

COLORADO SHEEP AND WOOL AUTHORITY
FINANCIAL STATEMENTS
YEAR ENDED DECEMBER 31, 2016 AND 2015



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COLORADO SHEEP AND WOOL AUTHORITY

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INDEPENDENT AUDITOR'S REPORT

To the Board of Directors
Colorado Sheep and Wool Authority
Delta, Colorado

We have audited the accompanying financial statements of the business-type activities of the Colorado Sheep and Wool Authority (the Authority), as of and for the years ended December 31, 2016 and 2015, and the related notes to the financial statements, which collectively comprise the Authority'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 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.

Opinions

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of the business-type activities of the Authority, as of December 31, 2016 and 2015, and the respective change in financial position and cash flows thereof for the years then ended, in conformity with accounting principles generally accepted in the United States of America.

Other Matters

Required Supplementary Information

Management has omitted the management's discussion and analysis that accounting principles generally accepted in the United States of America require to be presented to supplement the basic financial statements. Such missing 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. Our opinion on the basic financial statements is not affected by this missing information.

Other Information

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the Authority's basic financial statements. The budgetary comparison schedule for the Enterprise Fund is presented for purposes of additional analysis and is not a required part of the financial statements.

The budgetary comparison schedule for the Enterprise Fund is the responsibility of management and was derived from and related directly to the underlying accounting and other records used to prepare the financial statements. The information has been subjected to the auditing procedures applied in the audit of the basic financial statements and certain additional procedures, including comparing and reconciling 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 information is fairly stated in all material respects in relation to the financial statements as a whole.

Hamblin and Associates

Evergreen, CO
May 12, 2017

COLORADO SHEEP & WOOL AUTHORITY

NOTES TO FINANCIAL STATEMENTS

YEARS ENDED DECEMBER 31, 2016 AND 2015

NOTE 1: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

A. Background

The Colorado Sheep & Wool Authority (the Authority) was created in 1993 by an Act of the General Assembly (Article 57.5) of the State of Colorado. The purpose of this governmental body is to promote by research, education, advertising, and other methods the increased and efficient production, distribution, use, and sale of sheep and sheep and wool products.

B. Reporting Entity

In accordance with Governmental Accounting Standards, the Authority has considered the possibility of inclusion of additional entities in its financial statements. The definition of the reporting entity is based primarily on financial accountability. The Authority is financially accountable for organizations that make up its legal entity. It is also financially accountable for legally separate organizations if Authority officials appoint a voting majority of the organizations' governing bodies and either it is able to impose its will on those organizations or there is the potential for benefits to be received by or specific financial burdens to be imposed on the Authority. The Authority may also be financially accountable for governmental organizations that are economically dependent upon it. The financial statements include only the Authority, as there are not component units. The Authority is not a component unit of another entity.

C. Measurement Focus and Basis of Accounting

Proprietary fund 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 at the same time liabilities are incurred, regardless of when the related cash flows take place. Non-exchange transactions in which the Authority gives (or receives) value without directly receiving (or giving) equal value in exchange, include grants and donations. Revenue from grants and donations is recognized in the fiscal year in which all eligibility requirements have been satisfied.

D. Fund Accounting

The Authority uses funds to report on its financial position and its cash flows. Fund accounting is designed to demonstrate legal compliance and to aid financial management by segregating transactions related to certain government functions or activities. A fund is a separate accounting entity with a self-balancing set of accounts.

Basic Financial Statements

COLORADO SHEEP & WOOL AUTHORITY

STATEMENT OF NET POSITION

December 31, 2016 and 2015

	<u>2016</u>	<u>2015</u>
ASSETS		
CURRENT ASSETS		
Cash	\$ 191,927	\$ 184,843
Accounts Receivable	<u>16,648</u>	<u>12,429</u>
TOTAL CURRENT ASSETS	<u>208,575</u>	<u>197,272</u>
NET CAPITAL ASSETS	<u>-</u>	<u>-</u>
TOTAL ASSETS	<u>208,575</u>	<u>197,272</u>
LIABILITIES, DEFERRED INFLOWS OF RESOURCES, AND NET POSITION		
LIABILITIES		
Accounts Payable	1,787	1,783
DEFERRED INFLOWS OF RESOURCES		
Unearned Revenue	<u>12,299</u>	<u>9,134</u>
TOTAL LIABILITIES AND DEFERRED INFLOWS OF RESOURCES	<u>14,086</u>	<u>10,917</u>
NET POSITION		
Unrestricted	<u>194,489</u>	<u>186,355</u>
TOTAL NET POSITION	<u>\$ 194,489</u>	<u>\$ 186,355</u>

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

COLORADO SHEEP & WOOL AUTHORITY

STATEMENT OF REVENUES, EXPENSES AND CHANGES IN NET POSITION

For the Years Ended December 31, 2016 and 2015

	<u>2016</u>	<u>2015</u>
Revenue		
Assessments	\$ 99,077	\$ 94,972
Contract with Colorado Wool Growers Association	7,000	7,000
Interest	31	35
Other	4,260	5,005
	<u>110,368</u>	<u>107,012</u>
Total revenue		
Expenses		
Administration and general	74,875	77,732
Education	498	5,510
Promotion	25,581	26,289
Public Relations	1,280	1,350
Research	-	1,150
Depreciation	-	-
	<u>102,234</u>	<u>112,031</u>
Total expenses		
Operating income (loss)	8,134	(5,019)
Net position, beginning	<u>186,355</u>	<u>191,374</u>
Net position, ending	<u>\$ 194,489</u>	<u>\$ 186,355</u>

