 Economic Development District of Southwest Colorado, Inc.'s compliance with the types of compliance requirements described in the *OMB Compliance Supplement* that could have a direct and material effect on each of Region 9 Economic Development District of Southwest Colorado, Inc.'s major federal programs for the year ended September 30, 2016. Region 9 Economic Development District of Southwest Colorado, Inc.'s major federal programs are identified in the summary of auditor's results section of the accompanying schedule of findings and questioned costs.

***Management's Responsibility***

Management is responsible for compliance with the requirements of laws, regulations, contracts, and grants applicable to its federal programs.

***Auditor's Responsibility***

Our responsibility is to express an opinion on compliance for each of Region 9 Economic Development District of Southwest Colorado, Inc.'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 Region 9 Economic Development District of Southwest Colorado, Inc.'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 Region 9 Economic Development District of Southwest Colorado, Inc.'s compliance.

***Opinion on Each Major Federal Program***

In our opinion, Region 9 Economic Development District of Southwest Colorado, Inc., 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 September 30, 2016.

**Report on Internal Control over Compliance**

Management of Region 9 Economic Development District of Southwest Colorado, Inc. 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 Region 9 Economic Development District of Southwest Colorado, Inc.'s internal control over compliance with the types of 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 Region 9 Economic Development District of Southwest Colorado, Inc.'s internal control over compliance.

February 15, 2017  
Region 9 Economic Development District of Southwest Colorado, Inc.  
Page 2

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 a 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 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.

 Beckstead & Co., LLC

SCHEDULE OF FINDINGS AND QUESTIONED COSTS

Year Ended September 30, 2016

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SECTION I – SUMMARY OF AUDITOR'S RESULTS

Financial Statements

Type of auditor's report issued: Unmodified

Internal control over financial reporting:

- Material weakness(es) identified  Yes  No
- Significant deficiency(ies) identified  Yes  None reported
- Noncompliance material to financial statements noted?  Yes  No

Federal Awards

Internal control over major programs:

- Material weakness(es) identified  Yes  No
- Significant deficiency(ies) identified  Yes  None reported

Type of auditor's report issued on compliance for major 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 programs:

CFDA Number(s)  
14.228

Name of Federal Program or Cluster  
Community Development Block Grant

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

Auditee qualified as low-risk auditee?  Yes  No

SCHEDULE OF FINDINGS AND QUESTIONED COSTS - CONTINUED

Year Ended September 30, 2016

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SECTION II – FINANCIAL STATEMENT FINDINGS

There are no financial statement findings.

SECTION III – FEDERAL AWARD FINDINGS AND QUESTIONED COSTS

There are no federal award findings and questioned costs.

Region 9 Economic Development District of Southwest Colorado, Inc.

SUMMARY SCHEDULE OF PRIOR AUDIT FINDINGS

Year Ended September 30, 2016

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There were no prior year findings.