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

COLORADO SHEEP & WOOL AUTHORITY

STATEMENT OF CASH FLOWS

For the Years Ended December 31, 2016 and 2015

	<u>2016</u>	<u>2015</u>
CASH FLOWS FROM OPERATING ACTIVITIES		
Assessments received	\$ 98,023	\$ 95,158
Other cash receipts	11,291	12,040
Cash paid to employees	(59,390)	(59,366)
Cash paid to suppliers	<u>(42,840)</u>	<u>(55,085)</u>
 NET INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS	7,084	(7,253)
 CASH, BEGINNING OF YEAR	<u>184,843</u>	<u>192,096</u>
 CASH, END OF YEAR	<u><u>\$ 191,927</u></u>	<u><u>\$ 184,843</u></u>
 RECONCILIATION OF OPERATING INCOME TO NET CASH PROVIDED BY OPERATING ACTIVITIES		
Provided by Operating Activities:		
Operating Income	<u>\$ 8,134</u>	<u>\$ (5,019)</u>
Adjustments to Reconcile Operating Income to Net Cash Provided (Used) by Operations		
Depreciation	-	-
(Increase) Decrease in Accounts Receivable	(4,219)	1,498
(Decrease) Increase in Accounts Payable	4	(2,420)
(Decrease) Increase in Deferred Revenue	<u>3,165</u>	<u>(1,312)</u>
Total Adjustments	<u>(1,050)</u>	<u>(2,234)</u>
 NET CASH PROVIDED (USED) BY OPERATING ACTIVITIES	<u><u>\$ 7,084</u></u>	<u><u>\$ (7,253)</u></u>

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

COLORADO SHEEP & WOOL AUTHORITY

NOTES TO FINANCIAL STATEMENTS

YEARS ENDED DECEMBER 31, 2016 AND 2015

NOTE 1: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

D. Fund Accounting (Continued)

The Authority maintains one proprietary fund type through which all revenues and expenses are recorded and reported. Proprietary funds are used to account for activities similar to those in the private sector, where the determination of net income is necessary or useful to sound financial administration. Goods or services can be provided either to outside parties or to other departments within the Authority.

E. Basis of Accounting

The accrual basis of accounting is employed where support and revenue are recorded when earned and expenses are recognized when incurred.

F. Assets and Liabilities

Cash Some cash equivalents are in interest-bearing accounts, comprised of savings accounts which are legally authorized. The balance in the cash accounts is available to meet current operating requirements.

Receivables All receivables are reported at their gross value and, where appropriate, are reduced by the estimated portion that is expected to be uncollectible.

Capital Assets Capitalized assets are defined by the Authority as assets that have a useful life over one year and an initial cost over \$5,000.

All purchased assets are valued at cost. The cost of normal maintenance and repairs that does not add to the value of an asset or materially extend asset life is not capitalized.

Depreciation of equipment is provided on the straight-line method over an estimated useful life of seven years. Depreciation of documentaries is provided on the units of production method.

Deferred Inflows of Resources A deferred inflow of resources is defined as an acquisition of net position applicable to a future reporting period. The unearned revenues disclosed statement of net position represent taxes which are not due until 45 days after year end.

COLORADO SHEEP & WOOL AUTHORITY

NOTES TO FINANCIAL STATEMENTS

YEARS ENDED DECEMBER 31, 2016 AND 2015

NOTE 2: CASH AND INVESTMENTS

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 regulations. Amounts on deposit in excess of federal insurance levels must be collateralized by eligible collateral determined by the PDPA. The institution is allowed to create a single collateral pool for all public funds held. The pool is to be maintained by another institution or held in trust for all the uninsured public deposits as a group. The market value of the collateral must be at least equal to 102 percent of the uninsured deposits.

A. Custodial Credit Risk Deposits in financial institutions, reported as cash, cash equivalents, and investments had a bank balance of \$191,907 at December 31, 2016, which was fully insured by depository insurance or secured with collateral held by Authority's agent in its name. At December 31, 2016, the Authority's deposits had a carrying balance of \$191,927.

B. Investment Interest Rate Risk The Authority has no formal investment policy that limits investment maturities as a means of managing its exposure to fair value losses arising from increasing interest rates.

C. Investment Credit Risk The Authority has no investment policy that limits its investment choices other than the limitation of state law as follows:

1. Direct obligations of the US government, its agencies, and instrumentalities to which the full faith and credit of the US government is pledged, or obligations to the payment of which the full faith and credit of the State is pledged;
2. Certificates of deposit or savings accounts that is either insured or secured with acceptable collateral with in-state financial institutions, and fully insured certificates of deposit or savings accounts in out-of-state financial institutions;
3. With certain limitation, negotiable certificates of deposit, prime bankers acceptances, prime commercial paper, and repurchase agreements with certain limitations;
4. County, municipal, or school district tax supported debt obligations; bond or revenue anticipation notes; money; or bond or revenue anticipation notes of public trusts whose beneficiary is a county, municipality, or school district;
5. Notes or bonds secured by a mortgage or trust deed insured by the Federal Housing Administrator and debentures issued by the Federal Housing Administrator, and obligations of the National Mortgage Association; and
6. Money market funds regulated by the Securities and Exchange Commission (SEC) in which investments consist of the investments mentioned in 1, 2, 3, and 4.

COLORADO SHEEP & WOOL AUTHORITY

NOTES TO FINANCIAL STATEMENTS

YEARS ENDED DECEMBER 31, 2016 AND 2015

NOTE 2: CASH AND INVESTMENTS (Continued)

D. Concentration of Investment Credit Risk The Authority places no limit on the amount it may invest in any one issuer. At December 31, 2016, the Authority had no concentration of credit risk.

The Authority invests excess funds under the prudent investor rule. The criteria for selection of investments and their order of priority are: 1) safety; 2) liquidity; and 3) yield.

NOTE 3: CAPITAL ASSETS

A summary of changes in capital assets is shown below:

Business-type activities	Balance January 1, 2016	Additions	Retirements	Balance December 31, 2016
Equipment	\$ 25,260	\$ -	\$ -	\$ 25,260
Accumulated depreciation	(25,260)	-	-	(25,260)
Totals	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>

NOTE 4: DEFERRED REVENUE

The Authority is required to refund a portion of assessment revenue to sheep growers upon receipt of claims from the growers for up to 30 days after revenues are received. The Authority deferred \$12,299 and \$9,134 to pay for such refunds in 2016 and 2015, respectively.

NOTE 5: RISK MANAGEMENT

The Authority is exposed to various risks of loss related to: torts; theft of, damage to, and destruction of assets; injuries to employees; and natural disasters. The Authority carries commercial insurance through its related organization, the Colorado Wool Growers Association, for all risks of loss, including errors and omissions and property. Settled claims have not exceeded this coverage in any of the past three years.

COLORADO SHEEP & WOOL AUTHORITY

NOTES TO FINANCIAL STATEMENTS

YEARS ENDED DECEMBER 31, 2016 AND 2015

NOTE 6: RELATED PARTY TRANSACTIONS

Under an agreement with Colorado Wool Growers Association (CWGA), a related party, the Authority received a fee for administrative services from CWGA. For the years ending December 31, 2016 and 2015, the Authority received fees of \$7,000 for each year under the agreement.

NOTE 7: COMMITMENTS AND CONTINGENCIES

Concentration of Risk The Authority receives a substantial portion of its funding from a levy on the sale of lambs in Colorado, which is subject to fluctuations in the State's livestock market.

NOTE 8: TAX, SPENDING, REVENUE AND DEBT LIMITATIONS

In November 1992, the voters of Colorado approved an amendment to the Colorado Constitution, adding Section 20 to Article X, commonly known as the Taxpayer's Bill of Rights (TABOR). TABOR contains tax, spending, revenue and debt limitations which apply to the State of Colorado and all local governments.

TABOR excludes from its provisions government owned businesses defined as "enterprises". TABOR defines "enterprises" as being able to issue revenue bonds and receiving under 10% of annual revenues in grants from Colorado state and local governments combined. The Authority considers itself an "enterprise" as defined under TABOR, and as such, not subject to the provisions of TABOR; however, the definition of "enterprises" and "grants" and other provisions of the amendment may require judicial interpretation.

Other Supplementary Information

COLORADO SHEEP & WOOL AUTHORITY

**SCHEDULE OF REVENUES AND EXPENSES AND CHANGES IN NET POSITION -
BUDGET AND ACTUAL**

FOR THE YEAR ENDED DECEMBER 31, 2015

	Original and Final Budget	Actual	Variance Favorable (Unfavorable)
Revenue			
Assessments	\$ 94,972	\$ 99,077	\$ 4,105
Contract with Colorado Wool Growers Association	7,000	7,000	-
Interest	100	31	(69)
Other	-	4,260	4,260
	<hr/>	<hr/>	<hr/>
Total revenue	102,072	110,368	8,296
	<hr/>	<hr/>	<hr/>
Expenses			
Administration and general	92,280	74,875	17,405
Education	5,510	498	5,012
Promotion	26,289	25,581	708
Public relations	1,350	1,280	70
Research	1,150	-	1,150
	<hr/>	<hr/>	<hr/>
Total expenses	126,579	102,234	24,345
	<hr/>	<hr/>	<hr/>
Change in net assets - budgetary basis	<u>\$ (24,507)</u>	8,134	<u>\$ 32,641</u>
Reconciliation of budgetary basis to GAAP basis			
Depreciation		<hr/> -	
Change in net position - GAAP basis		8,134	
Net Position, beginning		<hr/> 186,355	
Net position, ending		<u>\$ 194,489</u>	

See the accompanying Independent Auditors' Report.